



STATE OF WASHINGTON
DEPARTMENT OF ECOLOGY

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November 2, 2023

The Honorable Jay Inslee
Office of the Governor
PO Box 40002
Olympia, WA 98504-0002

RE: Preliminary Decision to Pursue Linking Cap-and-Invest Program with California-Québec Program

Dear Governor Inslee:

With the passage of the Climate Commitment Act (CCA) in 2021, and the launching of the cap-and-invest program in January 2023, Washington has successfully created the second economy-wide cap-and-invest program in the United States and solidified Washington's role as a leader among the states in addressing the climate crisis.

However, the climate crisis cannot be solved by Washington, or any one state, acting on its own. It demands coordinated action. That is why the CCA directs Ecology to seek to link Washington's cap-and-invest market with similar markets in other jurisdictions, if statutory criteria can be met.

After careful consideration, I have reached a preliminary decision to pursue linking Washington's cap-and-invest market with the California-Québec market. At this juncture, I am directing my staff to take all necessary steps to move forward with the process to link with the California-Québec market, subject to conducting a robust public review and input process and an Environmental Justice Assessment; demonstrating that statutory linkage criteria are met; and completing the necessary linkage agreement negotiations that lie at the core of the linkage process.

The following summarizes some of the requirements set forth in the CCA, provides background on Ecology's public engagement process and preliminary linkage criteria analysis report, and discusses next steps.

CCA requires Ecology to consider linkage with other cap-and-invest programs

The CCA requires Ecology to seek to enter into linkage agreements, subject to specified criteria that must be met before any linkage agreement can go forward ([RCW 70A.65.210](#)). This includes

considering how linkage might impact Washington's communities, economy, and climate goals. The criteria require that Washington ensure that the benefits of cap-and-invest programs in other jurisdictions extend to vulnerable populations and overburdened communities ([RCW 70A.65.210\(3\)\(b\)](#)), and that linkage would not have an overall negative impact on overburdened communities in any of the jurisdictions ([RCW 70A.65.210\(3\)\(c\)](#)). The criteria also require that linkage broadens greenhouse gas emission reduction opportunities, reducing costs on covered entities and consumers ([RCW 70A.65.210\(1\)\(b\)](#) and [060\(3\)](#)), while not adversely impacting our state's ability to achieve the emission reductions required by state law ([RCW 70A.65.210\(3\)](#) and [210\(3\)\(d\)](#)).

Ecology sought early public input

The CCA also requires that Ecology engage in a public process before entering into a linkage agreement. We felt that it was critical to begin public outreach and engagement early, so that key stakeholders and the public would have the opportunity to learn about the process and provide input ahead of this preliminary decision.

Starting in January 2023, Ecology sought input from Tribal leaders and staff, the Environmental Justice Council, the public, and stakeholders. This included community-based organizations, environmental organizations, environmental justice organizations, and cap-and-invest market participants. We discussed whether linkage would be beneficial to Washington and what to consider in our analysis of the linkage criteria.

Preliminary analysis report

On October 12, 2023, Ecology published the [Cap-and-Invest Linkage Criteria: Preliminary Analysis Report](#).

The preliminary analysis report concluded that a larger, more liquid market with a greater number of participants would likely lead allowance prices to be lower, provide greater price stability, and lead to a more durable program. Predictable allowance market prices are important, because they provide covered entities the certainty needed to make long-term investments in decarbonization.

After linkage, each jurisdiction's emissions reduction requirements would remain in place, meaning that the stringency of each linked program would be protected.

The preliminary analysis determined that linkage would provide substantial benefits

I have made a preliminary decision that Washington should pursue linkage with California and Québec because it is expected to provide substantial benefits to Washington's cap-and-invest program, economy, and communities. Linkage is expected to help our state successfully decarbonize its economy and meet our greenhouse gas reduction mandates established by the legislature.

I have directed my staff to immediately begin the process of pursuing linkage with California and Québec.

This is the first step in a multi-step process and we do not yet know if linkage will be achieved. Any final decision to link will be contingent on the results of the statutorily required Environmental Justice Assessment and a final determination that the statutory linkage criteria have been met. This preliminary decision to pursue linkage with the California-Québec market signals Ecology's interest to begin discussions with California and Québec. Each of those jurisdictions must follow their own respective processes to determine whether to link with Washington. Completing these negotiations and allowing all three jurisdictions to make a final determination and negotiate a linkage agreement will take some time.

Next steps in the process to link programs

Ecology would need to complete multiple steps before I make a final decision on linking Washington's cap-and-invest program with the joint California-Québec program. This process includes several additional opportunities to gather input from our Tribal government partners, the Environmental Justice Council, stakeholders, and the public.

Align carbon market policies

Although many key aspects of Washington's cap-and-invest program are already aligned with California's and Québec's, Washington needs to make additional changes to further align policies related to the operation of the carbon market.

Ecology is developing agency request legislation to implement those changes and has initiated an Environmental Justice Assessment of that legislation. Rulemaking will also be required.

California and Québec may need to also amend their respective regulations to implement any potential linkage agreement.

Complete an Environmental Justice Assessment

Before Washington can enter into a linkage agreement, the CCA requires Ecology to conduct an Environmental Justice Assessment unique to the agreement, separate from any Environmental Justice Assessments conducted for agency request legislation or rulemaking. As a part of this assessment, Ecology will identify overburdened communities and vulnerable populations that could be impacted by linkage, and will offer Tribal consultation.

Negotiate a linkage agreement, conduct additional public outreach, and ensure statutory criteria have been met

The three jurisdictions would discuss provisions to include in a proposed linkage agreement. Once a linkage agreement has been negotiated, but before it is signed, Ecology will conduct additional public outreach to obtain feedback on the terms of the proposed agreement. California and Québec are currently reviewing their cap-and-trade programs and considering changes to their respective

regulations to align with their ambitious greenhouse gas reduction targets.¹ Therefore, Ecology will also continue to evaluate the linkage criteria, weigh the impact of any changes the other jurisdictions make to their cap-and-trade programs, and issue a final assessment of the linkage criteria prior to entering into a linkage agreement.

Execute the linkage agreement and commence linkage in 2025 or later

After the public engagement process and Environmental Justice Assessment, if the relevant statutory criteria have been met, the CCA authorizes the Director of Ecology to sign a linkage agreement. At this time, we cannot predict if, or when, we would enter into a linkage agreement with California and Québec and start holding joint allowance auctions. The steps outlined above will likely take more than a year, meaning that Washington's program could not be linked until 2025 or later.

An inclusive commitment to address climate change

I am proud that Washington State is a leader in addressing the climate crisis, and I am pleased to be able to announce my preliminary decision to pursue linkage between Washington's cap-and-invest allowance market and the combined California-Québec allowance market.

I am committed to working with California and Québec, Tribes, the Environmental Justice Council, stakeholders, and overburdened communities in Washington, to ensure that any potential linkage agreement will meet the criteria set forth in the CCA, advance environmental justice and equity, and ensure that our state will meet its greenhouse gas reduction mandates.

Yours Truly,



Laura Watson
Director

cc: Representative Laurie Jenkins, Speaker of the House
Representative Drew Stokesbary, House Minority Leader
Senator Andy Billig, Senate Majority Leader
Senator John Braun, Senate Minority Leader

¹ See [CARB market notice](#) and [Québec market notice](#).