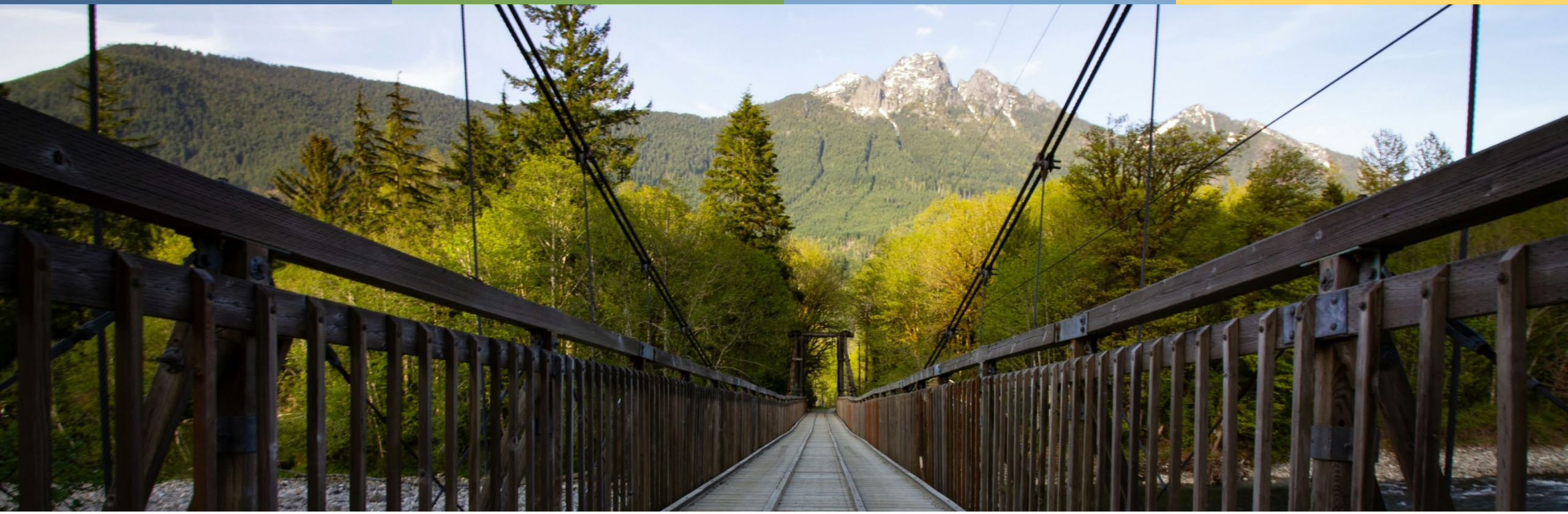

DEPARTMENT OF ECOLOGY
State of Washington

Cap-and-Invest Linkage and Environmental Justice

July 22, 2024

Welcome

- Jihan Grettenberger – Facilitator and Community Engagement Specialist
- Meg Baker – Technical host and Community Engagement Specialist
- Nikki Harris – Rule Lead for Linkage Rulemaking
- Stephanie Potts – Environmental Planner for Linkage
- Derek Nixon – Auctions & Market Section Manager
- Lindsey Kennelly – GHG Emissions Reporting & Verification Section Manager
- Andy Hayes – Cap-and-Invest Policy Section Manager
- Josh Grice – Climate Pollution Reduction Policy and Planning Section Manager

Agenda

1. What are Environmental Justice Assessments?
2. Overview of Cap-and-Invest Program
3. What is linkage?
4. Cap-and-Invest linkage process and timeline
5. Cap-and-Invest linkage rulemaking
6. Discussion

Purpose of the Environmental Justice Assessment

- New requirement in the Healthy Environment for All Act (HEAL, RCW 70A.02) for rulemaking.
- Climate Commitment Act requirement for linkage.
- Community engagement informs assessment of impacts to overburdened communities and strategies for mitigating impacts.

"To obtain information for the purposes of assessments, a covered agency must solicit feedback from members of overburdened communities and vulnerable populations to assist in the accurate assessment of the potential impact of the action and in developing the means to reduce or eliminate the impact on overburdened communities and vulnerable populations." RCW 70A.02.060(5)(a)

Environmental Justice Assessment Process

- Invite Government to Government consultation

- Identify overburdened communities likely to be impacted
- Engage overburdened communities and vulnerable populations

- Analyze potential impacts of action
- Identify how to distribute benefits and mitigate harms based on what we learned from consultation and engagement

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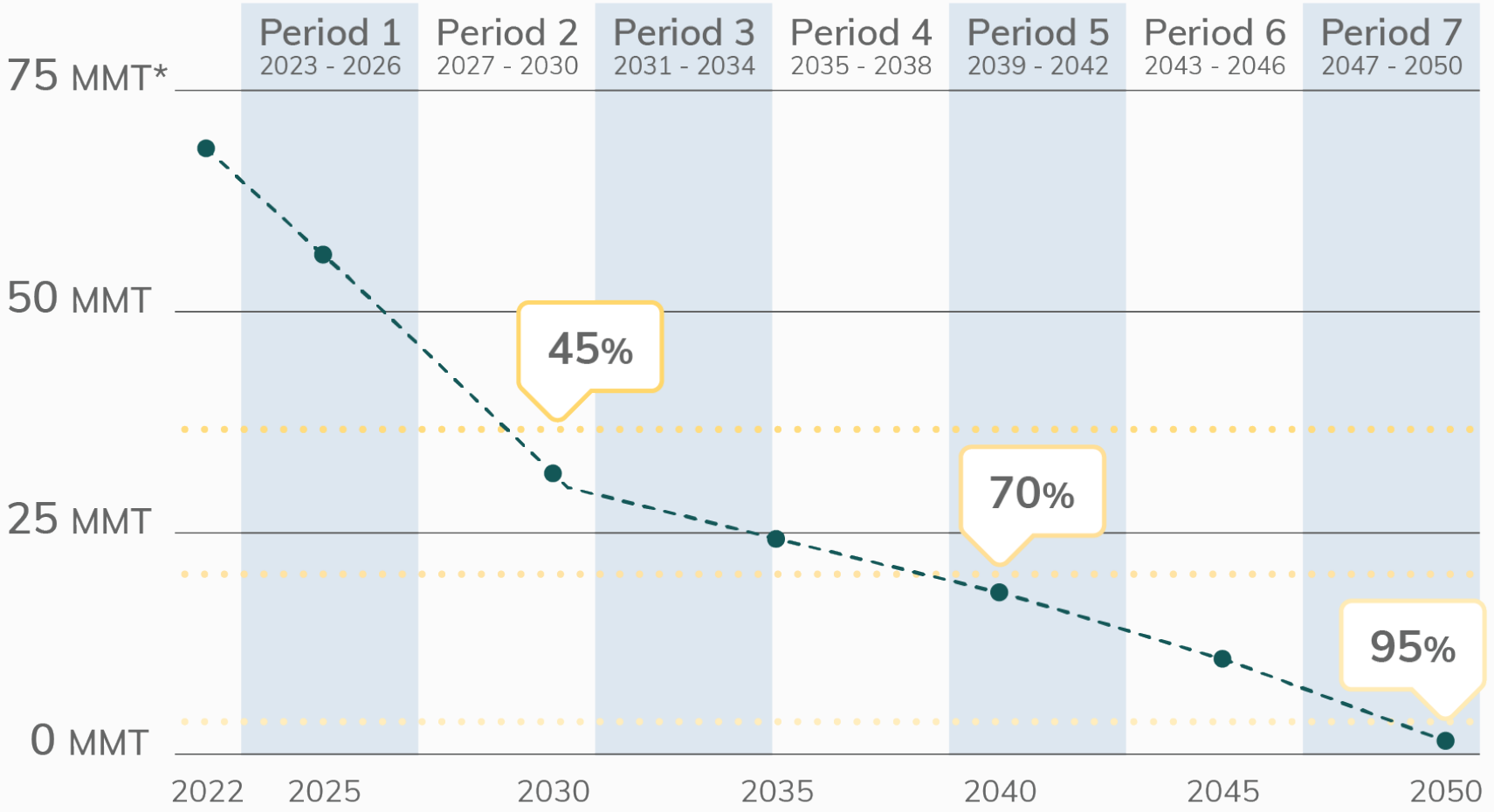
CLIMATE COMMITMENT ACT

Cap-and-Invest Program

- Cap-and-Invest Program caps emissions, declines over time
  - Covers ~75% of the state's emissions
- Covered entities: must obtain allowances/offsets for covered emissions
  - Buy allowances at auctions held by Ecology
  - Buy and sell with each other
  - Some entities receive no-cost allowances
- General market participants: voluntary participants
- Revenue re-invested in communities across WA

Emissions cap reductions



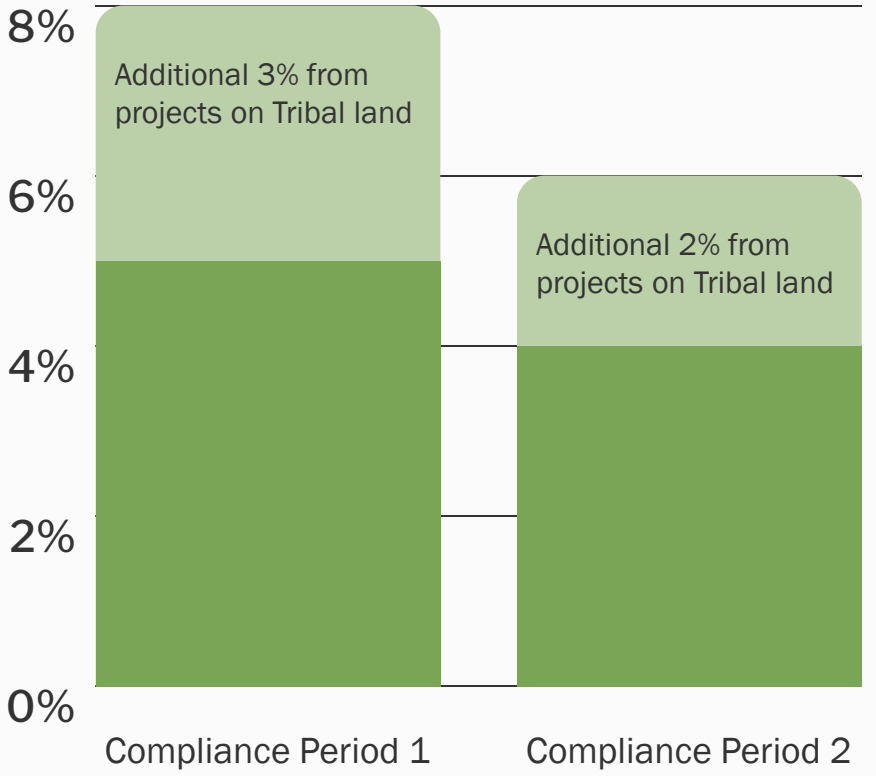
*MMT = million metric tons of CO_2 equivalent

Compliance instruments

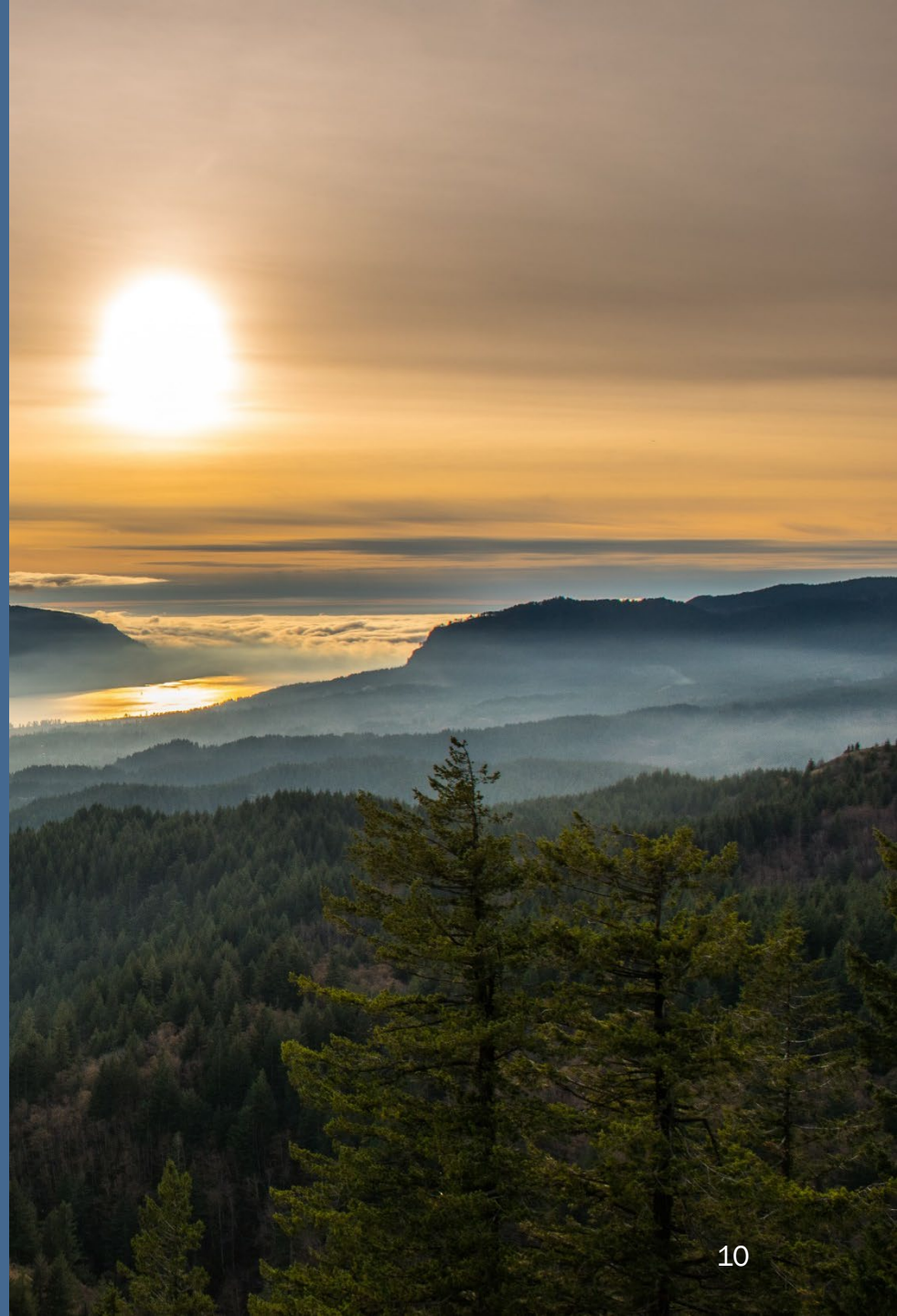
Emissions allowances

Offset credits

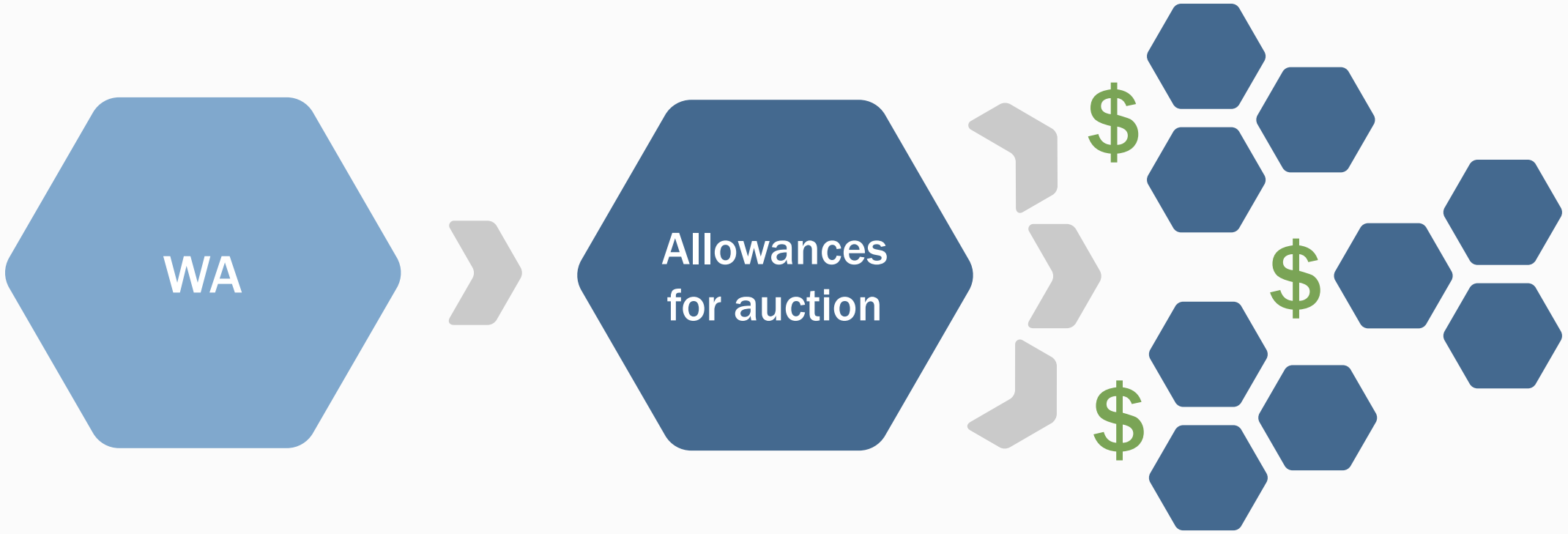
Percentage of Entity's Compliance Obligation Eligible to be Covered by Offsets



Questions about Cap-and-Invest



Washington's carbon market



Single jurisdiction

WA market

WA allowances purchased

A linked carbon market

Linked jurisdictions

Linked market

Allowances purchased

Offset credits in a linked market

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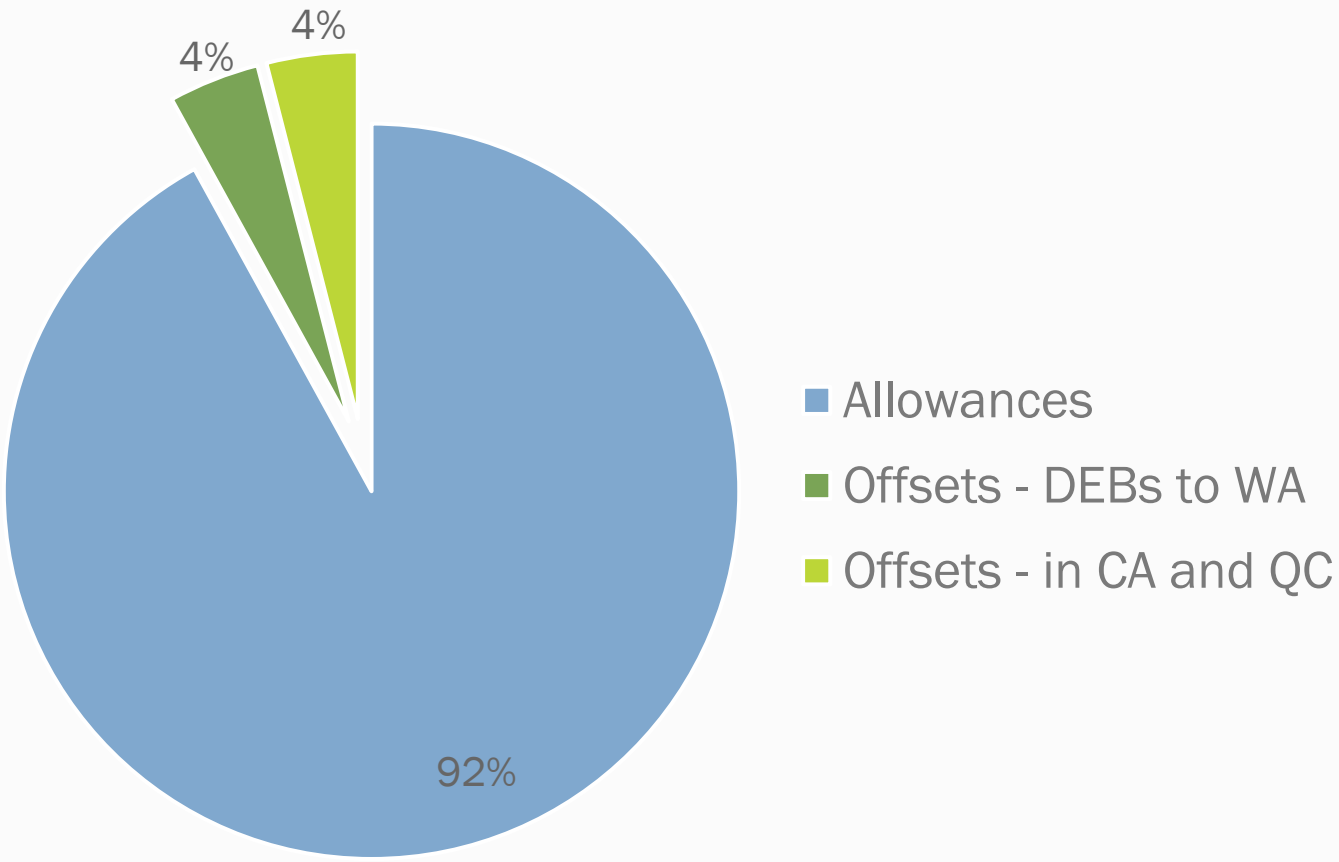
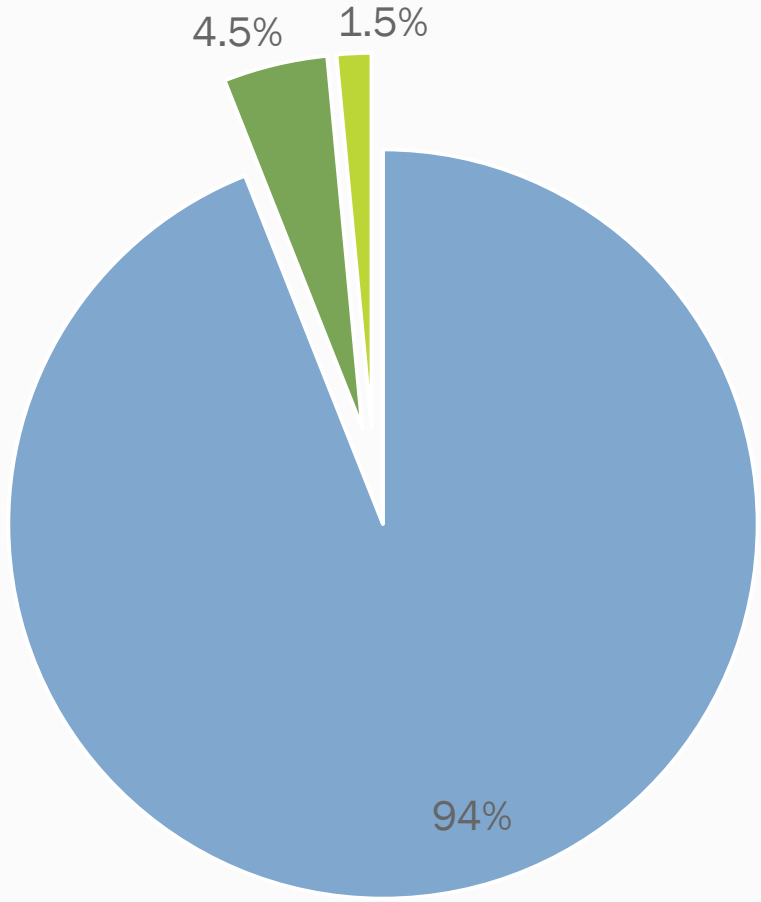
First compliance period – 2023-2026



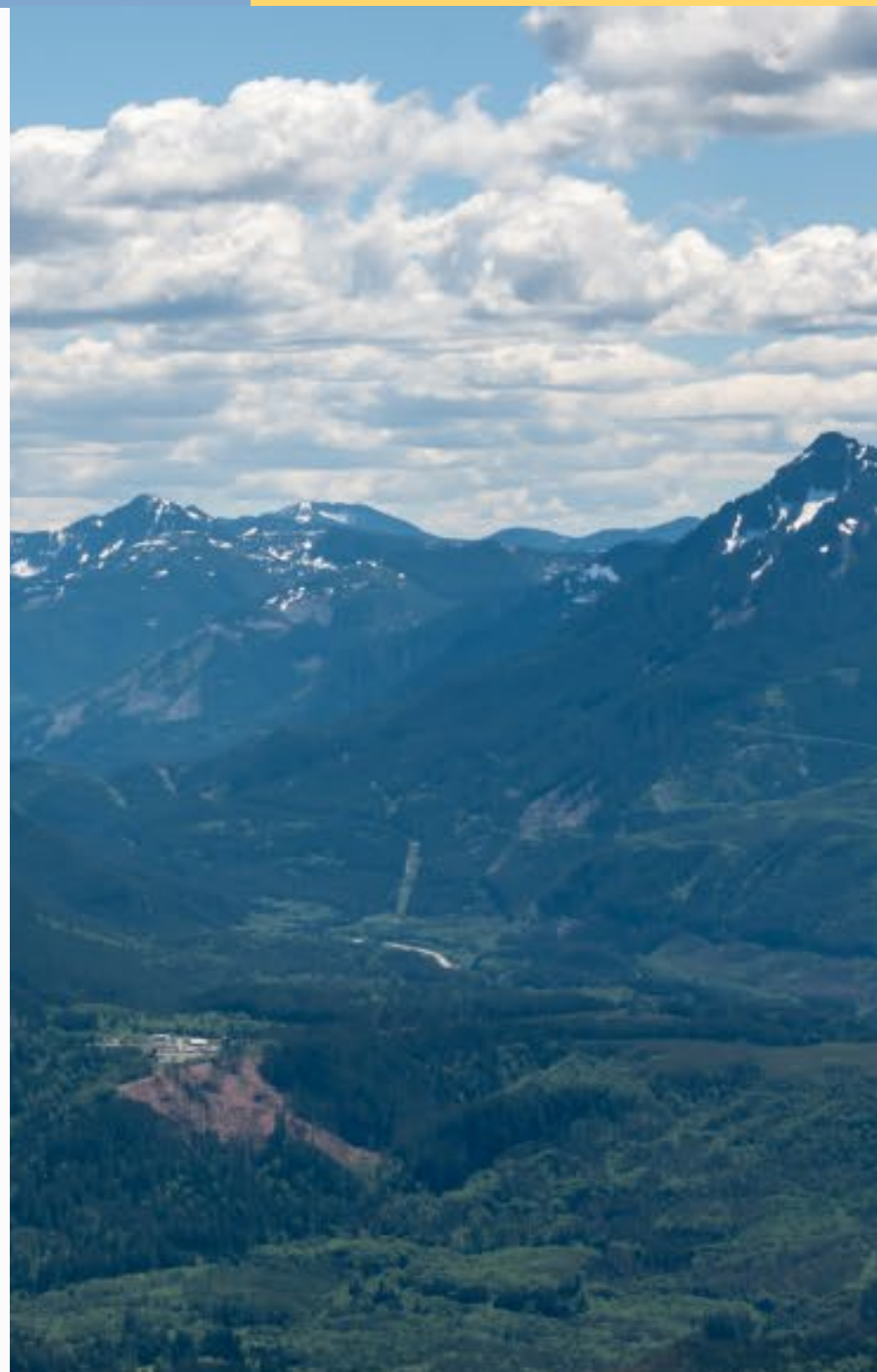
Later compliance periods – 2027-2050



In a linked program, the rest of the offset credits must be ***located in*** one of the linked jurisdictions

Why is Washington pursuing linkage?

- Lower and more consistent allowance prices
- Provide consistent requirements for businesses
- Streamline program operations
- Increase overall market security
- Increase collaboration to fight climate change



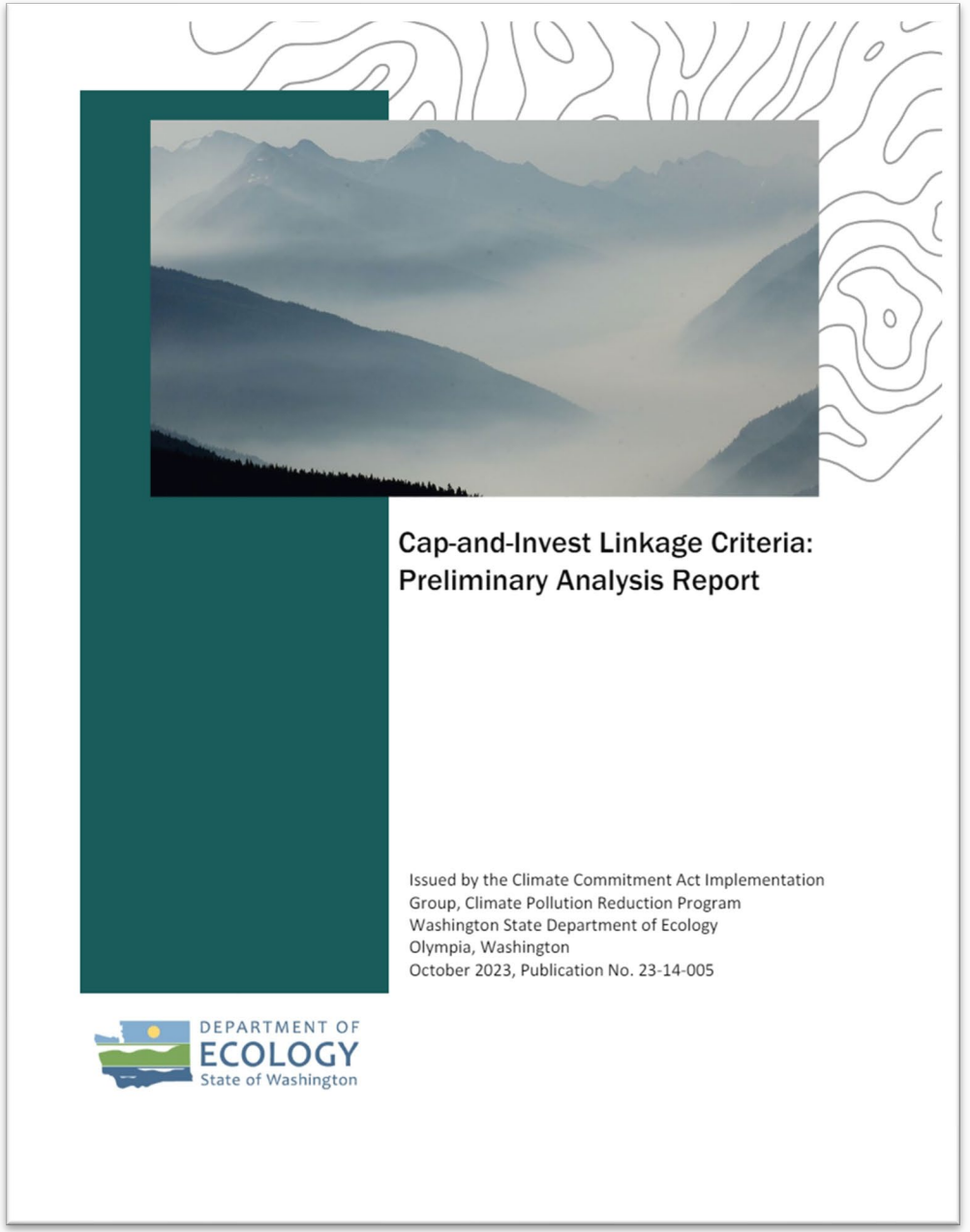
Criteria for linking

Communities: what are the potential impacts of linking on communities?

Costs: would linking reduce the cost of compliance?

Climate goals: will joining markets impact WA's ability to meet greenhouse gas emission limits?

Linkage Criteria: Preliminary Analysis Report



Linkage process and timeline

First half of 2023
Linkage Exploratory Process

Fall 2023
Decision to Pursue Linkage

2024 through 2025*
Align Market Policies
Environmental Justice Assessment

2025 or later
Linkage Agreement

**tentative dates, timing still to be determined based on conversations with California and Québec*

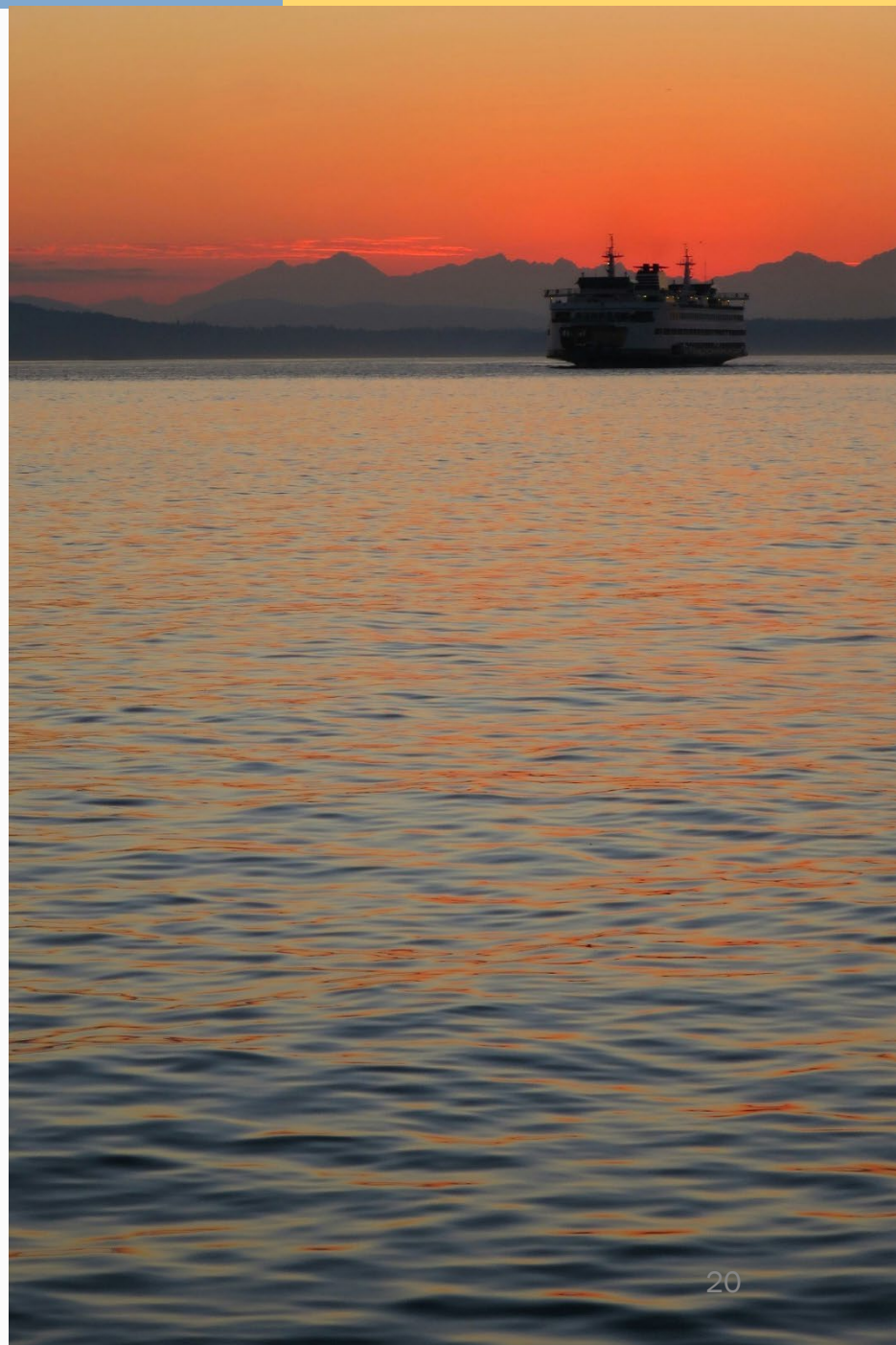
Linkage Rulemaking

What is rulemaking?

- Ecology and other executive branch agencies have the authority to adopt regulations called rules.
- The Washington Legislature gives Ecology the authority to write rules.
- Ecology writes rules for several reasons:
  - The legislature adopts a law that requires or allows rulemaking by Ecology.
  - Ecology receives requests or concerns about our rules.
  - Ecology has identified updates to rules that need to be adopted.
- There are three phases to rulemaking:
  - Announcement
  - Proposal
  - Adoption
- Typically requires Environmental Justice Assessment

Scope of linkage rulemaking

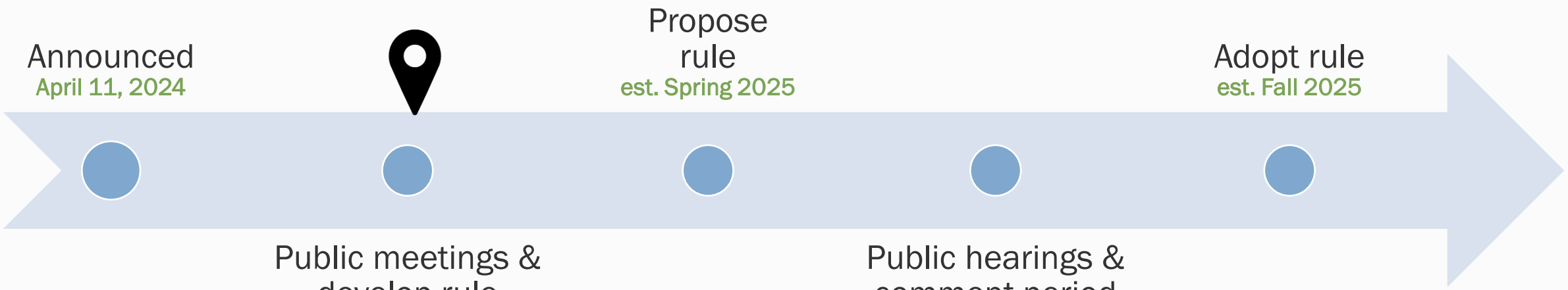
- Climate Commitment Act Program Rule (WAC 173-446) and the Reporting of Emissions of GHGs rule (WAC 173-441)
- Implement Senate Bill 6058
- Align certain carbon market policies with California and Québec, including:
  - Rules for auctions and trading
  - Program registration requirements
  - Electricity sector coverage
  - Compliance period lengths
- WA retains authority over program
- Related Cap-and-Invest rulemakings:
  - Offset protocols
  - Electricity markets



Linkage rulemaking timeline

Summary of timeline posted on the linkage rulemaking webpage.

Timeline is tentative and subject to change.



Will schedule more public meetings

Summary of draft linkage rule amendments

Climate Commitment Act Program Rule – Chapter 173-446 WAC

Allowance auction and trading topics:

- Align entity registration requirements
- Align rules on corporate associations
- Add rules for program participation by exchange clearinghouses
- Increase allowance purchase limits for covered entities from 10% to 25%*
- Remove vintage year allowance holding limit for general market participants*
- Reconcile across currencies (U.S. and Canadian dollars)
- Add deadline for consignment of allowances
- Increase number of auctions of future year allowances

Offsets topics:

- Increase ability to use offset credits from projects on Tribal lands for compliance*
- Clarify offset credit issue date requirements

Summary of draft linkage rule amendments

Climate Commitment Act Program Rule – Chapter 173-446 WAC

Electricity sector topics:

- Require all imported electricity from unspecified sources to be covered*
- Add program participation requirements for federal power marketing administrations*

Remaining topics:

- Align compliance period length*
- Clarifications for a linked market
- Remove Ecology's discretion to reduce penalties during the first compliance period*
- Revise definition of biofuels to fuels with 30% lower lifecycle emissions (previously 40%)*
- Address compliance obligation when ownership changes

Summary of draft linkage rule amendments

Reporting of Emissions of Greenhouse Gases Rule – Chapter 173-441 WAC

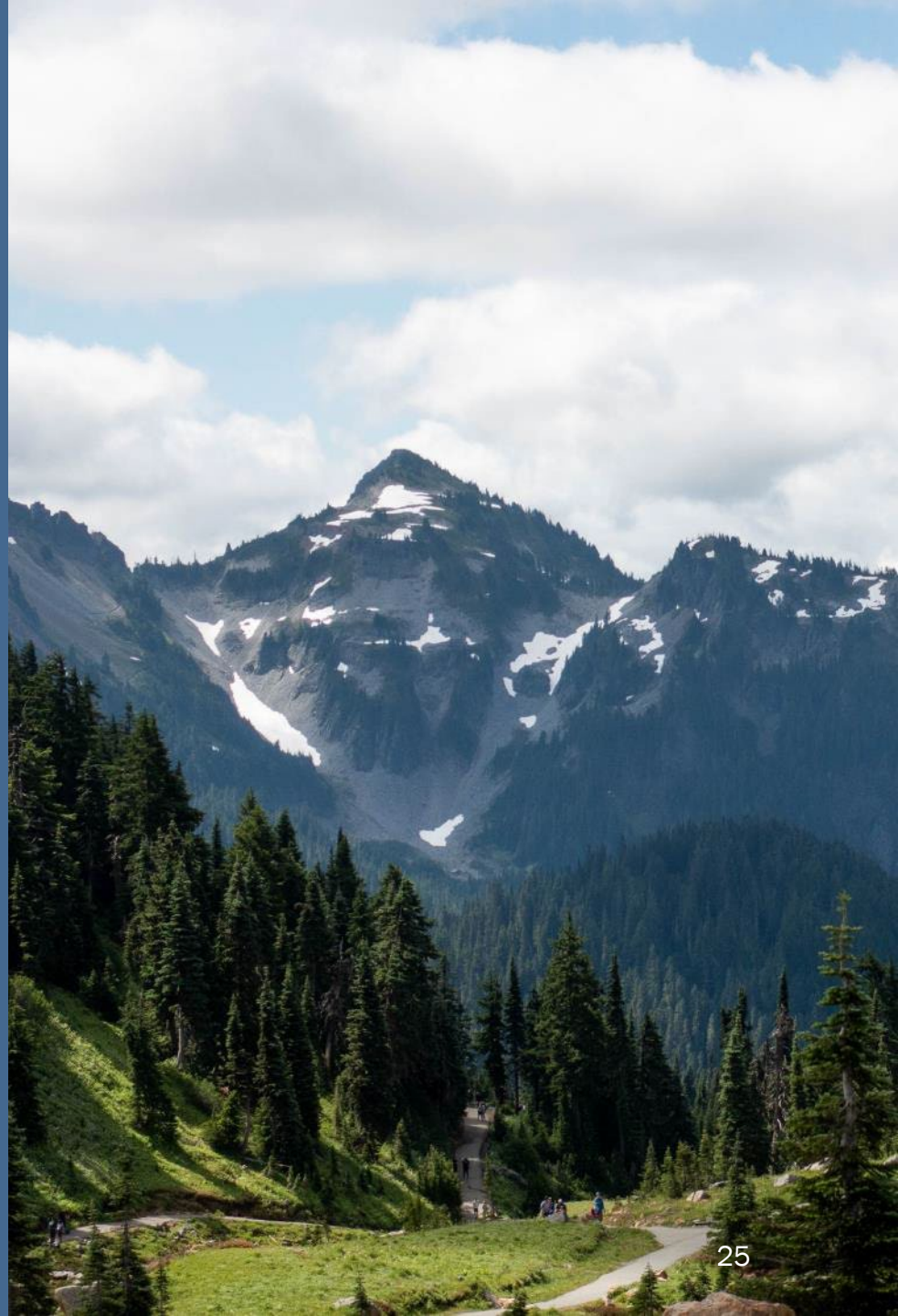
Electricity sector topics:

- Require reporting of all GHG emissions for electricity*
- Allow electric power entities to submit existing reports*
- Revise definition of electricity importer*
- Replace “netting” of electricity imports with exemption for electricity “wheeled through the state”*

Remaining topics:

- Clarifications for a linked market
- Retain existing EPA greenhouse gas reporting requirements to maintain consistency*
- Update facility specific calculation methods

Questions on linkage rulemaking



Environmental Justice Assessments on Linkage

- Held a Tribal Forum
- Invited Government to Government consultation

- Identifying overburdened communities likely to be impacted
- Engaging overburdened communities and vulnerable populations

- Analyze impacts of action
- Identify how to distribute benefits and mitigate harms based on what we learned from consultation and engagement

How to comment: EJ Assessment

- Share comments during public meetings
  - *We will have additional public meetings.*
- Set up a meeting with us
  - Email CCALinkage@ecy.wa.gov
- Email your comments
  - CCALinkage@ecy.wa.gov
- Submit comments online
  - https://ecology.commentinput.com/?id=dBVRthgWf
  - *We are using same comment form for the linkage rule and EJ Assessments.*
- Send a letter
  - Department of Ecology
    Climate Pollution Reduction Program
    Attn: Stephanie Potts
    PO Box 47600
    Olympia, WA 98504-7600

DEPARTMENT OF ECOLOGY
State of Washington

The current comment period:
June 3, 2024 at 5:00 p.m. PST to Sept. 27, 2024 at 11:59 p.m. PST.

There will be additional comment periods following this one.

Discussion

- **Comments will inform:**
  - Environmental Justice Assessment for linkage and this rulemaking
  - Rule proposal
  - Linkage agreement negotiation

- **Considerations**
  - Policies created by law versus rule
  - Senate Bill 6058 – takes effect January 1, 2025
  - California's and Québec's program changes

Discussion Questions

1. How do you think linking may impact you, your community, or other communities that experience greater environmental harms?
   a) What do you think are potential benefits from linking?
   b) What do you think are potential harms from linking?
2. What are your recommendations to reduce potential harms from linking?
3. What are your recommendations to fairly share the benefits from linking?
4. Is there additional information you'd like Ecology to provide about the Cap-and-Invest program or linkage?
5. How do you like to receive information?
6. What are effective ways to engage with your community?
7. Anything else you would like to share about linkage or this process?

Breakout room discussions

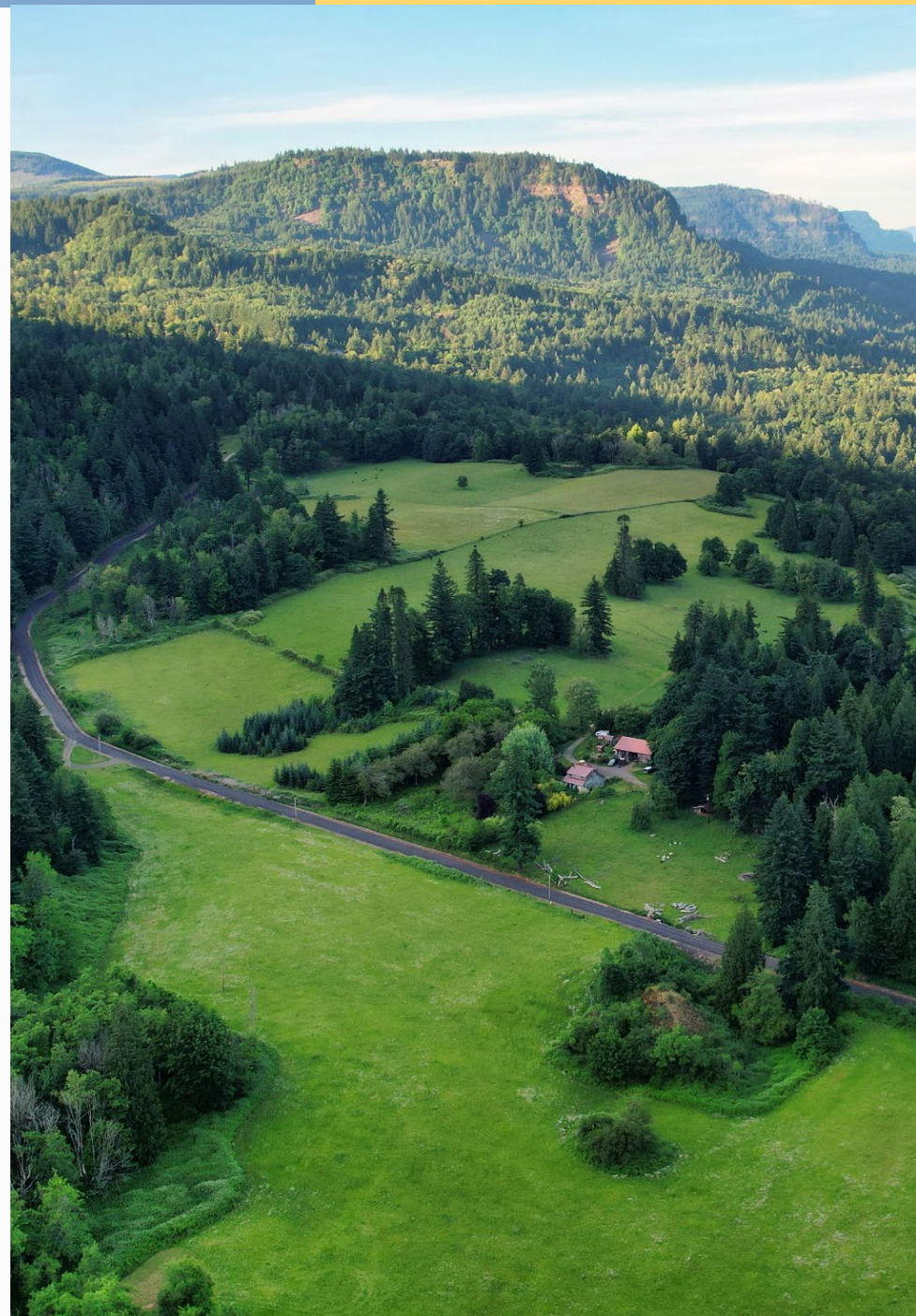
Comment opportunities for linkage

- Rulemaking process
  - Draft rule language: through early 2025
  - Environmental Justice Assessment: through early 2025
  - Proposed rule: Spring – Summer 2025*

- Environmental Justice Assessment on linkage
  - Through 2025*

- Draft linkage agreement
  - Anticipated in late 2024 or 2025*
  - See current California-Québec linkage agreement

**tentative dates, timing still to be determined based on conversations with California and Québec*



Questions?

If you have additional questions or would like to meet with us, email CCALinkage@ecy.wa.gov