



EITE Joint Advisory Group meeting #1

May 1, 2025

Agenda

Purpose

Reconvene advisory groups

Discuss draft materials shared today

- 1 Welcome and introductions
- 2 Background and context for EITE allocation
- 3 Discuss draft materials:
 - Best practice policies for avoiding leakage
 - Methods for benchmarking EITE facilities
- 4 Member questions and/or initial comments on the draft materials
- 5 Next steps
- 6 Public comment opportunity

Introductions

Facilitation team – Ross Strategic

- Susan Hayman – Joint Meetings & Industrial Advisory Group facilitator
- Heather Christopher – Joint Meetings & Policy Advisory Group Support
- Hogan Sherrow – Policy Advisory Group Facilitator
- Farnaz Seddighzadeh – Industrial Advisory Group Support

Ecology staff

- Adrian Young – Cap-and-Invest Industrial Policy Lead
- Andrew Hayes – Cap-and-Invest Policy Section Manager
- Isabel Hanify – Cap-and-Invest EITE Policy Planner
- Jihan Grettenberger – Cap-and-Invest Outreach Specialist

EITE Industries Advisory Group members

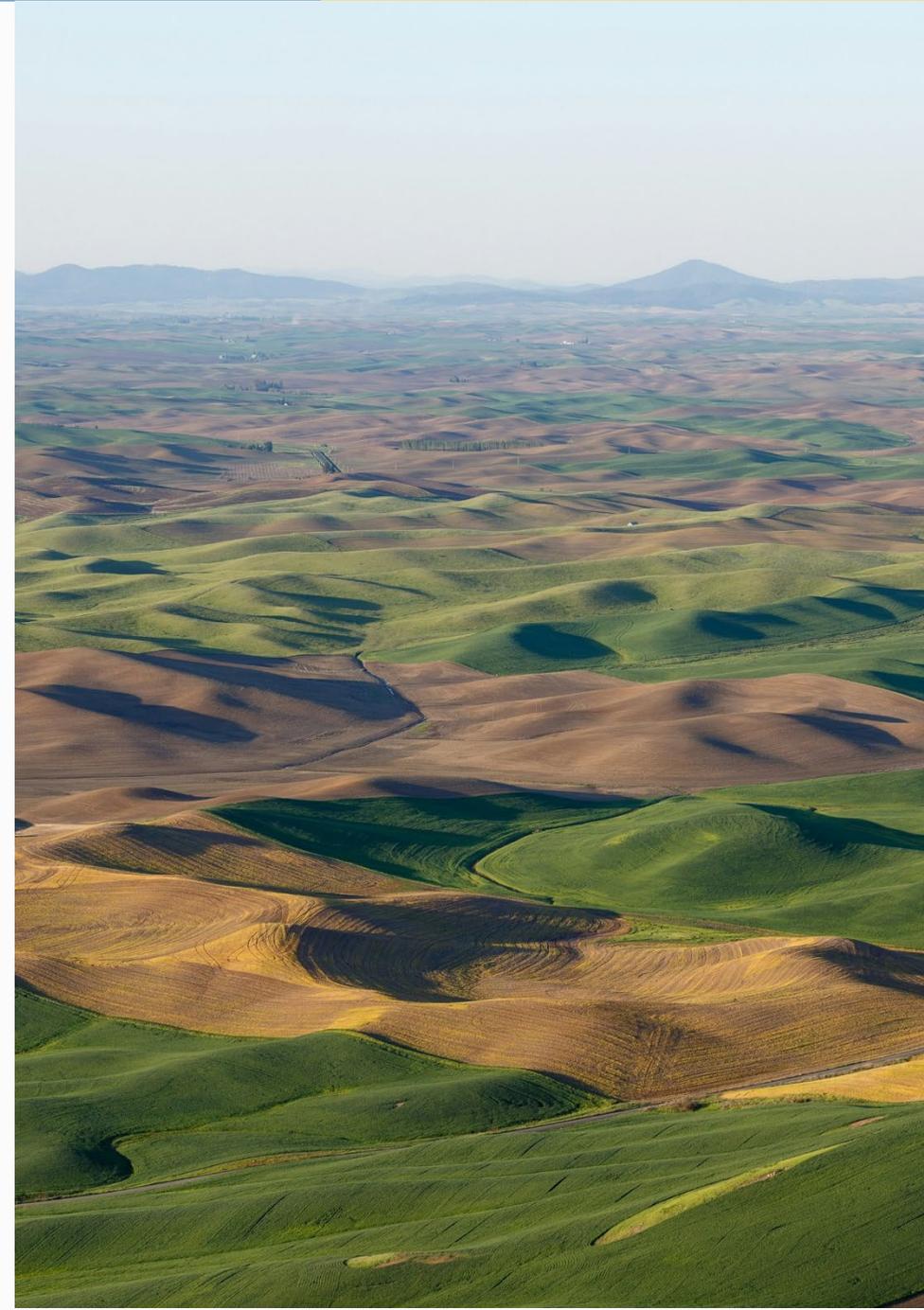
- Adam Diamond – Nutrien
- Brandon Houskeeper– Alliance of Western Energy Consumers
- Brent Downey – Kaiser Aluminum
- Brian Wood– Nippon Dynawave Packaging
- Bryan Vickers– Glass Packaging Institute
- Christopher Collins – HF Sinclair
- Chris Matuszak – Collins Aerospace
- Dallas Scholes – Par Pacific and U.S. Oil & Refining
- David Heller – Cardinal FG Company
- Jackie White – Northwest Pulp & Paper Association
- Jarod Cook – Lamb Weston
- Jessica Spiegel – Western States Petroleum Association
- Jim Verburg – bP America
- Joshua Estes– Association of Western Pulp and Paper Workers
- KC Klosterman – Ash Grove Cement
- Kristin Marshall – Boeing
- Pamela Barrow – Food Northwest
- Tarah Erickson – Nucor Steel Seattle
- Paul Butkus– Packaging Corporation of America
- Perry Hanson – J.R Simplot Company
- Sally Hurst – TSMC Washington
- Sourabh Pansare – Phillips 66 Company
- Tad Koscielak – Matheson Tri Gas

EITE Policy Advisory Group members

- Altinay Karasapan – Climate Solutions
- Carly Michiels – Washington Public Ports Association
- Dan Wilson – United Steelworkers Union - Local 338
- David Mendoza – The Nature Conservancy
- Donny Donovan – IAM District 751
- Isaac Kastama – Clean and Prosperous
- Kassie Markos – Puget Sound Energy
- Keith Curl-Dove – Washington Conservation Action
- Richard May – SEI Fuel Services (7-Eleven)
- Steve Taylor – Cowlitz Public Utility District No. 1
- *2 delegates from the EITE Industries Advisory Group*

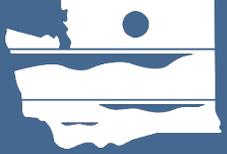
Charter reminders

- Advisory Group not asked to reach consensus – not a decision-making body
- Participation does not imply endorsement for any actions taken by Ecology
- Members can send a delegate to attend a meeting on their behalf with notice to Ecology
- Members who change employment/affiliation must notify Ecology as soon as possible



Market-sensitive information

- Cap-and-Invest Program creates a multimillion-dollar market for greenhouse gas emission allowances
- Ecology required to guard against bidder collusion and minimize the potential for market manipulation ([RCW 70A.65.100](#))
- Registered entities must avoid disclosing or discussing certain auction information, like bidding strategies ([WAC 173-446-317](#))
- Market-sensitive information can affect prices of allowances.
- Ecology will exercise due diligence to ensure all potentially market-influencing information is managed appropriately
 - Draft materials for the report will be released mornings of May 1, May 29, June 26, and July 30

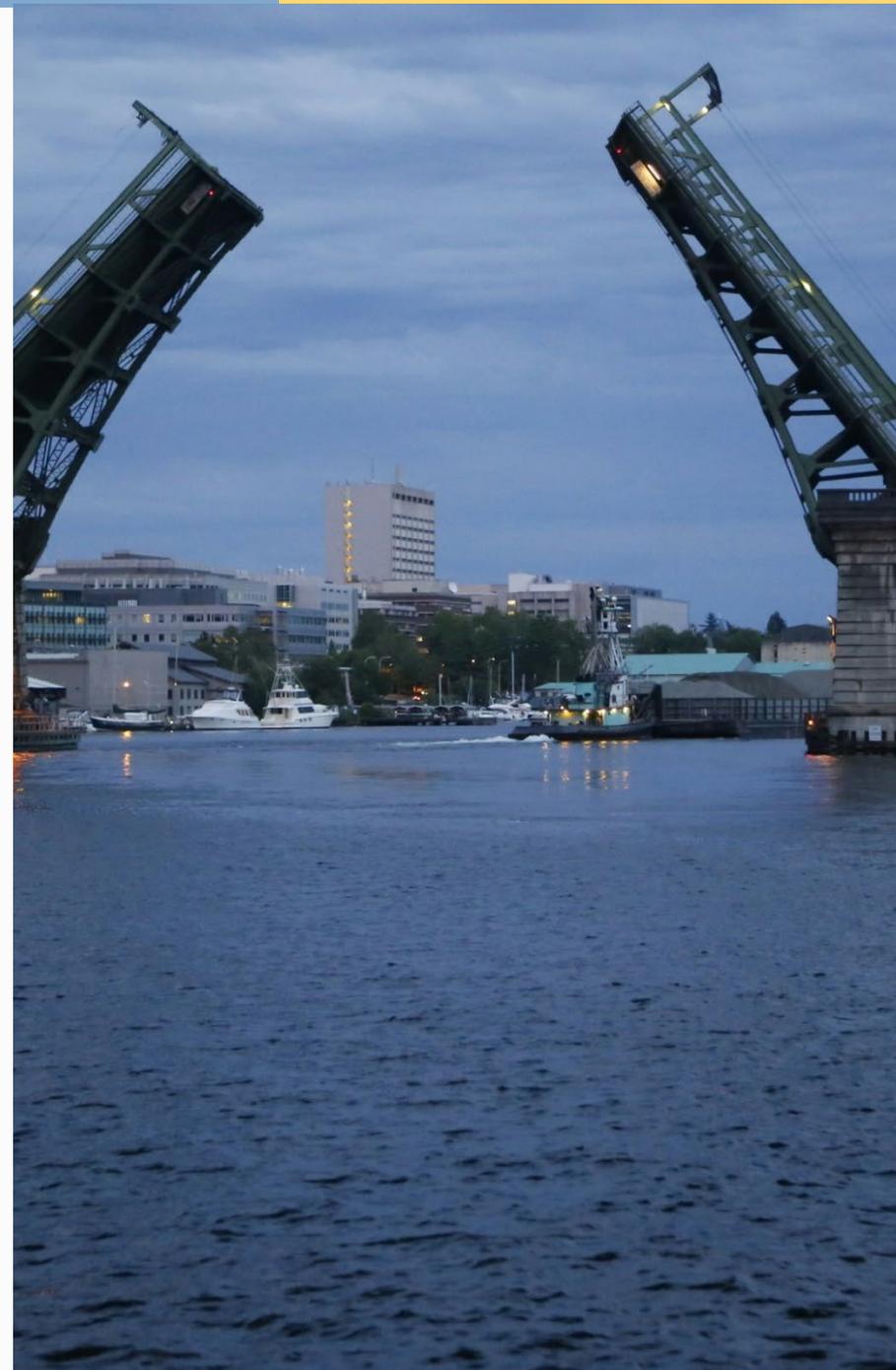


Background

EITE allocation and the report to the Legislature

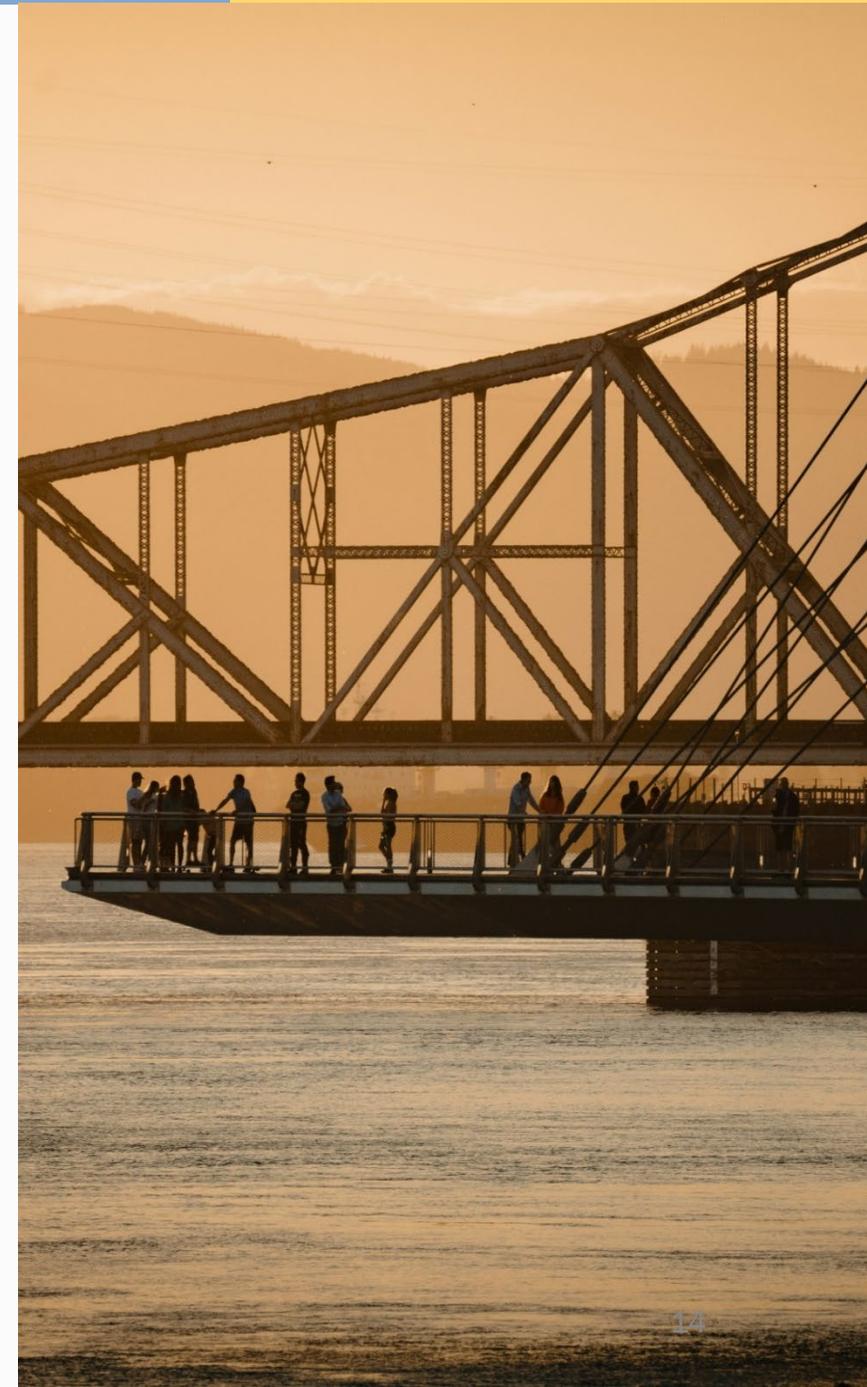
What are EITEs?

- Manufacturing facilities with high energy needs and high greenhouse gas emissions
- Face significant competition for their products
- About 40 facilities in Washington, including producers of paper, food, building materials, airplanes, semiconductors, and transportation fuels
- Some emit large amounts of “criteria” air pollutants that are known to harm human health

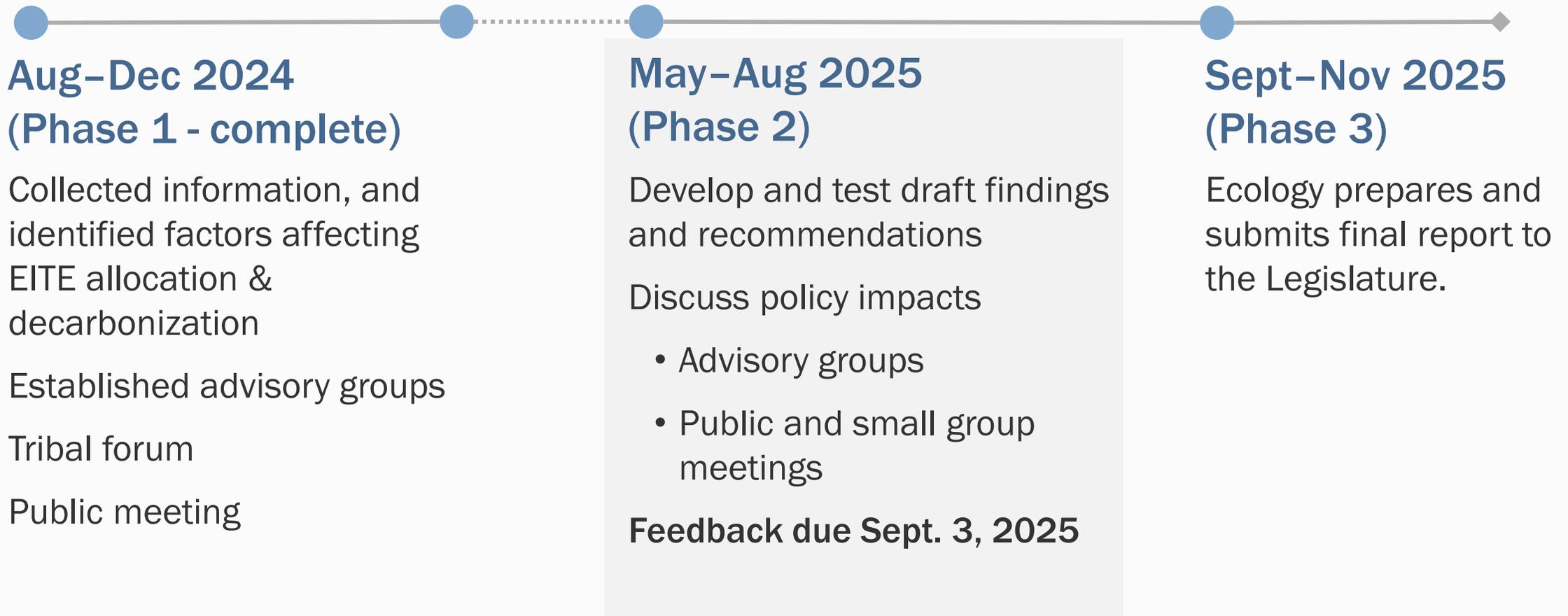


EITE allowance allocation

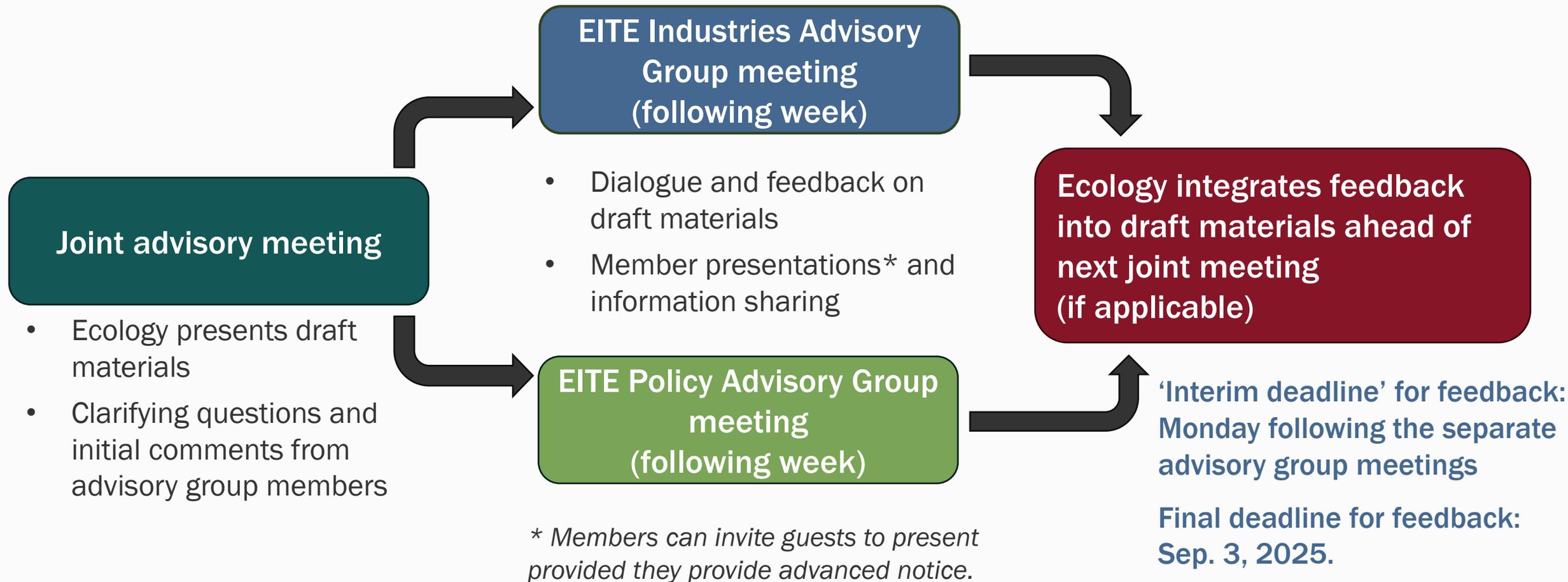
- Receive no-cost allowances until 2034
 - In 2024, 16% of the total allowance were for EITEs
- Intended to protect jobs and investments
- Avoid businesses from moving outside of the state, known as 'leakage'
- Most carbon trading programs take this approach to EITEs to address leakage risk
- EITE allocation for 2035-2050 not specified in the CCA



Report timeline and engagement approach



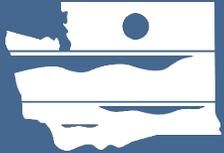
Meeting format and feedback cycle



Meeting schedule, topics and deadlines

Joint meeting	Topics / Draft materials released	Follow-up discussion meetings	'Interim feedback deadline'
May 1, 2025	<ul style="list-style-type: none"> • Policies for avoiding carbon leakage • Methods for benchmarking EITE emissions 	May 7 – Policy AG May 8 – Industry AG	May 12
May 29, 2025	<ul style="list-style-type: none"> • Potential options for EITE allowance allocation in 2035-2050 and assessment criteria • Environmental justice and economic impacts • <i>Decarbonization pathways (Rocky Mountain Institute)</i> 	June 4 – Policy AG June 5 – Industry AG	June 9
Jun. 26, 2025	<ul style="list-style-type: none"> • Review of options and methods for EITE allowance allocation for 2035-2050 • <i>Electrification and clean energy in WA (TBD)</i> 	July 2 – Policy AG July 3 – Industry AG	July 7
Jul. 24, 2025	<ul style="list-style-type: none"> • Recommendations for the Legislature • Preliminary environmental justice assessment 	July 30 – Policy AG July 31 – Industry AG	<i>No interim deadline</i>

Final deadline for feedback: Sep. 3, 2025.



Draft materials

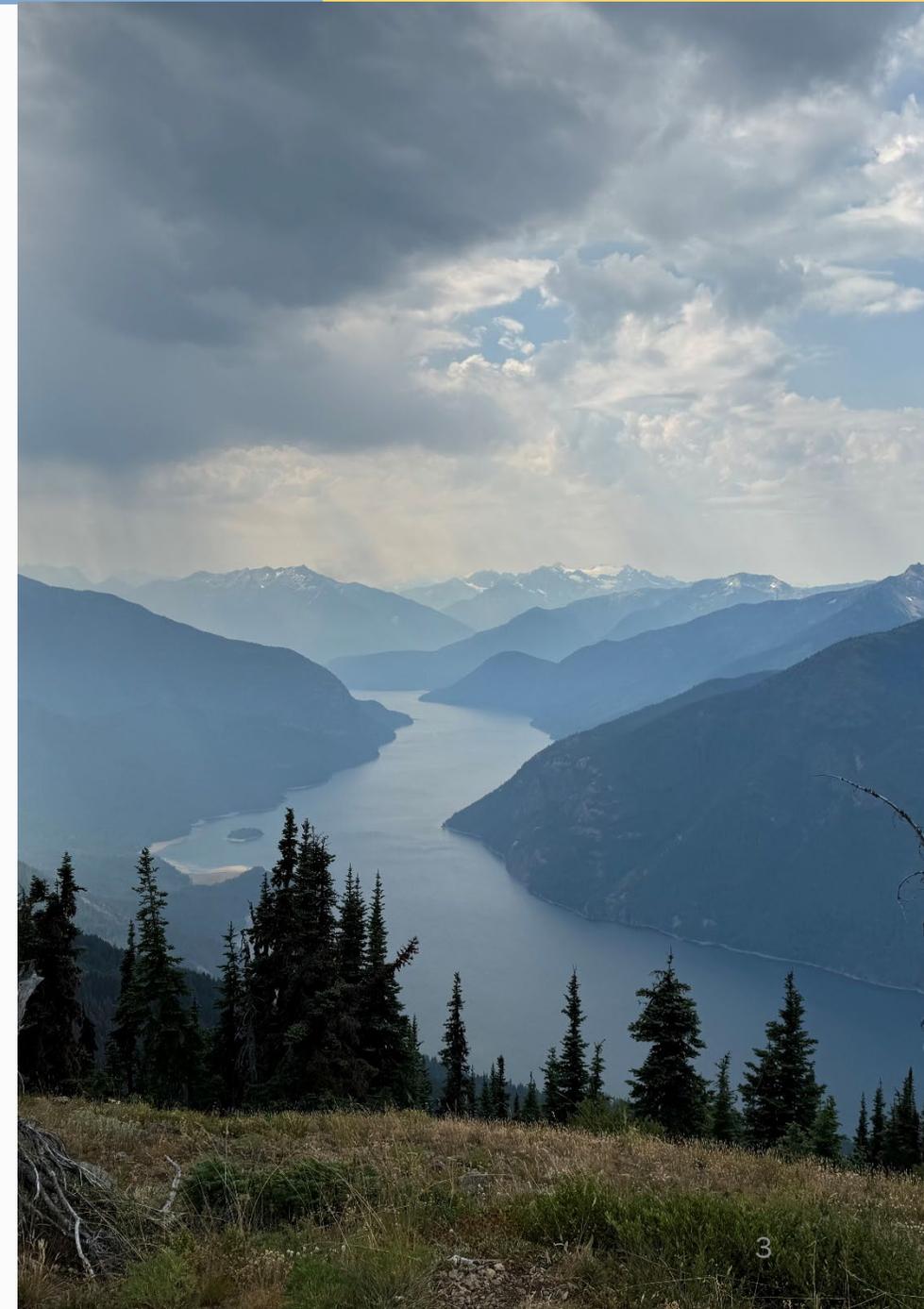
Review of best practice policies for avoiding leakage and methods for benchmarking EITE emissions

Context

- RCW 70A.65.110(4)(a) required Ecology to:
 - a) Review global best practices for avoiding emissions leakage
 - b) Evaluate benchmarking methods for EITEs, including best available technology
 - c) Describe potential approaches for determining how allowances are allocated to EITEs from 2035-2050
- Draft materials released today:
 - [Document 1: Best practice policies for avoiding leakage](#)
 - [Document 2: Methods for developing greenhouse gas benchmarks](#)

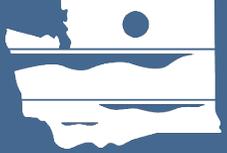
Structure of draft materials (Documents 1 & 2)

- Section 1: Context and background
 - Including methods, key terms, and concepts
- Section 2: Draft key findings
 - High-level summary of draft findings
- Section 3: Detailed findings and supporting information
 - Including how Washington compares to other jurisdictions



Methodology

- Clarification of key terms and concepts related to emissions leakage and benchmarking in carbon pricing programs
- Identification and review of best available data and literature
- Compare Washington EITE allocation with other jurisdictions
- Discussions with EITE Advisory Groups and subject matter experts during 2024 (Phase 1)



Key findings

Review of best practice policies for avoiding leakage

Review of policies for avoiding leakage:

Key findings - draft

- Jurisdictions with carbon pricing programs have consistently included policies to mitigate leakage and maintain the competitiveness of EITEs
- Ensures programs support global reductions in greenhouse gas emissions
 - Not simply result in the displacement of production and emissions to other jurisdictions (via product imports)
- Empirical evidence of leakage is mixed but it remains an important consideration for carbon pricing programs

Review of policies for avoiding leakage:

Key findings - draft

‘Best practice’ policies for avoiding leakage and maintaining competitiveness of EITEs achieve multiple objectives:

- a) Establish a level playing field for EITEs vis-à-vis competitors not subject to carbon pricing policies
- b) Target assistance to sectors most at risk of leakage
- c) Maintain incentives for EITEs to decarbonize and reward efficient production within the jurisdiction
- d) Align with the overarching goal of carbon pricing programs
 - reducing emissions in line with targets or limits

Review of policies for avoiding leakage:

Key findings - draft

Main policies used to mitigate leakage and maintain competitiveness of EITEs under carbon pricing programs:

1. Allocation of free or 'no cost' allowances to EITEs
 - Identify sectors exposed to leakage risk
 - Develop approach for allocating allowances (e.g. grandparenting, fixed sector benchmarking or output-based allocation)
2. Establishment of Carbon Border Adjustment Mechanisms
 - Impose carbon price on imports of emissions intensive products
 - Being adopted in European Union – phasing out of free allowances

Review of policies for avoiding leakage:

Key findings - draft

- Free allowance allocation most common leakage policy with output-based allocation considered best practice
 - Targets leakage risk more robustly by adjusting allowances to EITEs based on actual production
 - Most effective when paired with sector-level benchmarking that rewards more efficient production within the jurisdiction
- Some jurisdictions, such as California, also provide financial support to EITEs for electricity purchases to help mitigate leakage risk

Review of policies for avoiding leakage:

Key findings

Main challenges around free allocation:

- Can diminish abatement incentives
- May come into conflict with program objectives to reduce program caps in line with emission reduction targets or limits

Most programs apply adjustments or ‘discount factors’ that progressively reduce total EITE allowances over time:

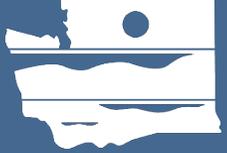
- ‘Assistance factors’ based on carbon leakage risk
- ‘Cap adjustment factors’ that reflect declining emission caps
- Other adjustments, e.g. based on efficiency improvements

Review of policies for avoiding leakage:

Key findings - draft

Differences between Washington EITE policies and other jurisdictions with similar carbon pricing programs:

- a) Lack of designated approach for assessing leakage risk for existing industrial activities in Washington
 - Difficult to ensure EITE policies are targeted effectively and to monitor changes in leakage risk over time
- b) CCA does not require consideration of leakage risk from purchased electricity
 - May result in unmitigated leakage risk especially if electricity use rises
- c) Yet to authorize a cap adjustment factor to help ensure total allowance allocation aligns with allowance budgets

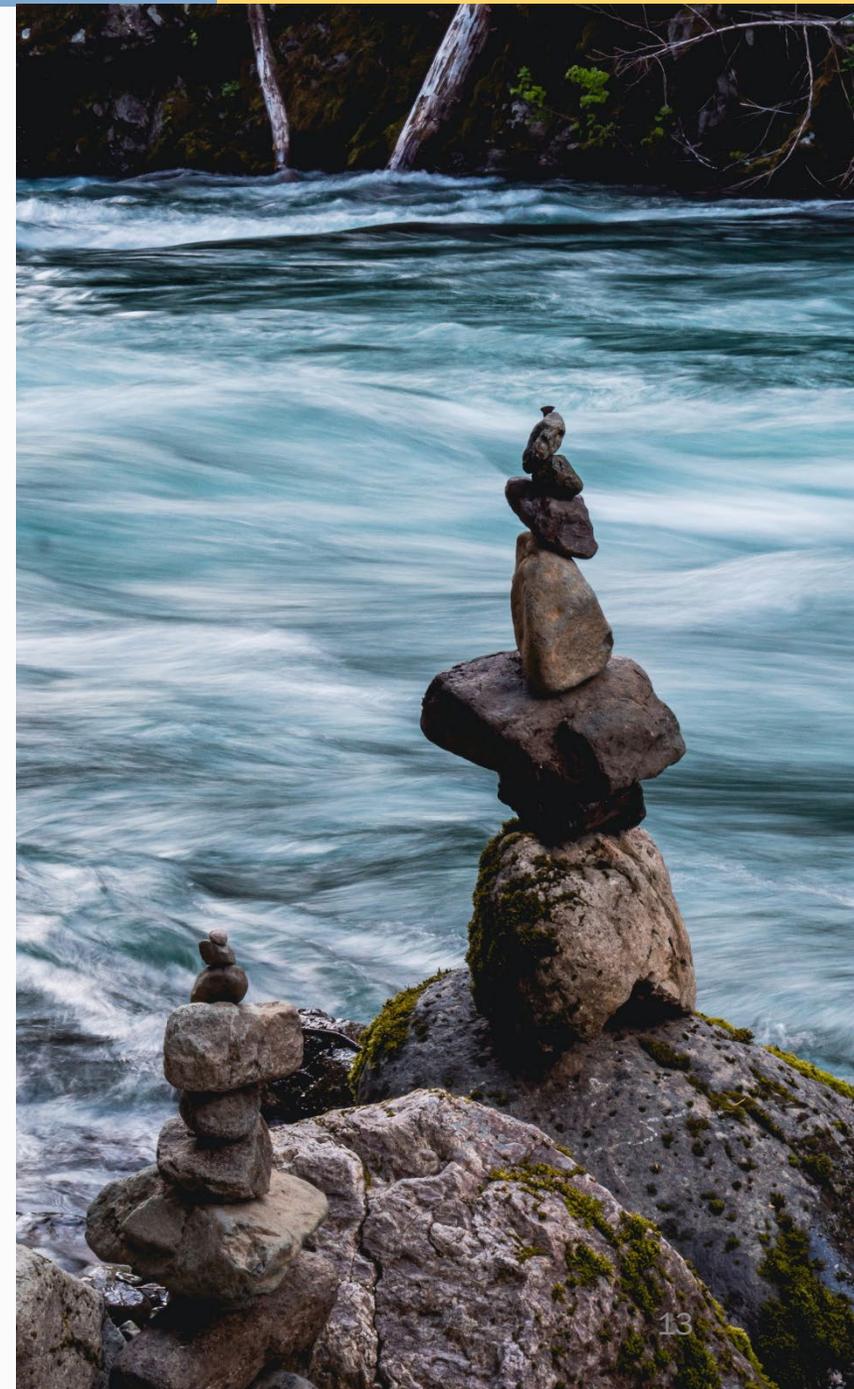


Key findings

Review of methods for benchmarking EITEs, including use of best available technology

Review of methods for benchmarking EITEs

- Benchmarking involves the use of metrics to assess emissions performance or efficiency of industrial activities
- Establishing benchmarks involves:
 - Collating emissions and production data from multiple industrial facilities that produce the same or similar products
 - Engagement with industry experts to ensure benchmarks account for the technical aspects of different manufacturing processes



Review of methods for benchmarking EITEs

- Benchmarking is considered a ‘best practice’ approach for allocating allowances to EITEs in carbon pricing programs
 - Particularly when paired with ‘output-based allocation’ methods
- Benchmarking rewards the most efficient facilities (those performing better than the benchmark)
 - By providing more allowances than required to meet compliance
- Benchmark ‘stringency’ determines the proportion of free allowances EITEs receive relative to their emissions

Review of methods for benchmarking EITEs

- **Product-based benchmarking** is the most common approach used for EITE allowance allocation
 - Used in California, Quebec, European Union and New Zealand
- **Energy-based benchmarking** used as a fallback
 - When insufficient data to establish product-based benchmarks
- EITE allocation in Washington does not currently use any conventional benchmarking
 - Most EITEs have a ‘carbon-intensity baseline’ based on facility-specific emissions and production data during 2015-2019

Review of methods for benchmarking EITEs

Potential drawbacks of EITE allocation methods in Washington:

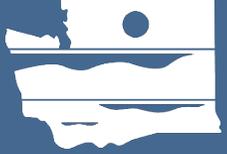
- Difficult to assess the emissions performance of EITE facilities in Washington or compare ‘stringency’ without common benchmark
- Does not reward the most efficient facilities like product-based benchmarking:
 - Doesn’t fully account for different products manufactured by EITEs or early action by facilities to reduce their emissions intensity
- May reduce incentives for investment in new EITE facilities
 - Default allowance allocation based on actual emissions intensity

Review of methods for benchmarking EITEs

- Only three EITE subsectors are likely to have enough facilities to develop sector-level benchmarks
 - Pulp and paper manufacturing (6 facilities)
 - Frozen potato manufacturing (7 facilities)
 - Petroleum refining (5 facilities)
- Other EITE sectors have only 1 or 2 facilities
 - Would potentially result in facility-level benchmarks similar to existing carbon-intensity baselines
- Merits of developing product-based benchmarks for Washington EITEs needs careful consideration
 - Costs, impacts and complexity of any changes to allocation methods

Review of methods for benchmarking EITEs

- Best available technology or ‘BAT’ = most stringent benchmark
- Use of BAT for EITE allowance allocation is uncommon
 - Carbon pricing programs aim to provide flexibility around compliance strategies
 - BAT implies specifying ‘performance standards’ for individual facilities or sectors
- Establishing BAT would require significantly more information compared to establishing product-based benchmarks
 - Including audit process to ensure credibility of the BAT assessments
- Unclear how this approach would affect incentives for decarbonization and ensure total levels of allowance allocation remain under the cap



Questions and comments

Next steps

- EITE Policy Advisory Group meeting
 - [May 7 from 9:00 a.m. to 11:00 a.m.](#)
- EITE Industries Advisory Group
 - [May 8 from 9:00 a.m. to 11:00 a.m.](#)
- Interim feedback
 - Email to CCAIEITEIndustries@ecy.wa.gov by interim deadlines (see meeting schedule slide)
- Final feedback/comment
 - Submit via the [electronic comment platform](#) by Sept. 3
- Meeting materials and recordings available on the [EITE webpage](#)



Public comment opportunity

Guidelines for providing public comment

- Please use “raise hand” button to indicate that you wish to provide a comment or share in the chat.
- Up to two minutes per person
- Please keep the comments related to EITEs and the report to the Legislature
- Ecology will not respond to comments in this meeting
- To submit written comments, use our [comment platform](#)



Thank you!

Adrian Young

Cap-and-Invest Industrial Policy Lead

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Resources

- [Notifications on EITEs and the report](#)
- [EITE Industries webpage](#)