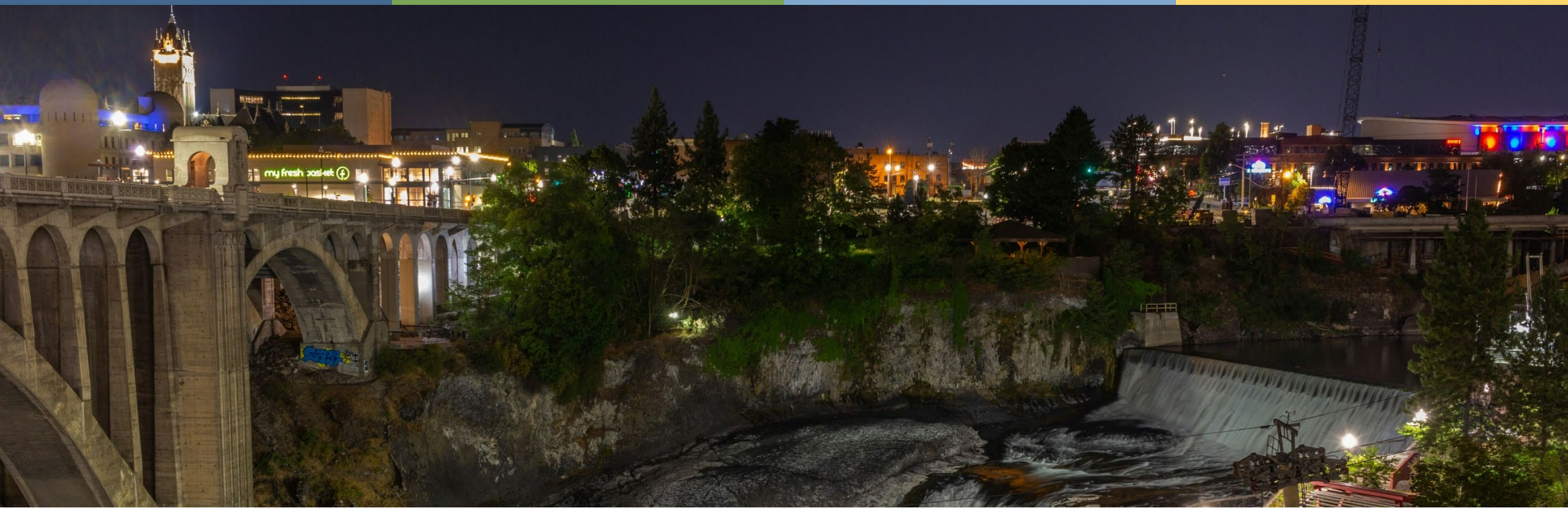




EITE Joint Advisory Group meeting #2

May 29, 2025

Agenda

Purpose

- *Present key aspects of the draft materials shared today*
- *Provide an opportunity for clarifying questions and initial comments*

1

Welcome and meeting overview

2

Presentations: Eastern Research Group and Rocky Mountain Institute

3

Discuss draft materials:

- Methods for EITE allowance allocation

4

Member questions and/or initial comments on the draft materials

5

Next steps

6

Public comment opportunity

Introductions

Facilitation team – Ross Strategic

- Hogan Sherrow – Today's Joint Meeting Facilitator and Policy Advisory Group facilitator
- Heather Christopher – Joint Meetings & Policy Advisory Group Support
- 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

Meeting schedule, topics and deadlines

Joint meeting	Topics / Draft materials released	Follow-up discussion meetings	'Interim feedback deadline'
May 1, 2025	• Policies for avoiding carbon leakage • Methods for benchmarking EITE emissions	May 7 – Policy AG May 8 – Industry AG	May 12
May 29, 2025	• Potential options for EITE allowance allocation in 2035-2050 and assessment criteria • Guest Presentations ◦ <i>Environmental justice and economic impacts (ERG)</i> ◦ <i>Decarbonization pathways (RMI)</i>	June 4 – Policy AG June 5 – Industry AG	June 9
Jun. 26, 2025	• 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	• 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.



Guest presentations

Environmental justice and economic impacts (Eastern Research Group)

Decarbonization pathways (Rocky Mountain Institute)

Eastern Research Group presentation: Environmental Justice and economic/market information on EITEs in Washington

The presentation is available at

ecology.wa.gov/ERG-Presentation-EJ-Economics-May25

Rocky Mountain Institute presentation: Washington industrial decarbonization pathways, EITEs, and related policy

The presentation is available at

ecology.wa.gov/rmi-presentation-decarbonization-may-25



Draft materials

Methods for EITE allowance allocation

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
 - c) Describe potential approaches for determining how allowances are allocated to EITEs from 2035-2050
- Draft materials released today:
 - [Document 3: Framework for assessing methods for EITE allowance allocation](#)
 - [Document 4: Potential methods for allocating allowances to EITEs for 2035-2050](#)



Document 3 overview

Proposed framework for assessing potential methods
for EITE allowance allocation

Purpose of assessment framework

- Assessment framework designed to ensure that assessment process is transparent, evidence-based, and aligned with program objectives
 - Will inform the development of recommendations to the Legislature
- Proposed framework and assessment criteria:
 - Reflects relevant objectives and statutory requirements of the CCA
 - Based on best practices for regulatory impact analysis, policy analyses from other jurisdictions and input from advisory groups.

Overview of framework

- Proposed framework for systematically assessing potential options for EITE allowance allocation:
 - Step 1: Screening criteria for identifying viable options
 - Determine compatibility with design of the Cap-and-Invest Program and CCA
 - Step 2: Criteria for comparing viable alternative options
 - Compare option and identify key implications
- Other considerations:
 - Economic and environmental justice impacts

Step 1 - Screening criteria

Criterion	Assessment Question
Aligns with Ecology's Cap-and-Invest allowance budgets and auctioned allowance requirements	Will the option ensure total no-cost allowances remain within the program cap/annual budget limits in RCW 70A.45.020 and align with auctioned allowance requirements in RCW 70A.65.100?
Provides for new market entrants	Does the option enable new EITE facilities to access no-cost allowances?
Maintains flexibility for compliance	Does the option allow EITEs to identify least cost compliance strategies, including the purchasing, banking, and selling of allowances?
Compatible with market linkage	Is the proposed policy option compatible with plans to link Washington's Cap-and-Invest market with those in California and Québec?

Step 2 - Assessment criteria

Criterion	Assessment Question
Mitigates emissions leakage	To what extent does the option include mechanisms to identify and mitigate emissions leakage and maintain competitiveness of EITEs?
Maintains incentives for decarbonization	To what extent does the option maintain incentives for EITEs to reduce emissions intensity of production within Washington?
Supports market functionality	To what extent does the option support stable, competitive, and efficient market operations, e.g. liquidity and price signals?
Minimizes administrative costs and complexity	To what extent does the option require agency resourcing to implement/can be implemented using existing administrative systems, and minimizes additional requirements for EITEs?
Provides clarity, objectivity, and predictability	To what extent does the option provide clear, objective, and transparent methods to determine future allocations, and enables EITEs to plan for compliance?

Other considerations in assessing policy options

- **Economic impacts:**
 - What are the potential economic impacts of the proposed policy option for industries, communities, and the state as a whole?
- **Environmental justice outcomes:**
 - Is the proposed policy option consistent with the environmental justice requirements in the CCA?
 - Does the option cause environmental harm or affect the equitable distribution of environmental benefits to an overburdened community or a vulnerable population?
- Ecology collecting data to assess these considerations as part of its report to the legislature



Document 4 overview

Potential methods for allocating allowances to EITEs
for 2035-2050

Process for identifying potential options

- Best practices policies for avoiding leakage and maintaining competitiveness of EITEs are those policies that achieve four objectives:
 - Establish a level playing field for EITEs producing within the Washington
 - Identify and target industrial sectors most at risk of leakage
 - Maintain decarbonization incentives for EITEs and reward efficient production
 - Align with program caps and emissions limits.
- These four objectives/policy design considerations were used to identify potential options for allocating allowance to EITEs* from 2035-2050
 - Not all options are mutually exclusive and different combinations are possible
 - Some options are contingent on other options or would require further work

** Allocation of no-cost allowances considered a 'best practice' approach for avoiding leakage and maintaining competitiveness of EITEs within sub-national carbon pricing programs*

Potential options:

Establishing a level playing field

- a) **Continue providing no-cost allowances to EITEs from 2035 onwards using an output-based allocation method as the default approach*** that is designed to align with annual program allowance budgets and other applicable policy objectives.
- b) **Periodically monitor developments in carbon pricing policies in key competitor jurisdictions and relevant federal policies** to identify any major changes in leakage risk that may warrant changes to EITE policies in Washington.
- c) **Explore other policies or strategies that could be adopted in Washington to mitigate leakage and maintain competitiveness of EITEs**, for example, incentivizing the procurement of products manufactured consistent with more stringent environmental regulations, such as Buy Clean, Buy Fair.

** Most potential options are contingent on this option being implemented*

Potential options:

Targeting sectors most at risk of leakage

- a) **Develop an objective approach for assessing leakage risk for EITEs in Washington,** including from purchased electricity, and periodically monitoring and assessing any major changes in leakage risk
- b) **Apply an ‘assistance factor’ that provides differentiated levels of no-cost allowances to industrial sectors** based on an assessment of leakage risk facing each sector.
- c) **Provide no-cost allowances or other compensation to EITEs to address any leakage risk associated with purchased electricity.** This could be implemented with or without the ‘assistance factor’ option above.

Potential options:

Maintaining decarbonization incentives

- a) **Continue using the output-based allocation method with facility-specific carbon-intensity baselines** from 2035 onwards.
- b) **Re-establish allocation baselines for EITEs** from 2035 onwards using most recently available emissions and production data (e.g. 2031-2033).
- c) **Transition EITEs to product-based benchmarks** by 2035 and use output-based allocation with benchmarking from 2035 onwards.
- d) **Enable new EITE facilities to be benchmarked** against a comparable EITE facility in Washington (i.e. a facility manufacturing comparable products).
- e) **Require consignment of a portion of EITE allowance allocation** with associated revenues to be used for emission reduction projects by EITEs.
- f) **Apply adjustments to EITE allowance allocation based on anticipated efficiency improvements or technological advancements** from 2035 onwards.

Potential options:

Aligning with program cap and emission limits

- a) **Apply a cap adjustment factor to EITE allowance allocation** from 2035 onwards that is calibrated with annual allowance budgets and other forms of allowance distribution.
- b) **Establish an annual cap on total no-cost allowance allocation** from 2035 onwards so that it does exceed a certain proportion of each annual budget.
- c) **Prioritize allowance allocations** for industries manufacturing products that are **consistent with statewide net-zero emissions limits**.

Other policy design considerations

- a) **Enable EITE facilities with covered emissions below 25,000 MT to receive no-cost allowances**
 - This would enable 'opt-in entities' classified as EITEs to be eligible to receive no cost allowances if their annual covered emissions are less than 25,000 MT CO₂e.
- b) **Expand the consideration of environment justice impacts within EITE allowance allocation policies**
 - This could involve expanding upon the existing environment justice requirements in the CCA (e.g. restrictions on offset usage) to help ensure EITE allowance allocation policies are consistent with the environmental justice objectives of the CCA.



Questions and comments

Next steps

- EITE Policy Advisory Group meeting
 - [June 4 from 9:00 a.m. to 11:00 a.m.](#)
- EITE Industries Advisory Group
 - [June 5 from 9:00 a.m. to 11:30 a.m.](#)
- Interim feedback
 - Email to CCAIEITEIndustries@ecy.wa.gov by June 9 interim deadline
- Final feedback/comment
 - Submit via the [electronic comment platform](#) by Sept. 3



Photo located outside of Washington

Public comment opportunity

Guidelines for providing public comment

- Please use “raise hand” button or share in the chat to indicate that you wish to provide a comment
- 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](#)





Photo located outside of Washington

Thank you!

Adrian Young
Cap-and-Invest Industrial Policy Lead
CCAEITEIndustries@ecy.wa.gov

Resources

- [Meeting materials](#) (draft documents, presentations, recording)
- [Notifications on EITEs and the report](#)
- [EITE Industries webpage](#)