International Carbon Action Partnership

USA - Washington Cap-and-Invest Program

General Information

ETS Description

Washington's Cap-and-Invest Program began operating in January 2023. It covers around 70% of the state's emissions, and its cap trajectory is consistent with the long-term target to reduce statewide emissions to 95% below 1990 levels by 2050.

The program covers emissions from 96 entities in the mining, energy, industrial, buildings, and transport sectors. Many of the Cap-and-Invest Program's design elements are similar to those of California's Cap-and-Invest Program. Covered entities must surrender allowances for all their covered emissions. Allowances are distributed through auctioning and free allocation, with the latter based primarily on benchmarking. The program has a cost containment reserve and auction reserve price to support market stability and moderate covered entities' compliance costs.

The Cap-and-Invest Program was established by the "Climate Commitment Act" (CCA), signed into law by then-Governor Jay Inslee in May 2021. Washington is the second state in the United States to pass a law requiring such an economy-wide program, after California. Launched as a standalone system, the CCA directed the Department of Ecology to pursue linkage with California and Québec. "Senate Bill 6058", which is designed to facilitate linkage, went into effect in January 2025.

ETS Status

in force

Jurisdictions

Washington

Year in Review

Washington's Cap-and-Invest Program saw significant changes in 2025, with the Legislature enacting "HB 1975" (Chapter 320, Laws of 2025; effective July 27, 2025). The bill directs Ecology to analyze and model the program's allowance and other compliance-instrument markets, including scenarios with potential linkage, to support market-dynamics assessment and future design adjustments. Though price ceiling units were already in effect as a backstop to offer additional units issued at the price ceiling if Allowance Price Containment Reserve (APCR) supply is exhausted, HB 1975 established the fixed price ceiling of USD 80 for 2026 to 2027.

Ecology expanded its "Program Updates and Linkage" rulemaking (CR-101 refiled March 31, 2025), published draft rule language through spring and summer 2025, and set a timetable to propose linkage rules in spring 2026, with a view to adopting them in autumn 2026 to enable potential linkage with California and Québec.

Ecology also concluded an offsets rulemaking, adopting an updated Ozone Depleting Substances protocol from Aug 2025. In parallel, Ecology advanced a separate US forest protocol update. On January 9, 2026, Ecology submitted a statutory report to the Legislature on no-cost allowance allocation for emissions-intensive, trade-exposed industries (EITEs) for 2035–2050.

Ecology held a planned pre-compliance APCR auction in October. The September quarterly auction cleared above the APCR Tier 1 trigger, prompting an additional reserve auction on November 12 at the fixed reserve price of USD 60.43. The final auction of the year (and 12th auction since the start of the Cap-and-Invest Program) took place on December 3. All 7,424,390 current vintage allowances offered for sale by Ecology and consigning entities were sold at a settlement price of USD 70.86 apiece. All 1,945,905 future vintage allowances were sold in the advance auction at a settlement price of USD 29.40 each.

Sectoral coverage

Mining and extractives
Transport
Buildings
Industry
Power

Revenue usage

Climate mitigation
Pursuit of other development objectives, such as education and health
Assistance for individuals, households, and businesses

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO2e)

96.1 $MtCO_2e$ (2021)

GHG reduction targets

By 2030: 45% reduction from 1990 GHG levels ("Greenhouse Gas Emission Limits – Amendment 2020")

By 2040: 70% reduction from 1990 GHG levels (Greenhouse Gas Emission Limits – Amendment 2020)

By 2050: 95% reduction of total GHG emissions below 1990 levels and achievement of net-zero emissions (Greenhouse Gas Emission Limits – Amendment 2020)

Current Allowance Price (per t/CO2e)

- Average auction price (current vintage): USD 60.95
- Average secondary market price: USD 61.36

Size & Phases

Covered emissions (2022)

71.00%

Verified ETS Emissions

68.20$MtCO_2e$

GHGs covered

CO2, CH4, N2O, SF6, HFCs, PFCs, NF3, and other fluorinated GHGs

Phases

FIRST COMPLIANCE PERIOD: Four years (2023 to 2026)

SECOND COMPLIANCE PERIOD: Four years (2027 to 2030)

THIRD COMPLIANCE PERIOD: Four years (2031 to 2034)

Under Senate Bill 6058, the Department of Ecology may be required to revise the definition of "compliance period" through rulemaking to align with a linked jurisdiction. However, the length of the first compliance period will not change.

Cap or total emissions limit

An absolute cap limits the total emissions allowed in the system and is fixed ex-ante.

FIRST COMPLIANCE PERIOD: The cap for 2023 was set at 63 $MtCO_2e$, which is equal to 93% of average emissions levels of covered entities between 2015 and 2019. The cap declines annually by 7%, to reach 49 $MtCO_2e$ in 2026.

SECOND COMPLIANCE PERIOD: The cap for 2027 will be set at 93% of the sum of the 2026 cap and emissions from new entities entering the program for the second compliance period. The cap declines by 7% annually through 2030.

THIRD COMPLIANCE PERIOD AND BEYOND: The cap for 2031 will be set at 98.2% of the sum of the 2030 cap and emissions from new entities entering the program for the third compliance period. In the period from 2032 to 2042, the cap declines annually by 1.8%.

In the period from 2043 to 2049, the cap declines annually by 2.6%, reaching a 95% reduction from 1990 emissions levels by 2050.

Sectors and thresholds

FIRST COMPLIANCE PERIOD: All facilities with emissions over 25,000 tCO_2e, including industrial facilities, electricity generators, importers of electricity, fuel distributors, and natural gas suppliers. Excludes emissions from waste-to-energy and solid waste management. Starting in emissions year 2025, electric power entities (EPEs) which meet the 10,000 tCO_2e emissions reporting threshold and have over 0 tCO_2e emissions from unspecified sources, also have to participate in the Cap-and-Invest Program.

SECOND COMPLIANCE PERIOD: Waste-to-energy facilities with emissions over 25,000 tCO_2e in at least one year between 2023 and 2025 will be added.

THIRD COMPLIANCE PERIOD: Railroad companies with emissions over 25,000 tCO_2e in at least one year between 2027 and 2029 will be included.

VOLUNTARY OPT-IN PARTICIPATION: Any facility that is already covered by the mandatory MRV system but with emissions below the 25,000 tCO_2e Cap-and-Invest Program inclusion threshold may voluntarily participate as an opt-in entity. Other facilities, including federal power marketing administrations (FPMA), can also participate as opt-in entities. Opt-in entities become covered by the mandatory MRV system and must follow the same MRV requirements as other covered entities.

Point of regulation

Upstream (building, power [imported electricity] transport); point source (mining, industry, power).

Type of entities

Facilities, fuel distributors, electricity importers

Number of entities

96 covered entities, covered sources, or opt-in entities.

Allowance Allocation & Revenue

Allowance allocation

Proportion of auctioned allowances: 35% (2025)

Allowances are distributed via free allocation, free allocation with consignment, and auction.

FREE ALLOCATION: Emissions-intensive, trade-exposed facilities receive free allowances to mitigate the risk of carbon leakage. Allocation is done using facility-specific benchmarks, based on their average carbon intensity over the period between 2015 and 2019. Facilities could request free allocation based on their average emissions (i.e., grandparenting) only in a few instances where they were unable to calculate the emissions intensity of their production over this period. The reduction schedule that is applied to the allocation of no-cost allowances to eligible facilities will be based on four-year periods that are specified in the statute, instead of compliance periods.

FIRST COMPLIANCE PERIOD: Set at 100% of the benchmark multiplied by actual production, or historical emissions level.

SECOND COMPLIANCE PERIOD: Set at 97% of the benchmark multiplied by actual production, or historical emissions level.

THIRD COMPLIANCE PERIOD: Set at 94% of the benchmark multiplied by actual production, or historical emissions level.

FREE ALLOCATION WITH CONSIGNMENT: Electricity utilities receive free allowances based on forecasts of the electricity supply and administrative costs associated with complying with the Cap-and-Invest Program. During the first compliance period, they can choose to consign up to 100% of their allowances to auction. Natural gas facilities received an initial free allocation equal to 93% of their average emissions in the period from 2015 to 2019. The amount reduces annually in line with the cap decline factor. In 2023, 65% of free allowances must have been consigned for auction. This amount increases by 5% each year, reaching full consignment in 2030. Freely allocated allowances that are not consigned for auction may only be used for surrender and cannot be traded. Whether consigned or not, the allowance value allocated to electricity utilities and natural gas suppliers is required to be used for ratepayer benefit.

AUCTIONING: Auctions occur four times a year. Unsold allowances are held for future auctions and only sold if the settlement price is above the auction floor price for two consecutive auctions. Any that remain unsold within 24 months are transferred to an emissions containment reserve (see 'Market Stability Provisions' section).

Auctioning share

35%

Total Revenue

USD 4.3 billion of state revenue since the beginning of the program (USD 5.6 billion including consigned allowances)

USD 1.7 billion in 2025 (USD 2.3 billion including consigned allowances)
2025

Use of Revenues

USE OF REVENUE FROM FREE ALLOWANCES CONSIGNED FOR AUCTION: Revenues raised from the auctioning of free allowances on behalf of electricity utilities and natural gas facilities must be used to benefit ratepayers or customers, prioritizing those from low-income groups. In most cases the state's Utilities and Transportation Commission determines how the revenues are used.

USE OF REVENUES FROM ALLOWANCES AUCTIONED BY THE DEPARTMENT OF ECOLOGY: Proceeds from auctions are split into five accounts:

- Carbon Emissions Reduction Account (CERA);
- Climate Investment Account (CIA);
- Climate Commitment Account (CCA);
- Natural Climate Solutions Account (NCSA); and
- Air Quality and Health Disparities Improvement Account (AQHDIA).

Each account is intended for different environmentally beneficial activities. Not all projects funded from these accounts are intended to reduce GHG emissions. Funds in each of these five accounts are to be appropriated for specific types of climate, environmental justice, and ecological projects. The CCA requires that a minimum of 35%, with a goal of 40%, of money from CCA accounts be used for projects that provide a direct and meaningful benefit to vulnerable populations within overburdened communities. At least 10% of CCA account funds are required to be used for projects formally supported by the resolution of a Tribe.

Prior to June 2025, the CERA included two additional accounts, the Climate Active Transportation and Climate Transit Program Accounts. The Legislature repealed these accounts in Chapter 417 Laws of 2025 (ESSB 5801, Sec 801). All residual funds in the two accounts were deposited back into CERA.

For the 2023 to 2025 Biennium, the Legislature appropriated a total of USD 2.75 billion across all budget types (operating, capital, and transportation) and total spending for the same period reached USD 1.5 billion or 55% of legislative appropriations. During fiscal year 2025 (July 1, 2024 through June 30, 2025), approximately USD 1 billion was spent.* Of the amount already spent during the Biennium, approximately USD 375 million was through CTPA, USD 650 million through CCA and USD 220 million through NCSA

*The annual report titled "Distribution of Funds from CCA Accounts" for Fiscal Year 2025 is available here.

Flexibility & Linking

Offset credits

The use of offset credits is allowed.

QUALITATIVE LIMITS: Washington has adopted – with modifications – the following offset credit protocols developed under the California Cap-and-Trade Program:

- Livestock projects;
- Ozone depleting substance projects;
- US forest projects; and
- Urban forestry projects.

Ecology adopted amendments updating the ozone depleting substances protocol on July 21, 2025 (effective August 21, 2025), and is separately advancing a US forest protocol update, with draft language released in July and September 2025 and a proposal (CR-102) slated for January 2026.

QUANTITATIVE LIMITS:

First compliance period: Up to 8% in aggregate. Up to 5% of an entity's compliance obligation from projects not located on federally recognized tribal land. An additional 3% can be met from projects located on federally recognized tribal land.

Second compliance period: Up to 6% in aggregate. Up to 4% of an entity's compliance obligation from projects not located on federally recognized tribal land. An additional 2% can be met from projects located on federally recognized tribal land.

Third compliance period and beyond: Up to 6% in aggregate. Up to 4% of an entity's compliance obligation, including from projects located on federally recognized tribal land. An additional 2% can be met from projects located on federally recognized tribal land.

In the event of a link to another trading system, at least 50% of offset credits must provide direct environmental benefits to the state (DEBS) in the first compliance period, rising to 75% from the second compliance period. Without a link, all offset credits must provide DEBS.

Entities surrendered 26,280 offset credits in 2023, corresponding to 0.13% of total instruments surrendered for compliance.

Banking and borrowing

Unlimited banking is allowed between periods; however, covered entities are subject to general holding limits, which depend on the cap level. Allowances held in a compliance account to be used for compliance or that are to be consigned for auction do not count towards the holding limit.

Borrowing is not allowed.

Links with other Systems

The Washington Cap-and-Invest Program is not currently linked with any other system. However, in November 2023, the Department of Ecology announced that it would pursue linkage with the cap-and-trade programs of California and Québec. In March and September 2024, joint statements from the governments of Washington, California, and Québec affirmed their commitment to explore potential linkage. The state's linkage-related rulemaking and Environmental Justice Assessments are ongoing. The state anticipates full linkage occurring by 2027. Quarterly status updates on linkage are posted on the Ecology Linkage Website.The most recent update occurred in December 2025.

Compliance

Compliance mechanism

Covered entities must surrender one compliance unit (allowance, offset credit) per tCO_2e emitted for all their covered emissions.

Compliance Period

Four years

Except for the year following the last year of a compliance period, compliance instruments equal to at least 30% of the previous year's verified emissions must be surrendered annually, by the start of November (or the first business day thereafter). Compliance instruments equal to all remaining emissions must be surrendered by the start of November (or the first business day thereafter) of the year following the last year of a compliance period.

Monitoring, Reporting, Verification (MRV)

FRAMEWORK: The MRV framework was established by the regulation "Reporting of Emissions of Greenhouse Gases" (WAC 173-441).

MONITORING: Reporters must follow the calculation, monitoring, quality assurance, missing data, recordkeeping and reporting procedures specified in the applicable sections of the rule.

A written GHG monitoring plan is mandatory for reporters required to report under WAC 173-441-030, and must identify roles, data collection methods, quality assurance, maintenance, and repair procedures for meters/continuous monitoring systems, and include simplified block diagrams for facilities.

Calibration and accuracy requirements apply to meters and measurement devices at facilities, with different initial calibration dates for emissions and product data monitoring, and subsequent recalibrations per rule, manufacturer, or industry standards (WAC 173-441-050).

MRV thresholds: mandatory GHG reporting at ≥10,000 tCO_2e/year for facilities, fuel suppliers, and electric power entities; facilities report from 2012 onward; suppliers and electric power entities report beginning with the 2022 emissions year reported in 2023 (WAC 173-441-030).

REPORTING: Annual reporting is required; the emissions report is due by March 31 for most reporters, and by June 1 for electric power entities (WAC 173-441-050).

VERIFICATION: Third-party verification is required from the 2023 emissions year (reported in 2024) for any reporter emitting ≥25,000 tCO_2e/year, or any reporter with a mandatory or voluntary compliance obligation under the cap-and-invest law.

For reporters subject to third-party verification, full verification is required at least once every three reporting years (the first year must be full), with less-intensive verification allowed in the other two years if conditions are met. The verifier's report is due by August 10 for the prior calendar year (WAC 173-441-085). Verifiers must be certified by Ecology, including active accreditation/recognition under California ARB's Mandatory Reporting program (WAC 173-441-085).

Penalties and enforcement

If a covered or opt-in entity lacks sufficient compliance instruments to cover its annual and final compliance obligations at the relevant deadlines, it must, within six months, submit four penalty allowances for every missing compliance instrument. If the entity fails to submit the penalty allowances, Ecology must issue an order or a civil penalty of up to USD 10,000 per day per violation; each tonne of CO2e not covered by a compliance instrument constitutes a separate violation (WAC 173-446-610).

Market Regulation

Market Stability Provisions

AUCTION PRICE FLOOR
Instrument type: Price-based instrument
Functioning: The auction price floor is set at USD 27.92 for 2026. It increases by 5% plus inflation annually, as measured by the nationwide Consumer Price Index for All Urban Consumers (CPI-U) identified by the US Bureau of Labor Statistics.

ALLOWANCE PRICE CONTAINMENT RESERVE (APCR)
Instrument type: Price-based instrument
Functioning: The APCR is a separate account managed by the Department of Ecology, from which allowances can be auctioned at pre-defined prices in the event of unexpectedly high allowance costs. Ecology places a percentage of each annual allowance budget into the APCR (currently 5% in the first and second compliance periods, 2023 to 2030), rather than a one-time frontload at program outset. The APCR has two price tiers, which in 2026 are set at USD 65.26 and USD 83.84 for Tiers 1 and 2 respectively.* Prices increase annually by 5% plus inflation, as measured by the CPI-U.

APCR auctions are held following any quarter in which the auction settlement price reaches or exceeds the Tier 1 price level, and a pre-compliance APCR auction is also held before each annual compliance deadline. Only covered and opt-in entities can participate. Sales occur at the fixed tier prices. Purchased allowances are deposited directly into entities' compliance accounts and cannot be traded on secondary markets. Any unsold allowances are carried over to future APCR auctions. Ecology publishes schedules and results for APCR auctions each year.

PRICE CEILING UNITS
Instrument type: Price-based instrument
Functioning: If there are no units remaining in the APCR, price ceiling units are made available to covered entities with insufficient allowances to meet their compliance obligations. Price ceiling unit sales only occur at the end of a compliance period and following the request of a covered entity, with advance notice as specified in rule. The ceiling price is set at USD 80.00 for 2026 to 2027 under HB 1975. Subsequent adjustments are determined by Ecology consistent with statute and rulemaking to facilitate potential linkage.

EMISSIONS CONTAINMENT RESERVE (ECR)
Instrument type: Price-based instrument
Functioning: Allowances can be withheld from an auction and placed in the ECR if auction settlement prices fall below the ECR trigger price. The trigger price is currently suspended, and this provision is therefore not operational.

*Until a linkage agreement is signed, APCR auctions only include allowances at the Tier 1 price.

Market Design

MARKET PARTICIPATION: Compliance entities, including opt-in entities; non-compliance entities, including offset project participants; individuals with primary residence in the United States.

MARKET TYPES:

Primary: Auctions are held four times per year, with a calendar giving dates and volumes published in January of each year. Participants must have an account in the Compliance Instrument Tracking System Service (CITSS). Auctions are delivered through the Western Climate Initiative, Inc.

Secondary: Futures and options contracts for allowances are traded on the Intercontinental Exchange and Nodal Exchange. Allowances can be traded over the counter directly between market participants.

LEGAL STATUS OF ALLOWANCES: Allowances are not explicitly defined as "financial instruments" or "securities", but, alongside offset credits, are treated as "compliance instruments" created and administered by Ecology for compliance purposes, and are subject to specific rules on creation, trading, holding, banking and retirement.

Other Information

Institutions involved

Department of Ecology: Responsible for the program rules and implementation of the Cap-and-Invest Program.

Western Climate Initiative Inc.: Non-profit organization responsible for administering auctions, the CITSS registry, and conducting market surveillance.

Other partner jurisdictions utilizing WCI, including California, Québec, and New York State.

Regulatory Framework

Climate Commitment Act

Climate Commitment Act Program Rule

Reporting of Emissions Of Greenhouse Gases

Senate Bill 6058

House Bill 1975

WAC 173-441

WAC 173-446

Evaluation / ETS review

By December 2027, and every four years thereafter, the Department of Ecology is required to submit a comprehensive review of the program to the legislature.

Investments made during the 2023 to 2025 biennium are expected to directly reduce GHG emissions by nearly 9 MtCO_2e, at an estimated cost of USD 40 per tonne.*

*See the report Distribution of funds from CCA accounts Fiscal Year 2025. Note the disclaimer on the cover page.

Disclaimer