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 97 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-Trade 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 linking. Senate Bill 6058, which is designed to facilitate linkage, went into effect in January 2025.

ETS Status

in force

Jurisdictions

Washington

Year in Review

2024 was a pivotal year for Washington's Cap-and-Invest Program. In March, Initiative 2117, aimed at repealing the CCA, was certified for the ballot. Later in March, the governments of Washington, California, and Québec issued a joint statement on the potential to form a shared carbon market through linkage. At the end of the month, Governor Inslee signed Senate Bill 6058 into law. The bill modified certain provisions of the CCA to facilitate linkage with California and Québec. Some provisions went into effect on 1 January 2025, and some will be implemented through rulemaking.* Discussions about potential linkage with California and Québec are ongoing.

The year's most significant event occurred in November's polling day, when Initiative 2117 was defeated by a margin of almost 24 percentage points, securing the program's future and paving the way for a potential future linkage.

*Washington Department of Ecology CCA Market Notice on Senate Bill 6058 implementation available here.

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)

Size & Phases

Covered emissions (2022)

71.00%

Verified ETS Emissions

68.20MtCO_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

A cap limits the total emissions allowed in the system.

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. From 2025 onward, Senate Bill 6058 reduces the threshold for inclusion for some unspecified electricity imports to zero.

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

Installations, fuel distributers

Number of entities

97 covered entities and 96 general market participants, offset providers, and utilities that do not have a compliance obligation but receive allowance allocation (2023)

Allowance Allocation & Revenue

Allowance allocation

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

36%

Total Revenue

USD 2.6 billion of state revenue since the beginning of the program (USD 3.3 billion including consigned auctions)

USD 810.8 million in 2024 (USD 1.1 billion including consigned auctions)
2024

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 rate payers or customers, prioritizing those from low-income groups. In most cases how the revenues are used is determined by the state's Utilities and Transportation Commission.

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

- Carbon Emissions Reduction Account (CERA);
- Climate Active Transportation

Account (CATA);

- Climate Transit Programs Account (CTPA);
- 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 seven 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.

During fiscal year 2024 (1 July 2023 through 30 June 2024), 37 agencies received appropriations totaling USD 3.2 billion and approximately USD 472 million was spent.* During the 2024 legislative session, the Legislature specified that approximately USD 645 million of the USD 3.2 billion in appropriations could not be spent until January of 2025, pending the results of Initiative 2117. As the initiative failed to pass, agencies will have until June 30, 2025, to spend these funds. Of the amount already spent, approximately USD 200 million was through CTPA and about USD 100 million through each of CCA and NCSA.

* The annual report titled "Distribution of Funds from CCA Accounts" for Fiscal Year 2024 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.

QUANTITATIVE LIMITS:

First compliance period: Up to 5% of an entity's compliance obligation from projects not located on federally recognized tribal land. The ongoing rulemaking process will increase this limit to 8%. An additional 3% can be met from projects located on federally recognized tribal land.

Second compliance period: Up to 4% of an entity's compliance obligation from projects not located on federally recognized tribal land. The ongoing rulemaking process will increase this limit to 6%. An additional 2% can be met from projects located on federally recognized tribal land.

Third compliance period and beyond: Up to 4% of an entity's compliance obligation, which can include 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.

Compliance

Compliance mechanism

Covered entities must surrender one compliance unit (allowance or 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)

REPORTING FREQUENCY: Annual

VERIFICATION: All reports are verified by independent third-party verifiers and by the Department of Ecology.

FRAMEWORK: The MRV framework was established by the regulation "Reporting of Emissions of Greenhouse Gases".

Penalties and enforcement

Should an entity have insufficient allowances to cover its annual and final compliance obligations, within six months of the deadline it must submit four allowances for each missing allowance it did not surrender. If the entity fails to comply, a fine of up to USD 10,000 per day per missing allowance will be incurred.

Market Regulation

Market Stability Provisions

AUCTION PRICE FLOOR

Instrument type: Price-based instrument

Functioning: The auction price floor is set at USD 25.85 for 2025. 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. The APCR was frontloaded, with 5% of the caps in the first and second compliance periods (covering 2023 to 2030) set aside at the outset of the program. The APCR has two price tiers, which in 2025 are set at USD 60.43 and USD 77.63 for Tiers 1 and 2 respectively.* Prices increase annually by 5% plus inflation, as measured by the CPI-U.

Auctions from the APCR are held if the settlement price in the last auction reaches the Tier 1 price level. These sales may only be held once a year before the compliance deadline, and only covered and opt-in entities can participate. Bids must be at one of the two price levels. 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. Three APCR Auctions (in August 2023, November 2023 and October 2024) have taken place since the Program's launch, with a total of just over 7 million allowances sold.

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, which must be at least ten days before the compliance deadline. The ceiling price is USD 94.85 for 2025, increasing annually by 5% plus inflation, as measured by the CPI-U.

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.

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.

Regulatory Framework

Climate Commitment Act

Climate Commitment Act Program Rule

Senate Bill 6058

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.

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