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 around 150 entities in the 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 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 if it was found to be beneficial to Washington.

ETS Status

in force

Jurisdictions

Washington

Year in Review

2023 marked the first full year of operation of the cap-and-invest program. Settlement prices at the May and August auctions were above the lower price threshold of the Allowance Price Containment Reserve, set at USD 51.90. This triggered two further sales from the reserve, held in August and November.

The Department of Ecology continued to explore the possibility of linking to the joint California-Québec market. Between January and May, several outreach events were held to collect input from the public. In October, the Department of Ecology published its preliminary analysis. It found that most of the legislative criteria were likely to be met under a link with California and Québec. The preliminary decision to pursue linking was announced in November. All three jurisdictions will now further assess the case for linking their programs, and whether regulatory changes would be required, before making a final decision. If linking is pursued, it is not anticipated to come into effect until at least 2025.

In March, the first two registries were approved as offset credit suppliers for the program: the American Carbon Registry and Climate Action Reserve.

Sectoral coverage

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)

102.1

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 ()

70.00%

GHGs covered

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

Phases

FIRST COMPLIANCE PERIOD: 4 years (2023-2026)

SECOND COMPLIANCE PERIOD: 4 years (2027-2030)

THIRD COMPLIANCE PERIOD: 4 years (2031-2034)

Cap or total emissions limit

A cap limits the total emissions allowed in the system.

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

SECOND COMPLIANCE PERIOD (2027-2030): 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 (2031-2034 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 2032-2042, the cap declines annually by 1.8%.

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

Sectors and thresholds

FIRST COMPLIANCE PERIOD (2023-2026): 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.

SECOND COMPLIANCE PERIOD (2027-2030): Waste-to-energy facilities with emissions over 25,000 tCO_2e will be added.

THIRD COMPLIANCE PERIOD (2031-2034): Railroad companies with emissions over 25,000 tCO_2e will be included.

INCLUSION THRESHOLDS: For the first compliance period, eligible facilities are those with emissions over 25,000 tCO_2e in at least one year between 2015-2022. For the second compliance period, waste-to-energy with emissions over 25,000 tCO_2e in at least one year between 2023-2025. For the third compliance period, railroad companies with emissions over 25,000 tCO_2e in at least one year between 2027-2029.

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 can also participate as opt-in entities, following the voluntary reporting requirements of the MRV regulation.

Point of regulation

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

Type of entities

Installations, fuel distributers

Number of entities

~150 (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 2015-2019.

Only in instances where facilities were unable to calculate the emissions intensity of their production over this period could they request free allocation based on their average emissions (i.e., grandparenting).

FIRST COMPLIANCE PERIOD (2023-2026): Set at 100% of the benchmark multiplied by actual production, or historical emissions level.

SECOND COMPLIANCE PERIOD (2027-2030): Set at 97% of the benchmark multiplied by actual production, or historical emissions level.

THIRD COMPLIANCE PERIOD (2031-2034): 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 2015-2019. The amount reduces annually in line with the cap decline factor. In 2023, 65% of free allowances must be 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.

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

47%

Total Revenue

~ USD 1.8 billion of state revenue in 2023 (and ~ USD 2.2 billion including consigned auctions).

Use of Revenues

USE OF REVENUE FROM FREE ALLOWANCES CONSIGNED FOR AUCTION: Revenues raised from the auctioning of free allowances to 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 must be invested in climate projects focused on improving clean transportation options, increasing climate resilience in ecosystems and communities, and addressing issues of environmental justice and health inequity in Washington. At least 35% of funds must be invested in projects that benefit overburdened communities, and a minimum of an additional 10% must go to projects with tribal support.

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: The following limits apply:

First compliance period (2023-2026): 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 (2027-2030): 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 (2031-2034) 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.

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 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. If implemented, linkage is not expected to come into effect until at least 2025.

Compliance

Compliance mechanism

Covered entities must surrender one allowance per tCO_2e emitted for all their covered emissions.

Compliance Period

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 Ecology.

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

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 penalty 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. Under certain circumstances this fine could increase to USD 50,000.

Market Regulation

Market Stability Provisions

AUCTION FLOOR PRICE: USD 24.02 for 2024. The auction reserve price increases by 5% plus inflation, as measured by the Consumer Price Index.

ALLOWANCE PRICE CONTAINMENT RESERVE (APCR): 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 (2023-2030) set aside at the outset of the program. The APCR has two price tiers, which in 2024 are set at USD 56.16 and USD 72.15 for Tiers 1 and 2 respectively. Prices increase annually by 5% plus inflation, as measured by the Consumer Price Index.

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 tier 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.

PRICE CEILING UNITS: 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 unit sales only occur following the request of a covered entity, which must be at least ten days before the compliance deadline. The ceiling price is USD 88.15 for 2024, increasing annually by 5% plus inflation, as measured by the Consumer Price Index.

EMISSIONS CONTAINMENT RESERVE (ECR): Up to 10% of 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.

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

Evaluation / ETS review

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

Disclaimer

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