



Climate Commitment Act Cap-and-Invest Program Overview

Washington State Dept. of Ecology, Air Quality Program

Overview

- Ecology is currently in rulemaking for Chapter 173-446 WAC, which outlines the requirements and parameters of the Cap-and-Invest Program.
- Topics to be covered in this presentation include:
 - Program Basics
 - Allowances
 - Offsets



Rulemaking Timeline

	CR101 Announcement	Listening Sessions	CR102 Proposal	CR103 Adoption
GHG Reporting Updating WAC 173-441	July 7, 2021	July 22, 2021	Oct. 13, 2021	Feb. 9, 2022
CCA Cap & Invest New Chapter WAC 173-446	Aug. 4, 2021	Nov. 8, 2021 Dec. 16, 2021 Jan. 11, 2022	May 2022	October 2022
EITEs New Chapter WAC 173-446a	Aug. 4, 2021	Sept. 21, 2021	Dec. 22, 2021	June 2022

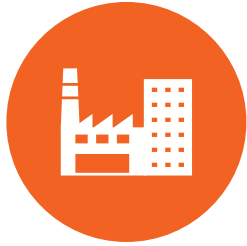
Shading indicates completed items.

The Basics



- The cap-and-invest program is a trading program for compliance instruments.
- The commodities traded in the program are Emissions Allowances and Offset Credits, each equal to one metric ton of CO₂ equivalent emissions.
- Before participating in the program, everyone must register and set up an account with Ecology.
- At the end of each four-year compliance period, participating emitters must submit instruments equal to their covered emissions for the period.
 - In addition, by Nov. 1 of each year, participants must remit instruments equal to 30% of prior-year emissions.

Who Participates in Cap-and-Invest?



Covered Entities

GHG emitters that meet the program thresholds. Participation is not optional.



General Market Participants

Anyone else who wants to buy, sell, or trade allowances as a financial instrument.



Opt-In Entities

GHG emitters that don't meet the covered emission thresholds but choose to participate.

What Counts as a 'Covered Emissions'

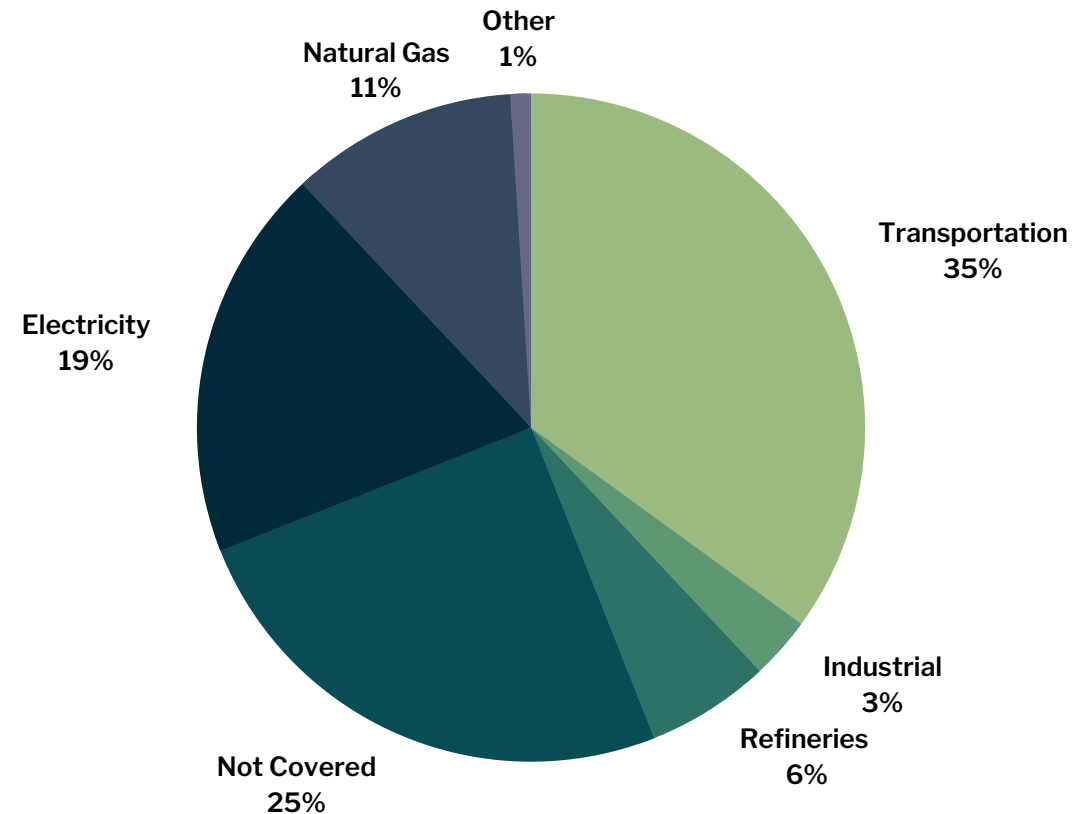
Roughly 75% of statewide emissions are considered 'covered' under the CCA, while the remaining 25% are designated as exempt.

Covered Emissions - 75%

- Emissions from:
 - Gasoline and on-road diesel
 - Electricity consumed in WA state
 - Facilities generating more than 25,000 metric tons per year of GHG emissions.
 - Natural gas distributed to homes and commercial businesses
 - Waste-to-energy facilities, beginning in 2027
 - Railroads beginning in 2031

Not Covered - 25%

- Emissions from:
 - Agricultural operations
 - Businesses with fewer than 25,000 metric tons per year of GHG emissions
 - Aviation fuels and most marine fuels



The What and the How

There are two types of compliance instruments:



Emissions Allowances



Offset Credits

These can be obtained in three different ways:



**Purchase at Quarterly
Auction**
(Allowances Only)

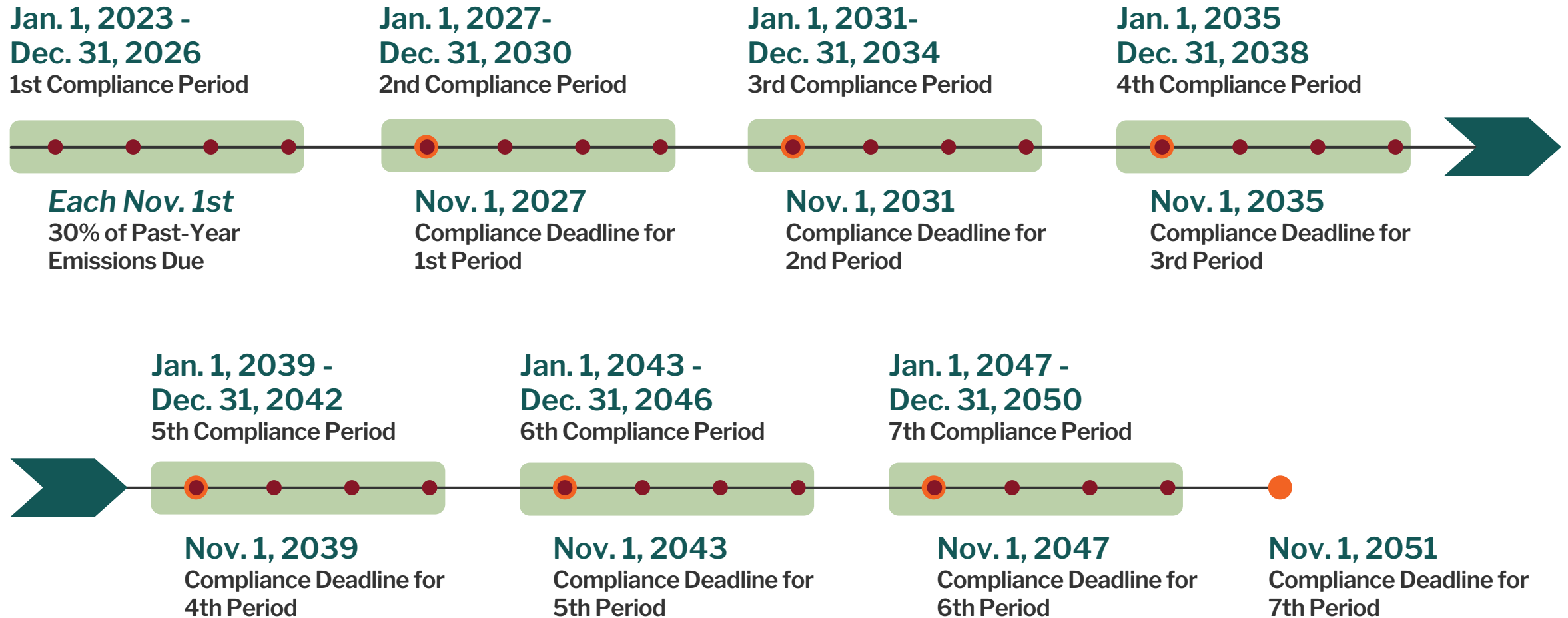


**Direct Distribution by
Ecology**
(Allowances only, for certain covered
entities as specified in RCW 70A.65)



**Trade with Other
Participants**
(Allowances and Offsets)

Compliance Timeline



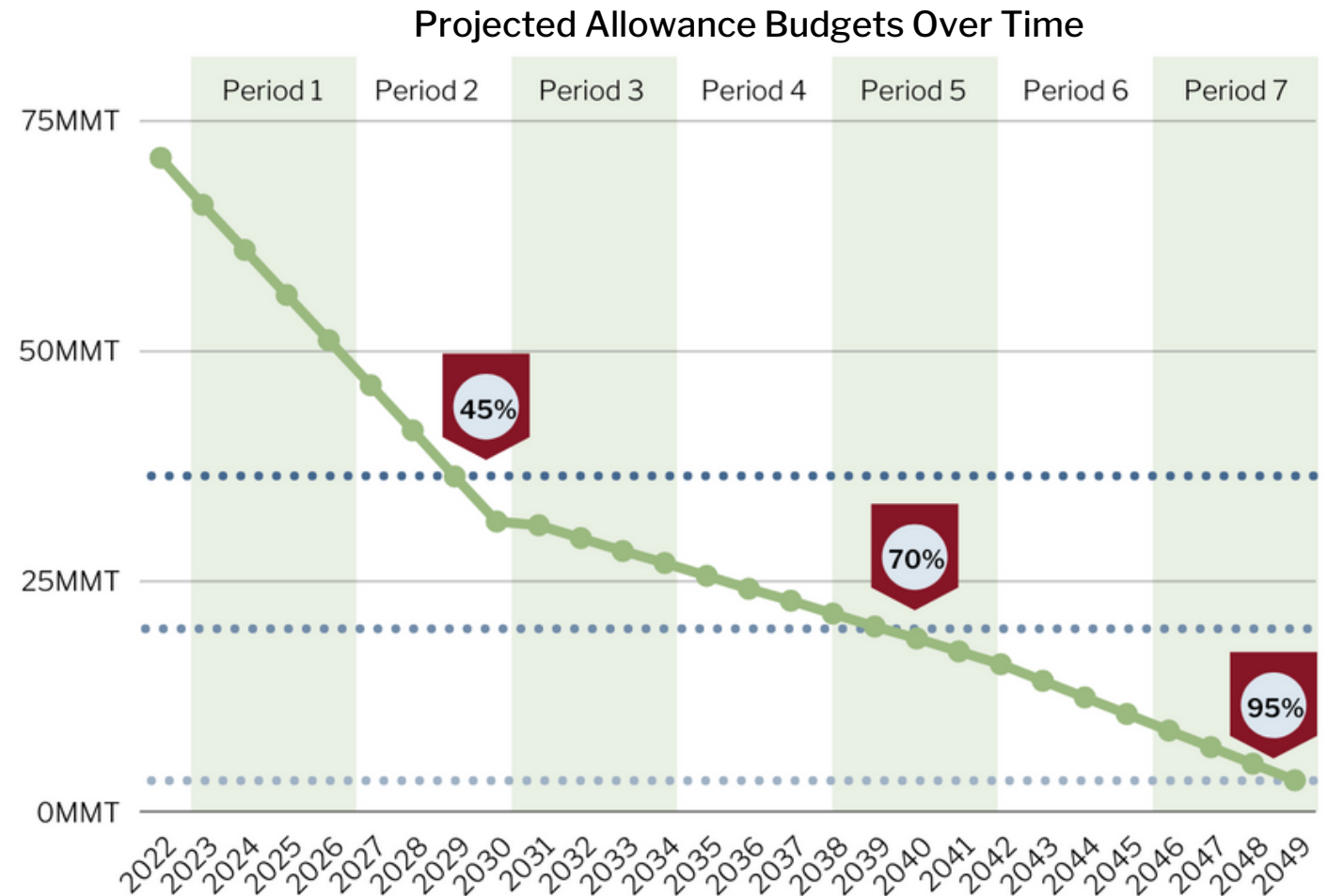
Allowances

- The number of emissions allowances available for a given compliance period, called the Allowance Budget or 'emissions cap' is measured in metric tons of CO₂ equivalent, and will be determined based on past emissions.
 - The Allowance Budget for the 1st period will be based on emissions from Jan. 1, 2015 through Dec. 31, 2019.
 - Future Allowance Budgets will be set by rulemaking.
- Per statute, certain entities are provided with emissions allowances covering some or all of their emissions at no cost.

Allowance Budget Reductions

To keep Washington on track to meet its emissions reduction targets, the Allowance Budget decreases each year.

This graph shows the predicted Allowance Budgets through 2049, based on the proportionate reduction in covered emissions required for Washington to meet its statutory obligation of reducing emissions by 95% by 2050.

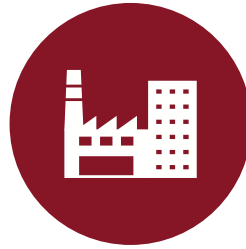


No Cost Allowances

Per statute, some groups are allocated allowances at no cost.



Natural Gas Utilities



Emissions-Intensive,
Trade-Exposed Industries
(EITEs)



Electric Utilities

The allocation of free allowances is based on entity-specific conditions, and can be adjusted by Ecology as those conditions change.

How Allowances Can Be Used



Remitted to Ecology to meet compliance obligations for covered emissions



Banked for use in future compliance periods to reduce the number of new allowances that need to be purchased



Traded on the open market to other entities or general market participants to generate revenue

Offsets



- Offsets are the second type of compliance instrument established under the CCA that can be used by emitters to meet their compliance obligations for covered emissions.
 - Limits apply to the use of offset credits.
- The California Air Resources Board (CARB) has already established rules for qualifying offset programs within their cap-and-invest program.
 - Ecology is proposing in this rulemaking that Washington's program adopt many of these same rules so that we can efficiently implement this aspect of our program.

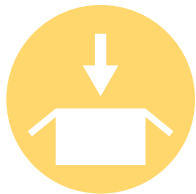
Offset Basics

An 'offset' reduces greenhouse gases in the atmosphere in one or more of the following ways:



Direct Reduction

The amount of greenhouse gas produced by a source is decreased.



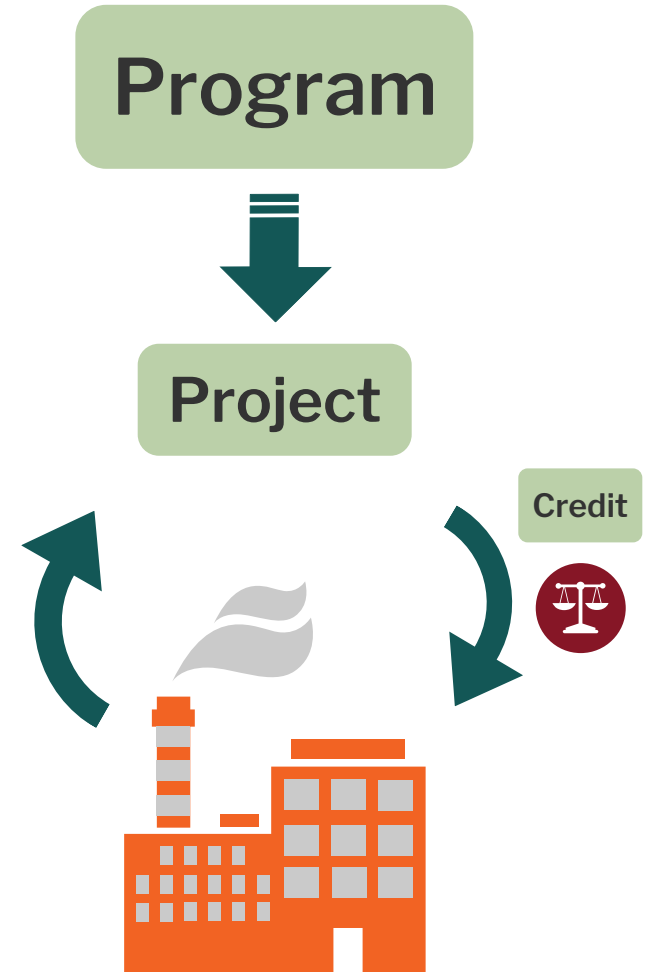
Removal

Existing greenhouse gas emissions are removed from the atmosphere.



Avoidance

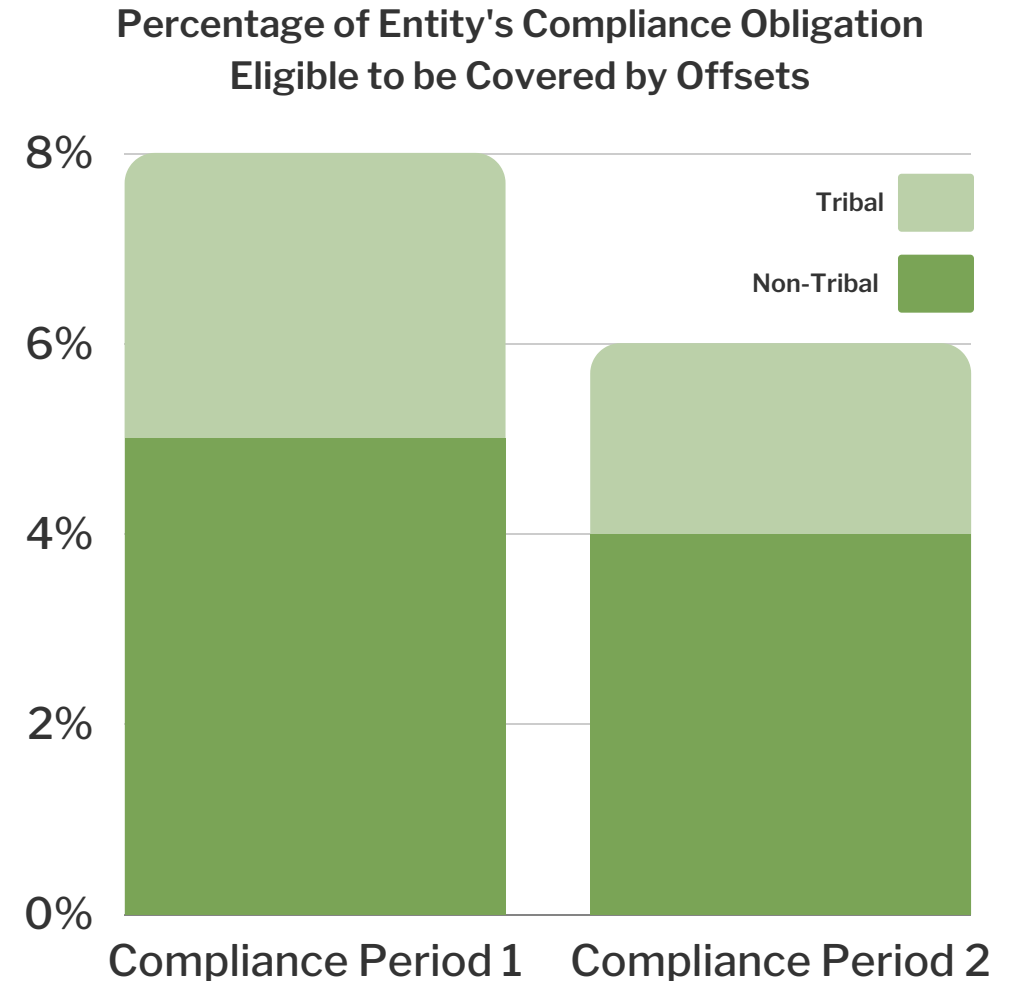
An action or process prevents the release of greenhouse gas into the atmosphere



Offset Requirements & Limits

For an offset project to qualify under the CCA, it must meet the following requirements:

- Result in greenhouse gas reductions or removals that are real, permanent, quantifiable, verifiable, and enforceable.
- Reduce, remove, or avoid emissions that are not covered by the cap-and-invest or other programs to avoid double counting of emissions reductions.
- Result in emissions reductions in addition to those which would normally or naturally occur without the financial incentive provided by the program.
- Provide direct environmental benefits to the state or be located in a jurisdiction with which Washington has entered into a linkage agreement.
- Be certified by a recognized registry after July 25, 2019.



Benefits of Adopting CARB Protocols



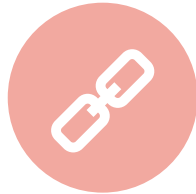
Expediency

Creating rules and protocols from scratch takes years. Adopting CARB will enable our program to incorporate the use of offsets immediately.



Familiarity

Our program will benefit from a pool of project developers, market participants, and verification experts already accustomed to CARB rules.



Linkage

Using the same rules and protocols as an existing program provides a foundation for future linkage to programs with similar offset requirements.



Access

Using existing offset registries to vet projects will help existing WA offset programs transition smoothly to the CCA credit structure.

Available Projects

The following specific offset project types would be immediately eligible using CARB protocols under this proposed pathway:



- Improved Forest Management
- Avoided Forest Conversion
- Reforestation
- Manure Management on Dairy Cattle and Swine Farms
- Urban Tree Planting and Maintenance Activities

Funding Usage



- The CCA established three primary accounts to house funds generated by emissions allowance auctions.
- In general, auction-generated revenue will be used to support the decarbonization of the transportation industry, supporting climate resilience, and addressing issues of environmental justice in Washington communities.
- Auction funds will be appropriated by the Legislature. Ecology does not have authority over which projects are funded.

Projected Auction Funding 2023-2026*

CERA

Carbon Emissions Reduction Account

Legislative appropriation: Emissions reduction in the Transportation sector. Auction proceeds first deposited into CERA; Remaining proceeds are deposited into the CIA and AQHDIA.

FY23 (6 months): \$127,341,000
FY24: \$356,697,000
FY25: \$366,558,000
FY26 : \$359,117,000
FY27 (6 Months): \$179,558,500

TOTAL 1st Period: \$1,389,271,500

24%

Climate Active
Transportation
Account

56%

Climate Transit
Programs
Account

CIA

Climate Investment Account

Legislative appropriation: Up to 5% of these funds may be used for program admin costs. Projects support transition to clean energy, ecosystem resilience, and carbon sequestration.

FY23 (6 months): \$73,272,259
FY24: \$77,271,977
FY25: \$67,657,286
FY26: \$72,732,184
FY27 (6 Months): \$50,708,058

TOTAL 1st Period: \$341,641,764

75%

Climate
Commitment
Account

25%

Natural Climate
Solutions
Account

AQHDIA

Air Quality & Health Disparities

Legislative appropriation: Funding is for reducing criteria pollutants and health disparities in overburdened communities.

FY23 (6 months): \$20,000,000
FY24: \$10,000,000
FY25: \$10,000,000
FY26: \$10,000,000
FY27 (6 Months): \$5,000,000

TOTAL 1st Period: \$55,000,000

**Revenue is estimated based on the final fiscal note submitted for E2SSB 5126 as passed by the 2021 Legislature*

Project Types Eligible for Funding

A minimum of 35%, with a goal of 40% of all auction funds must be used for projects that provide direct benefit to vulnerable populations within overburdened communities. In addition, 10% of auction funds must be used for projects with Tribal support.

Account Title	Eligible Uses
Carbon Emissions Reduction Account	<ul style="list-style-type: none">• Reducing transportation emissions• Investing in alternatives and reductions to single occupancy passenger vehicles• Investing in emissions reduction programs for freight, ferries, and ports
Climate Active Transportation Account (24%)	<ul style="list-style-type: none">• Grants, including: Safe Routes to Schools, school-based bike programs, bicycle and pedestrian grants, Complete Streets grant program, Connecting Communities grant program• Pedestrian, bicycle, or other active transportation projects
Climate Transit Programs Account (56%)	<ul style="list-style-type: none">• Grants, including: transit support grants, Tribal transit mobility grants, transit coordination grants, special needs transit grants, bus and bus facility grant programs, green transit grants, transportation demand management grants• Transit projects identified in an omnibus transportation appropriations act

Climate Investment Account

- **Administering the Climate Commitment Act**
 - Funds must first be appropriated for the administration of the GHG cap and invest program
 - Not to exceed 5% of the total receipts of funds generated by allowance auctions
- May only be used for projects and programs that achieve the purposes of the cap-and-invest program

Climate Commitment Account (75%)

- Implementing the working families tax rebate
- Reducing greenhouse gas emissions in overburdened communities
- Strengthening the air quality monitoring network
- Supporting renewable energy technology and infrastructure
- Investing in energy efficiency for industry and agriculture
- Increasing building energy efficiency and supporting electrification
- Supporting appliance energy efficiency
- Assisting affected workers during the transition to a clean energy economy
- Capturing methane and diverting organics at landfills
- Deploying carbon dioxide removal
- Legislative intent, Section 29(1)(m): Supporting efforts to mitigate and adapt to the effects of climate change affecting Tribes (\$50 million per biennium)

Natural Climate Solutions Account (25%)

- Restoring and protecting estuaries, fisheries, and marine shoreline habitats
- Increasing carbon storage in the ocean or aquatic and coastal ecosystems
- Remediating and adapting to the impacts of ocean acidification
- Reducing flood risk and restoring natural floodplains
- Increasing the sustainable supply of water and improving aquatic habitat
- Investing in stormwater infrastructure
- Preserving or establishing carbon sequestration in forests and agricultural soils
- Protecting or planting trees in marine shorelines and freshwater riparian areas to promote climate resilience
- Legislative intent, Section 30(2)(b)(iii): Increasing resilience to wildfires; improving forest health, or preserving natural lands (\$10 million per biennium for Forestry Riparian Easement Program or for riparian easement projects under the Agricultural Conservation Easements Program)

Air Quality & Health Disparities Improvement Account

- **Funding air monitoring network**
- **Reducing health disparities in overburdened communities**
- **Legislative intent, Section 31(3): \$20 million per biennium**

Questions and Resources



- Your event organizer has been provided with a resource document including a number of links to more information about the CCA, our current rulemaking, and how Ecology is incorporating environmental justice into our implementation of this important legislation.
- For any other questions, please reach out to our Communications Specialist, Claire Boyte-White, at Claire.Boyte-White@ecy.wa.gov.