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Re: Should Washington link its carbon market to California and Québec's?

Dear Ms. Potts,

Thank you for the opportunity to comment on the potential linkage of Washington's carbon market with California and Québec's (hereafter, "California" except where noted).

350 Seattle urges Ecology to delay any such linkage.

Linkage with California's carbon market is expected to lower Washington's Climate Commitment Act (CCA) allowance prices in future auctions. Some argue this is positive because polluters will have lower costs to pass on to consumers and that, in turn, would preserve public goodwill and avoid legislative or initiative attempts to curtail the CCA.

350 Seattle takes a different view. We recommend that Washington's allowance prices should be set exclusively by Washington's market. The allowance price is the primary driver for finding the right balance between a price high enough to force emissions down in time to meet our goals but not cause industry leakage. Allowing California's market price to dilute the strength of Washington's market will, in the words of RCW 70A.65.210, "*reduce the stringency of Washington's program and our state's ability to achieve its greenhouse gas emissions reduction limits*" ([1](#), see also References, below).

Here we elaborate eight reasons for our perspective, followed by two additional concerns and an observation.

Reason 1: Our system should be better established before linking

The CCA is just getting started. Covered entities need more time to find their footing. For example, before the first auction, fuel suppliers were proactively frontloading surcharges and/or using the CCA as an excuse to raise prices for end users (2). Even agricultural fuel companies that were exempted from the CCA took part (3).

Before committing Washington to linkage with another system that will introduce new complexities, Ecology should counter local misinformation and, to the degree possible, enforce a fair program here in Washington. Given that enforcement may require additional legislation, more time is needed. It is premature to consider linking with California's cap and trade system.

Reason 2: Early investments are the most impactful

Washington's CCA revenues have only just begun and our legislature has just started investing in infrastructure and programs to lower emissions and/or mitigate climate change impacts. Early investments are the most impactful at reducing emissions and we need to keep our focus local. This is crucial given our 2030 emission reduction goals, and the increasing instability of the climate. The upcoming El Nino ocean temperature warming cycle is expected to bring a new level of climate instability (4, 5). Emission reduction and resiliency investments in Washington are needed now more than ever. Lowering CCA allowance prices as the result of linking with California pulls our focus from our own developing programs and would be counterproductive at the worst possible time.

Reason 3: A baseline report should precede linkage

Before linking with another program, we need more data about the strength of our market over time, decarbonization initiatives by covered entities, effectiveness of investments at reducing emissions, and integration of the administration of investments into state government. A significant change in CCA auction prices has the potential to affect all of these elements, and will introduce new uncertainties.

By establishing a baseline report ahead of linkage, Ecology and the Legislature will be better able to evaluate the potential impacts of linkage agreements, and subsequent reports will better assist with modifications and course corrections. The first CCA progress report is not scheduled until 2027, whereas Ecology's current timeline expects to announce a linkage decision this summer, with actual linkage occurring as soon as 2025.

Ecology should produce at least one baseline report before linkage is complete. This may require enabling legislation.

Reason 4: Higher allowance prices are more effective

Emissions Intensive Trade-Exposed covered entities benefit from a high allowance price because their no-cost allowances provide them capital for their decarbonization investments. And a high price for compliance allowances provides a clear market signal that it is more cost-effective to address decarbonization.

Puget Sound Energy (PSE), one of Washington's largest climate polluters, has already provided evidence that the initial CCA auction price was not high enough. In their 2023 Gas Utility Integrated Resource Plan (6), PSE indicates that they intend to keep buying allowances in the CCA compliance market until 2050 rather than take the necessary steps to actually decarbonize because their electrification scenario is 15% more expensive -- see Fig. 2.11, Preferred Portfolio (7) vs Fig. 6.1, Electrification Scenario (8). Given that the initial CCA auction price wasn't high enough to incentivize change at PSE, a lower auction price as a result of linkage with California would remove any incentive for PSE to decarbonize their gas utility.

Reason 5: British Columbia's carbon price is more realistic and predictable

Washington's initial allowance auction price is only slightly higher than British Columbia's carbon tax, which has been aligned with the federal Canadian carbon tax. Meanwhile California's allowance prices are artificially low due to surplus banked allowances. British Columbia's carbon price is clearly more realistic, and because it is a defined tax, more predictable, providing more economic certainty for their covered entities. Washington should not lower its allowance price prematurely through linkage with California and should seek similar predictive certainty.

Reason 6: California's auctions are oversupplied and underpriced

California has, admirably, recently adopted net-zero carbon emissions by 2045, requiring accelerated emission reductions to meet its 2030 goals. A tighter market with fewer allowances will be necessary. Currently California's market suffers from price uncertainty, and low prices have led to allowance banking that suppresses their market's allowance price. In its 2022 report the state's Independent Emissions Market Advisory Committee (IEMAC, 9) advises *for the fifth consecutive year* reforms to California's auction system and how allowances are supplied (10).

Before entering into a linkage agreement, Ecology must evaluate and make a finding whether the aggregate number of unused allowances in a linked program would reduce the stringency of Washington's program and our state's ability to meet its emissions limits (1). In its 2021 report, IEMAC calculated that 321 million allowances have been banked, more than the emissions reductions expected from California's cap and trade program over the coming decade (11), and more than five times the number of allowances Washington has budgeted for 2023 (12).

Given the risk to Washington's ability to meet its climate goals through CCA investments posed by California's lower allowance price and volume of banked allowances, it would not be prudent

for Washington to link with California until auction reforms recommended by IEMAC, such as the creation of an emissions containment reserve, have been completed.

Reason 7: Washington and California need more time to ensure their individual programs meet environmental justice goals.

The Climate Commitment Act states in clear language that program design must be guided by the Environmental Justice Council (EJC, [13](#)). Yet the last two years have shown us that the work of forming and educating the council and establishing the council's working relationships with state agencies is a slow and arduous path. The EJC needs more time to build expertise in how Washington's program should be administered to ensure it meets its environmental justice commitments. Adding another state's program at this point would be counterproductive. This is especially true when California's system needs structural reforms to better address that state's environmental justice issues.

In an attempt to accomplish long overdue site-specific air quality reforms, California's Environmental Justice Advisory Committee (EJAC, [14](#)) has recommended that some polluting facilities be prohibited from using allowances ([15](#)).

Whether, and how, California's air quality reform will be implemented remains to be seen, but it may involve significant changes to how their carbon market provisions allowances and trades them, whether the use of offsets is modified, and how banked allowances are used.

Given that Washington is implementing a different methodology to pursue similar goals, we should delay linkage with California until there is more certainty regarding necessary changes to their program design and Washington's EJC can knowledgeably evaluate the impacts of linkage on our environmental justice goals.

This directly relates to RCW 70A.65.210 (3) (b), "*Ensure that the linking jurisdiction has provisions to ensure the distribution of benefits from the program to vulnerable populations and overburdened communities.*" ([1](#)).

Reason 8: Will California's system continue past 2030?

The legal authority of the California Air Resources Board (CARB, [16](#)) to implement their cap and trade system past 2030 has been called into question ([17](#)). Legislative remedies may be required to clarify CARB's authority to administer and enforce the program.

Given this statutory uncertainty, linking prematurely with California could create significant market uncertainties for Washington, with the potential result of curtailing CCA investments and compromising our state's ability to meet its climate goals.

IEMAC recommends that California act to reform its system before 2025. Washington should delay any linkage decision until it becomes clear whether California will meet that recommendation.

We have two additional concerns regarding linkage with California and Quebec.

Concern 1: California’s forest offset buffer pools are inadequate

We previously expressed our concerns with California’s forest offset protocol to Joshua Grice during public comment on WAC 174-446 ([18](#)). As noted there, California’s forest offset buffer pools are inadequate.

Purchasers of forest offsets in Washington’s carbon market should be protected from California’s forest offset products. While that protection does not have to preclude linkage with California, it should inform Ecology’s timeline for linkage and future linkage negotiations.

Concern 2: Québec’s new forestry offset protocol is flawed

Last December, Québec introduced a new forest offset protocol that adopts ton-year accounting, an approach for bundling short-term carbon storage into offset credits. Earlier this month, independent non-profit climate solutions analyst CarbonPlan expressed concerns regarding Québec’s new protocol:

“...ton-year accounting is at best an incomplete method for valuing temporary carbon storage. At worst, it is an unscientific justification for ongoing emissions.” ([19](#))

Purchasers of forest offsets in Washington’s carbon market should be protected from Québec’s new forest offset credits.

“...credits originating from Quebec are eligible for use by regulated polluters in California. Washington State is currently considering linking its carbon market to these jurisdictions as well. We hope our analysis motivates regulators in both Washington and California to examine these issues and prevent the use of credits generated under Quebec’s reforestation protocol.” ([19](#))

We urge Ecology to examine CarbonPlan’s concerns thoroughly. While Québec’s flawed protocol may not preclude linkage with California, it should inform Ecology’s timeline and future linkage negotiations.

We close with this observation:

Skepticism over linkage is justified

Skepticism regarding the virtues of linkage is longstanding (emphasis added):

“It is becoming clear that cap and trade works only under special circumstances — when one entity controls the market and parallel initiatives do not undermine it.” (20)

*“Linked carbon markets are difficult to manage when many regulatory authorities compete. Interactions with other climate policies trigger unintended outcomes. Policymakers find it hard to keep prices at the 'right' level — neither so high that a carbon market becomes politically unacceptable, nor so low that it fails to change behaviour. **California's case shows that lawmakers can be tempted to use regulatory loopholes to drive down prices and weaken the market's effectiveness. Such problems will only worsen when more markets are linked up.**” (20)*

This analysis is as true today as it was when it was published six years ago. In our view it speaks to inherent risks in any cap and trade system, and provides insight into why carbon prices differ between California and Washington.

Thanks to the proactive efforts of legislators, policy advisors and independent groups, Washington took lessons from California and succeeded in creating a cap and invest system that is now referenced as a model for other states, including California and, most recently, New York State. Given this success, Washington should not squander its leadership. Our state and agency leaders have a moral responsibility to incentivize California to make positive changes.

We urge Ecology to delay linkage with California or any other jurisdiction.

Again, thank you for the opportunity to comment, and thank you to all of the Ecology staff who are ensuring that the Climate Commitment Act is effective.

Sincerely yours,

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350 Seattle works toward climate justice by organizing people to make deep system change: resisting fossil fuels; building momentum for healthy alternatives; and fostering resilient, just, and welcoming communities.

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