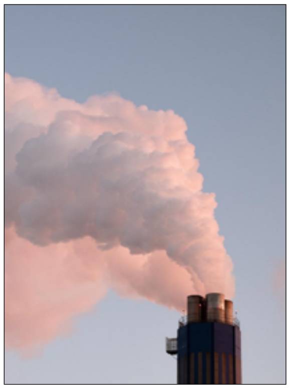
Environmental Defense Fund

WASHINGTON'S CAP-AND-INVEST PROGRAM



WHAT IS CAP-AND-INVEST?

Washington's Cap-and-Invest program places a firm, declining limit on the amount of climate pollution that can enter the atmosphere each year. It is the second economy-wide cap-and-invest program in the U.S., following California. Washington held its first quarterly allowance auction in February 2023.

> **"[Cap-and-Invest] will help us decarbonize our economy, improve air quality, and put Washington at the forefront of the fast-growing global era of clean energy."**
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> **Jay Inslee,**
> Former Governor of Washington

The program works in two steps:

The CAP — Washington's Department of Ecology issues a declining number of emissions allowances each year, with each allowance represents one ton of greenhouse gas emissions. Every polluting facility covered under the program needs to hold one allowance for every ton of greenhouse gas that it emits — and, critically, each year the Department of Ecology will create only as many allowances as the declining cap allows. Most of the allowances are auctioned off to businesses that need them for compliance under the cap. Utilities and some industries are given allowances for free to benefit ratepayers and to prevent businesses from moving across state borders to pollute without limits.

The INVEST — Revenue from the purchase of allowances at auctions is reinvested into Washington communities through programs supporting climate resilience, clean energy jobs, air quality improvements and equity investments. The Climate Commitment Act requires at least 35% of revenues raised from the program, with a goal of 40%, to provide direct and meaningful benefits to communities that are disproportionately burdened with environmental harms and health impacts. An additional 10% of the investments must also go to tribal projects and programs. Over $1.5 billion in auction revenue has been invested to date.

The cap is Washington's guarantee that emissions decline

Washington's Cap-and-Invest program operates alongside clean energy standards, building codes and transportation electrification policies. The cap is what ties them all together: it is the only mechanism that ensures economy-wide emissions decline on schedule, regardless of whether any individual policy achieves its projected impact.

A binding and declining emissions cap gives Washington the greatest possible certainty of meeting its climate commitments and protecting communities from the most dangerous impacts of climate change. Each year, the Department of Ecology issues fewer allowances, ratcheting down the total emissions the economy is legally permitted to produce.

How allowances are distributed

Most allowances are sold at quarterly auctions administered by the Department of Ecology.

However, some allowances are allocated at no cost to protect consumers:

- Electric and natural gas utilities receive free allowances to offset potential cost increases on customer bills, with all proceeds or direct benefit required to flow to ratepayers, prioritizing low-income customers.
- Some industries at risk of relocating out of state ('leakage') also receive limited free allocations to retain jobs and prevent emissions from simply shifting elsewhere.

Facilities that fail to submit enough allowances to cover their emissions face steep penalties: they are fined and must submit four allowances for every allowance that is missing — making the compliance obligation four times what it would otherwise be. The program has had nearly 100% compliance thus far.

Price containment mechanisms

Washington's program includes robust price stability mechanisms:

- **Price floor:** Ensures a minimum price signal, preventing allowance prices from collapsing even if demand drops unexpectedly. Also guarantees a minimum revenue floor for community investments.
- **Allowance Price Containment Reserve:** A "speed bump" designed to respond to high demand and keep prices in check, released only if prices exceed trigger thresholds. All APCR allowances come from under the cap, meaning even if they are released, the emissions they represent are still within the overall limit.
- **Price ceiling:** If the allowance price reaches the price ceiling, additional allowances are made available at the ceiling price. Any revenue from the sale of allowances at the price ceiling will be used to secure additional emissions reductions on a ton-for-ton basis for every allowance that is sold at the price ceiling, keeping Washington on track to achieve its climate goals.

Revenue

While Washington's program is still in its early years, modeling shows that over 8 years, Climate Commitment Act investments are projected to create 45,000 jobs and $9.1 billion in total economic output.

Billions in revenue from Climate Commitment Act investments is already on the ground in Washington, investing in energy efficiency upgrades, clean energy community grants, improving air quality in overburdened communities, reducing landfill methane, restoring habitat and building climate resilience.

LINKAGE WITH CALIFORNIA AND QUÉBEC

Washington's program was designed to be compatible with the cap-and-invest programs in California and Québec, which have been linked for over a decade — meaning they operate joint auction allowances, and covered entities in both jurisdictions can trade allowances.

By joining the California-Quebec market, Washington would be joining a much larger and more stable carbon market which would likely lead to lower compliance costs and greater long-term program stability.

All three jurisdictions have announced their interest in working towards linkage, and a draft linkage agreement was released in early 2026. Washington announced their formal linkage rulemaking in June, and California and Québec are expected to take up similar processes in the coming months.

Offsets

The Climate Commitment Act allows a small number of offsets to help reduce pollution where onsite reductions are not feasible or too expensive. In the first compliance period, general offset credits can be used to cover up to 5% of an entity's compliance obligation, with an additional 3% available for projects on Tribal lands.

All offset credits must provide direct environmental benefits to Washington. If Washington links with California and Québec, at least half of all offset credits will still be required to provide direct environmental benefits in Washington. Ecology must reduce the number of allowances it issues to make up for allowed offset usage.

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