Today’s Presentation

• Introduction and overview
• Update on Ecology’s implementation of the Climate Commitment Act
• Update on Ecology’s implementation of the Clean Fuel Standard
• Becky Kelley and Debbie Driver address Gov. Inslee’s climate strategy
Washington’s Greenhouse Gas Emissions Limits

**Tracking Washington’s Greenhouse Gases**

*Million Metric Tons of CO₂ equivalent

- 1990 levels: 90.5 MMT*
- Peak emissions: 108.62 MMT*
- 8.5% above 1990 levels

- Equal to 1990 levels
- 45% below 1990 levels
- 70% below 1990 levels
- 95% below 1990 levels & net zero
Washington’s Climate Policies

- HFC phaseout
- Refinery emission standards
- Clean Energy Transformation Act
- Energy Independence Act

• Clean fuel standard
• Zero emission vehicles
• Clean car standards
• Building efficiency standards

The Climate Commitment Act
A Comprehensive Approach to Emissions Reduction

How we get there
- Clean fuel standard (2021) - 1.8 MMT
- CETA (2019) and other electricity policies - 12.1 MMT
- HFC phaseout (2019 and 2021) - 1.3 MMT
- Other carbon reduction policies - 2.1 MMT
- Climate Commitment Act (2021) - 26.2 MMT
- Remaining reductions needed - 6.1 MMT
- 2030 emissions limit - 50 MMT
The Climate Commitment Act
Climate Commitment Act - Overview

• E2SSB 5126, signed into law May 17, 2021 (Codified in chapter 70a.65 RCW)
• Cap and invest program begins - Jan. 1, 2023.
• Emitters generating more than 25,000 tons of CO$_2$e/year must purchase or receive emissions allowances.
• Invests revenue from allowance auctions in projects/programs to address climate change and environmental justice.
• Expands monitoring and reduces air pollution in overburdened communities.
How Cap-and-Invest Works

- **emissions cap**
  - high GHG emissions
  - greenhouse gas emissions
  - low GHG emissions

- Emissions allowance auctions
  - climate investments
  - emission allowances needed
  - emission allowances needed

- COMPANY A
  - high GHG emissions
  - emission allowances needed

- COMPANY B
  - low GHG emissions
  - emission allowances needed
Covered Emissions under the CCA

What’s covered – 75%
- Gasoline and on-road diesel
- Electricity consumed in WA state
- Facilities generating more than 25,000 metric tons a year or more of greenhouse gas emissions
- Natural gas distributed to homes and commercial businesses
- 2027 - waste to energy facilities
- 2031 - railroads & certain landfills

What’s not covered – 25%
- Agricultural operations
- Forestry operations
- Small businesses with under 25,000 metric tons/year of greenhouse gas emissions
- Aviation fuels
- Most marine fuels
Allowance Allocation under the CCA

- Covered entities must obtain allowances to cover their emissions.
- The total number of allowances decrease over time to meet statutory GHG emissions limits.
- Some covered entities will be issued free allowances; other allowances will be auctioned for revenue.

![Initial Allowance Distribution (first compliance period)]

- EITE Allocations: 15%
- Natural Gas Allocations: 14%
- Electricity Allocations: 24%
- Transportation Fuel Suppliers: 44%
- All Other Facilities: 3%
Agency Request Legislation on EITEs

The CCA requires Ecology to propose agency request legislation in 2022 on a compliance pathway for emissions-intensive, trade-exposed industries (EITEs) for 2035–2050.

Section 26(5) prohibits the expenditure of funds from accounts created under the CCA if the legislature has not enacted legislation by April 1, 2023.

Our proposal (HB 1682) will:

• Reduce the number of no-cost allowances EITE industries would receive by 6% a year starting in 2035.

• Require that, before they can apply to receive additional emissions allowances, EITEs demonstrate that they have employed the best available technology and that further emissions reductions are not feasible.

• Add EITE emissions reduction and decarbonization projects to the list of projects eligible to receive funding from auction proceeds in the Climate Commitment Account.

• Align with Gov. Jay Inslee’s proposal to appropriate $50 million to the Department of Commerce to provide EITEs with financial assistance to reduce emissions.
Carbon Offsets

Covered entities can use emissions offsets to meet a portion of their compliance obligation.

**Through 2026:** Offsets can make up 8% of compliance obligation:
- 5% general offsets
- 3% projects on Tribal lands

**2027-2030:** Offsets can make up 6% of compliance obligation:
- 4% general offsets
- 2% projects on Tribal lands

Offset projects must result in greenhouse gas reductions that are:
- Real
- Permanent
- Quantifiable
- Verifiable
- Enforceable
Implementing the CCA
# Rulemaking

<table>
<thead>
<tr>
<th></th>
<th>CR101 Announcement</th>
<th>Listening sessions</th>
<th>CR102 Proposal (Starts formal comment period)</th>
<th>CR103 Adoption</th>
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<tr>
<td>WAC 173-441</td>
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<td>CCA Cap &amp; Invest</td>
<td>Aug. 4, 2021</td>
<td>Nov. 8 &amp; Dec. 16,</td>
<td>Spring 2022</td>
<td>October 2022</td>
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To engage, please visit: www.ecology.wa.gov/cca
Investing in Washington’s Future
New Climate Funding Accounts

ESTIMATED Auction Receipts
1st Compliance Period: January 1, 2023-December 31, 2026

CERA
Carbon Emissions Reduction Account
Subject to Legislative appropriation: Funding for carbon emissions reduction in the Transportation sector.
Per section 12, the auction proceeds identified below must first be deposited into the CERA each FY. The remaining proceeds are deposited into the CIA and AQHDIA.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Auction Receipt</th>
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</thead>
<tbody>
<tr>
<td>FY23 (6 months)</td>
<td>$127,341,000</td>
</tr>
<tr>
<td>FY24</td>
<td>$356,697,000</td>
</tr>
<tr>
<td>FY25</td>
<td>$366,558,000</td>
</tr>
<tr>
<td>FY26</td>
<td>$359,117,000</td>
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<tr>
<td>FY27 (6 Months)</td>
<td>$179,558,500</td>
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<tr>
<td><strong>TOTAL 1st Compliance Period</strong></td>
<td><strong>$1,389,271,500</strong></td>
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CIA
Climate Investment Account
Subject to Legislative appropriation: Funding is for projects that support the transition to clean energy, build ecosystem resilience, and support carbon sequestration. Funds in this account may also be used for cap and invest program administrative costs for agencies, up to 5% of auction revenue.

<table>
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<tr>
<th>Fiscal Year</th>
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<tr>
<td>FY23 (6 months)</td>
<td>$73,272,259</td>
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<tr>
<td>FY24</td>
<td>$77,271,977</td>
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<td>FY25</td>
<td>$67,657,286</td>
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<td>FY26</td>
<td>$72,732,184</td>
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<tr>
<td>FY27 (6 Months)</td>
<td>$50,708,058</td>
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<tr>
<td><strong>TOTAL 1st Compliance Period</strong></td>
<td><strong>$341,641,764</strong></td>
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After administrative costs to implement the CCA are covered, the State Treasurer will distribute:
- 75% Climate Commitment Account
- 25% Natural Climate Solutions Account.

AQHDIA
Air Quality & Health Disparities Improvement Account
Subject to Legislative appropriation: Funding is for reducing criteria pollutants and health disparities in overburdened communities.

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<td>FY27 (6 Months)</td>
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<td><strong>TOTAL 1st Compliance Period</strong></td>
<td><strong>$55,000,000</strong></td>
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All funding is subject to legislative appropriation

Revenue is estimated on best assumptions and subject to change
Transportation Funding

Carbon Emissions Reduction Account

$1.39 billion – Total first compliance period – FY2023-2027*
$5.16 billion – Total FY2023-2037

Eligible categories:
• Reducing transportation emissions
• Investing in alternatives to single-occupancy vehicles
• Investing in emissions reduction programs for freight, ferries and ports

All funding is subject to legislative appropriation

Revenue is estimated on best assumptions and subject to change

* Includes only first half of FY2027
## Carbon Emissions Reduction Account

<table>
<thead>
<tr>
<th>Fiscal Year*</th>
<th>Carbon Emissions Reduction Account Revenue</th>
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<tbody>
<tr>
<td>2022</td>
<td>$127,341,000</td>
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<td>$359,117,000</td>
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<tr>
<td>2037</td>
<td>$359,117,000</td>
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Total 2023-2037 $5.16 billion

*Auction revenue estimates for the Carbon Emissions Reduction Account are shown on a fiscal year (FY) basis.*
Environmental Justice Investments

- Vulnerable communities - minimum 35%
- Vulnerable communities - target 40%
- Tribal projects - 10%
- Other allocations - 50%

All spending is by legislative appropriation.
Zero Emission Vehicles and the Clean Fuel Standard
How does the Clean Fuel Standard work?

- Lower carbon fuels generate credits
- Higher carbon fuels generate deficits

Regulated entities buy credits

Lower carbon fuels generate credits
Benefits Beyond Climate Change

- Communities that bear the greatest burden from transportation emissions stand to receive the greatest benefits from reductions.

- Reducing transportation emissions can improve public health, reduce health disparities.

- HEAL Act & Climate Commitment Act require air quality improvements in overburdened communities.
Implementation Progress

• Building capacity through hiring.

• Coordinating policy with British Columbia, Oregon, and California through Pacific Coast Collaborative.

• Issuing contracts for:
  • Conducting the ex ante independent cost-benefit analysis required in HB 1091 (report to the Legislature due July 1, 2022).
  • Developing the fuel carbon intensity model that will be the basis of the program.
Clean Fuel Standard Timeline

Program Milestones

- Jan 1, 2023: Program takes effect
- May 1, 2025: Annual program reporting begins
- Jan 1, 2028: Must meet in-state biofuel target
- Dec 1, 2030: Audit of program’s first five years due
- Jan 1, 2038: Carbon intensity standard reaches 20%
Zero Emission Vehicle credits in the Clean Fuel Standard

Section 6:

*Rules must* allow credit generation from:

- Zero emission vehicle fueling infrastructure

*Rules may* allow credit generation from:

- Smart charging when grid carbon intensity is low

*Rules must* allow credit generation from omnibus transportation appropriations act-funded activities that decarbonize the transportation sector, including but are not limited to:

- Electrical grid and hydrogen fueling infrastructure investments;

- Ferry operating and capital investments;

- Electrification of the state ferry fleet
Zero Emission Vehicle credits in the Clean Fuel Standard

Section 9: Electric utility credit revenue requirements

- 50% for transportation electrification projects within utility service area
- 30% In Impacted Communities
- 20% Anywhere
- 50% State-Designated Project Types
- 50% for transportation electrification project types from a list developed by ECY & WSDOT
Electricity credit generation - California

Fig 2. Credit Percentage by Fuel
Q1 2011 - Q2 2021

- Ethanol
- Biomethane
- Fossil Natural Gas
- Electricity
- Biodiesel
- Renewable Diesel
- Other (Hydrogen, Renewable Naphtha, Propane, Innovative Crude & Low Complexity / Low Energy Use Refining, etc.)
For more information & to engage on our rulemakings, please visit: https://www.ecology.wa.gov/cca

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