
SUBSTITUTE HOUSE BILL 1975

State of Washington 69th Legislature 2025 Regular Session

By House Environment & Energy (originally sponsored by
Representatives Fitzgibbon, Dye, and Parshley)

READ FIRST TIME 02/21/25.

1 AN ACT Relating to amending the climate commitment act by
2 adjusting auction price containment mechanisms and ceiling prices,
3 addressing the department of ecology's authority to amend rules to
4 facilitate linkage with other jurisdictions, and providing for market
5 dynamic analysis; amending RCW 70A.65.150, 70A.65.070, and
6 70A.65.160; and adding a new section to chapter 70A.65 RCW.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** A new section is added to chapter 70A.65
9 RCW to read as follows:

10 (1) The department shall provide analysis and forecasts of the
11 compliance instrument markets created by this chapter, including:

12 (a) The prices in primary and secondary compliance instrument
13 markets;

14 (b) Trends in compliance instrument supply and demand and prices;

15 (c) Activities in the markets, categorized by type of market
16 participant; and

17 (d) The share of the allowance budget consumed by various
18 categories of registered entities.

19 (2) The department must consider the analysis in subsection (1)
20 of this section in adopting rules and otherwise implementing the
21 requirements of this chapter.

1 **Sec. 2.** RCW 70A.65.150 and 2022 c 181 s 6 are each amended to
2 read as follows:

3 (1) To help minimize allowance price volatility in the auction,
4 the department shall adopt by rule an auction floor price and a
5 schedule for the floor price to increase by a predetermined amount
6 every year. The department may not sell allowances at bids lower than
7 the auction floor price. The department's rules must specify holding
8 limits that determine the maximum number of allowances that may be
9 held for use or trade by a registered entity at any one time. The
10 department shall also establish a reserve auction floor price to
11 limit extraordinary prices and to determine when to offer allowances
12 through the allowance price containment reserve auctions authorized
13 under this section.

14 (2) For calendar years 2023 through 2026, the department must
15 place no less than two percent of the total number of allowances
16 available from the allowance budgets for those years in an allowance
17 price containment reserve. The reserve must be designed as a
18 mechanism to assist in containing compliance costs for covered and
19 opt-in entities in the event of unanticipated high costs for
20 compliance instruments.

21 (3)(a) The department shall adopt rules for holding auctions of
22 allowances from the price containment reserve when the settlement
23 prices in the preceding auction exceed the adopted reserve auction
24 floor price. The auction must be separate from auctions of other
25 allowances.

26 (b) Allowances must also be distributed from the allowance price
27 containment reserve by auction when new covered and opt-in entities
28 enter the program and allowances in the emissions containment reserve
29 under RCW 70A.65.140(5) are exhausted.

30 (4) Only covered and opt-in entities may participate in the
31 auction of allowances from the allowance price containment reserve.

32 (5) The process for reserve auctions is the same as the process
33 provided in RCW 70A.65.100 and the proceeds from reserve auctions
34 must be treated the same.

35 (6) The department shall by rule:

36 (a) Set the reserve auction floor price in advance of the reserve
37 auction. The department may choose to establish multiple price tiers
38 for the allowances from the reserve;

39 (b) Establish the requirements and schedule for the allowance
40 price containment reserve auctions; and

1 (c) (~~Establish the amount of allowances to be placed in the~~
2 ~~allowance price containment reserve after the first compliance period~~
3 ~~ending in 2026~~) Place no less than two percent and no more than five
4 percent of the total number of allowances from the allowance budgets
5 from 2027 to 2040 in the allowance price containment reserve.

6 (7) In order to contain allowance prices in advance of the
7 timeline for linkage with other jurisdictions, the department must
8 amend the schedule of allowance allocations adopted by rule under
9 subsection (6) of this section to place in the allowance price
10 containment reserve and to make available, in the second compliance
11 period of the program, all allowances scheduled to be placed in the
12 allowance price containment reserve through 2040.

13 **Sec. 3.** RCW 70A.65.070 and 2024 c 352 s 3 are each amended to
14 read as follows:

15 (1) (a) (i) The department shall commence the program by January 1,
16 2023, by determining an emissions baseline establishing the
17 proportionate share that the total greenhouse gas emissions of
18 covered entities for the first compliance period bears to the total
19 anthropogenic greenhouse gas emissions in the state during 2015
20 through 2019, based on data reported to the department under RCW
21 70A.15.2200 or provided as required by this chapter, as well as other
22 relevant data. By October 1, 2022, the department shall adopt annual
23 allowance budgets for the first compliance period of the program,
24 calendar years 2023 through 2026, to be distributed from January 1,
25 2023, through December 31, 2026.

26 (ii) If the department enters into a linkage agreement, and the
27 linked jurisdictions do not amend their rules to synchronize with
28 Washington's compliance periods, the department must amend its rules
29 to synchronize Washington's compliance periods with those of the
30 linked jurisdiction or jurisdictions. The department may not by rule
31 amend the length of the first compliance period to end on a date
32 other than December 31, 2026.

33 (b) By October 1, 2026, the department shall add to its emissions
34 baseline by incorporating the proportionate share that the total
35 greenhouse gas emissions of new covered entities in the second
36 compliance period bear to the total anthropogenic greenhouse gas
37 emissions in the state during 2015 through 2019. In determining the
38 addition to the baseline, the department may exclude a year from the
39 determination if the department identifies that year to have been an

1 outlier due to a state of emergency. The department shall adopt
2 annual allowance budgets for the second compliance period of the
3 program that will be distributed during the second compliance period.

4 (c) By October 1, 2028, the department shall adopt by rule the
5 annual allowance budgets for the end of the second compliance period
6 through 2040.

7 (2) The annual allowance budgets must be set to achieve the share
8 of reductions by covered entities necessary to achieve the 2030,
9 2040, and 2050 statewide emissions limits established in RCW
10 70A.45.020 by December 31st of each of those years, based on data
11 reported to the department under chapter 70A.15 RCW or provided as
12 required by this chapter. Annual allowance budgets must be set such
13 that the use of offsets as compliance instruments, consistent with
14 RCW 70A.65.170, does not prevent the achievement of the emissions
15 limits established in RCW 70A.45.020. In so setting annual allowance
16 budgets, the department must reduce the annual allowance budget
17 relative to the limits in an amount equivalent to offset use, or in
18 accordance with a similar methodology adopted by the department. The
19 department must adopt annual allowance budgets for the program on a
20 calendar year basis that provide for progressively equivalent
21 reductions by December 31st of each year, year over year. An
22 allowance distributed under the program, either directly by the
23 department under RCW 70A.65.110 through 70A.65.130 or through
24 auctions under RCW 70A.65.100, does not expire and may be held or
25 banked consistent with RCW 70A.65.100(6) and 70A.65.150(1).

26 (3) The department must complete evaluations by December 31,
27 2027, and December 31st of the year following the conclusion of the
28 third compliance period, of the performance of the program, including
29 its performance in reducing greenhouse gases. If the evaluation shows
30 that adjustments to the annual allowance budgets are necessary for
31 covered entities to achieve their proportionate share of the 2030 and
32 2040 emission reduction limits identified in RCW 70A.45.020 by
33 December 31, 2030, and December 31, 2040, as applicable, the
34 department shall adjust the annual allowance budgets accordingly. The
35 department must complete additional evaluations of the performance of
36 the program by December 31st of the year following the conclusion of
37 the fifth and sixth compliance periods, and make any necessary
38 adjustments in the annual allowance budgets to ensure that covered
39 entities achieve their proportionate share of the 2050 emission
40 reduction limit identified in RCW 70A.45.020. Nothing in this

1 subsection precludes the department from making additional
2 adjustments to annual allowance budgets as necessary to ensure
3 successful achievement of the proportionate emission reduction limits
4 by covered entities. The department shall determine and make public
5 the circumstances, metrics, and processes that would initiate the
6 public consideration of additional allowance budget adjustments to
7 ensure successful achievement of the proportionate emission reduction
8 limits.

9 (4) Data reported to the department under RCW 70A.15.2200 or
10 provided as required by this chapter for 2015 through 2019 is deemed
11 sufficient for the purpose of adopting annual allowance budgets and
12 serving as the baseline by which covered entities demonstrate
13 compliance under the first compliance period of the program. Data
14 reported to the department under RCW 70A.15.2200 or provided as
15 required by this chapter for 2023 through 2025 is deemed sufficient
16 for adopting annual allowance budgets and serving as the baseline by
17 which covered entities demonstrate compliance under the second
18 compliance period of the program.

19 (5) The legislature intends to promote a growing and sustainable
20 economy and to avoid leakage of emissions from manufacturing to other
21 jurisdictions. Therefore, the legislature finds that implementation
22 of this section is contingent upon the enactment of RCW 70A.65.110.

23 **Sec. 4.** RCW 70A.65.160 and 2022 c 181 s 7 are each amended to
24 read as follows:

25 (1) (a) The ((department shall establish a)) price ceiling for
26 calendar years 2026 and 2027 shall be \$80 to provide cost protection
27 for covered entities obligated to comply with this chapter. ((The
28 ceiling must be set at a level sufficient to facilitate investments
29 to achieve further emission reductions beyond those enabled by the
30 price ceiling, with the intent that investments accelerate the
31 state's achievement of greenhouse gas limits established under RCW
32 70A.45.020.)) The department must adjust the allowance price

33 containment reserve tier 1 and 2 prices to reflect the 2026 and 2027
34 price ceiling, and the price ceiling must increase annually in
35 proportion to the reserve auction floor price established in RCW
36 70A.65.150(1).

37 (b) If the department enters into a linkage agreement, and the
38 linked jurisdictions do not amend their rules to synchronize with
39 Washington's price ceiling established in (a) of this subsection, the

1 department may amend its rules to synchronize Washington's price
2 ceiling with those of the linked jurisdictions. The price ceiling may
3 not be set at a level below the ceiling specified in (a) of this
4 subsection unless the director of the department determines that an
5 amendment to the price ceiling is necessary in order to enter into a
6 linkage agreement.

7 (2) In the event that no allowances remain in the allowance price
8 containment reserve, the department must issue the number of price
9 ceiling units for sale sufficient to provide cost protection for
10 covered entities as established under subsection (1) of this section.
11 Purchases must be limited to entities that do not have sufficient
12 eligible compliance instruments in their holding and compliance
13 accounts for the current compliance period and these entities may
14 only purchase what they need to meet their compliance obligation for
15 the current compliance period. Price ceiling units may not be sold or
16 transferred and must be retired for compliance in the current
17 compliance period. A price ceiling unit is not a property right.

18 (3) The price ceiling unit emission reduction investment account
19 is created in the state treasury. All receipts from the sale of price
20 ceiling units must be deposited in the account. Moneys in the account
21 may only be spent after appropriation. Moneys in the account must be
22 expended to achieve emissions reductions on at least a metric ton for
23 metric ton basis that are real, permanent, quantifiable, verifiable,
24 enforceable by the state, and in addition to any greenhouse gas
25 emission reduction otherwise required by law or regulation and any
26 other greenhouse gas emission reduction that otherwise would occur.

27 NEW SECTION. **Sec. 5.** If any provision of this act or its
28 application to any person or circumstance is held invalid, the
29 remainder of the act or the application of the provision to other
30 persons or circumstances is not affected.

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