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**SECOND SUBSTITUTE HOUSE BILL 1975**

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**State of Washington**

**69th Legislature**

**2025 Regular Session**

**By** House Appropriations (originally sponsored by Representatives Fitzgibbon, Dye, and Parshley)

READ FIRST TIME 02/28/25.

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; adding new sections to chapter 70A.65 RCW; and creating a  
7 new section.

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

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

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

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

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

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

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

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

4 NEW SECTION. **Sec. 2.** A new section is added to chapter 70A.65  
5 RCW to read as follows:

6 (1) The department shall periodically perform economic modeling  
7 for purposes of analyzing design features of the program created by  
8 this chapter. This analysis must include the following components:

9 (a) A baseline model assuming implementation of complementary  
10 emission reduction measures; and

11 (b) Additional modeling scenarios that department staff deem  
12 necessary, which must include current available technology and known  
13 adoption rates to better understand how to administer the program  
14 created by this chapter.

15 (2) Not later than December 31, 2026, the department must include  
16 a modeling scenario that reflects linkage with other jurisdictions.

17 (3) The department must post on its website the economic modeling  
18 results by December 31, 2026. The department must post updated  
19 economic modeling results by December 31, 2027, and by December 31st  
20 every two years thereafter.

21 (4) Economic modeling results posted by the department must  
22 contain:

23 (a) An estimate of program benefits including the total social  
24 cost of carbon;

25 (b) An estimate of the compliance cost for sectors regulated  
26 under this chapter;

27 (c) The department's identification of program design features  
28 contributing towards achieving the emission reduction limits  
29 established in RCW 70A.45.020; and

30 (d) A description of assumptions, policy decisions, and model  
31 design used in the baseline and each additional modeling scenario.

32 **Sec. 3.** RCW 70A.65.150 and 2022 c 181 s 6 are each amended to  
33 read as follows:

34 (1) To help minimize allowance price volatility in the auction,  
35 the department shall adopt by rule an auction floor price and a  
36 schedule for the floor price to increase by a predetermined amount  
37 every year. The department may not sell allowances at bids lower than  
38 the auction floor price. The department's rules must specify holding

1 limits that determine the maximum number of allowances that may be  
2 held for use or trade by a registered entity at any one time. The  
3 department shall also establish a reserve auction floor price to  
4 limit extraordinary prices and to determine when to offer allowances  
5 through the allowance price containment reserve auctions authorized  
6 under this section.

7 (2) For calendar years 2023 through 2026, the department must  
8 place no less than two percent of the total number of allowances  
9 available from the allowance budgets for those years in an allowance  
10 price containment reserve. The reserve must be designed as a  
11 mechanism to assist in containing compliance costs for covered and  
12 opt-in entities in the event of unanticipated high costs for  
13 compliance instruments.

14 (3) (a) The department shall adopt rules for holding auctions of  
15 allowances from the price containment reserve when the settlement  
16 prices in the preceding auction exceed the adopted reserve auction  
17 floor price. The auction must be separate from auctions of other  
18 allowances.

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

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

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

28 (6) The department shall by rule:

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

32 (b) Establish the requirements and schedule for the allowance  
33 price containment reserve auctions; and

34 (c) ~~((Establish the amount of allowances to be placed in the  
35 allowance price containment reserve after the first compliance period  
36 ending in 2026))~~ Place no less than two percent and no more than five  
37 percent of the total number of allowances from the allowance budgets  
38 from 2027 to 2040 in the allowance price containment reserve.

39 (7) In order to contain allowance prices in advance of the  
40 timeline for linkage with other jurisdictions, the department must

1 amend the schedule of allowance allocations adopted by rule under  
2 subsection (6) of this section to place in the allowance price  
3 containment reserve and to make available, in the second compliance  
4 period of the program, all allowances scheduled to be placed in the  
5 allowance price containment reserve through 2040.

6 **Sec. 4.** RCW 70A.65.070 and 2024 c 352 s 3 are each amended to  
7 read as follows:

8 (1)(a)(i) The department shall commence the program by January 1,  
9 2023, by determining an emissions baseline establishing the  
10 proportionate share that the total greenhouse gas emissions of  
11 covered entities for the first compliance period bears to the total  
12 anthropogenic greenhouse gas emissions in the state during 2015  
13 through 2019, based on data reported to the department under RCW  
14 70A.15.2200 or provided as required by this chapter, as well as other  
15 relevant data. By October 1, 2022, the department shall adopt annual  
16 allowance budgets for the first compliance period of the program,  
17 calendar years 2023 through 2026, to be distributed from January 1,  
18 2023, through December 31, 2026.

19 (ii) If the department enters into a linkage agreement, and the  
20 linked jurisdictions do not amend their rules to synchronize with  
21 Washington's compliance periods, the department must amend its rules  
22 to synchronize Washington's compliance periods with those of the  
23 linked jurisdiction or jurisdictions. The department may not by rule  
24 amend the length of the first compliance period to end on a date  
25 other than December 31, 2026.

26 (b) By October 1, 2026, the department shall add to its emissions  
27 baseline by incorporating the proportionate share that the total  
28 greenhouse gas emissions of new covered entities in the second  
29 compliance period bear to the total anthropogenic greenhouse gas  
30 emissions in the state during 2015 through 2019. In determining the  
31 addition to the baseline, the department may exclude a year from the  
32 determination if the department identifies that year to have been an  
33 outlier due to a state of emergency. The department shall adopt  
34 annual allowance budgets for the second compliance period of the  
35 program that will be distributed during the second compliance period.

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

1 (2) The annual allowance budgets must be set to achieve the share  
2 of reductions by covered entities necessary to achieve the 2030,  
3 2040, and 2050 statewide emissions limits established in RCW  
4 70A.45.020 by December 31st of each of those years, based on data  
5 reported to the department under chapter 70A.15 RCW or provided as  
6 required by this chapter. Annual allowance budgets must be set such  
7 that the use of offsets as compliance instruments, consistent with  
8 RCW 70A.65.170, does not prevent the achievement of the emissions  
9 limits established in RCW 70A.45.020. In so setting annual allowance  
10 budgets, the department must reduce the annual allowance budget  
11 relative to the limits in an amount equivalent to offset use, or in  
12 accordance with a similar methodology adopted by the department. The  
13 department must adopt annual allowance budgets for the program on a  
14 calendar year basis that provide for progressively equivalent  
15 reductions by December 31st of each year, year over year. An  
16 allowance distributed under the program, either directly by the  
17 department under RCW 70A.65.110 through 70A.65.130 or through  
18 auctions under RCW 70A.65.100, does not expire and may be held or  
19 banked consistent with RCW 70A.65.100(6) and 70A.65.150(1).

20 (3) The department must complete evaluations by December 31,  
21 2027, and December 31st of the year following the conclusion of the  
22 third compliance period, of the performance of the program, including  
23 its performance in reducing greenhouse gases. If the evaluation shows  
24 that adjustments to the annual allowance budgets are necessary for  
25 covered entities to achieve their proportionate share of the 2030 and  
26 2040 emission reduction limits identified in RCW 70A.45.020 by  
27 December 31, 2030, and December 31, 2040, as applicable, the  
28 department shall adjust the annual allowance budgets accordingly. The  
29 department must complete additional evaluations of the performance of  
30 the program by December 31st of the year following the conclusion of  
31 the fifth and sixth compliance periods, and make any necessary  
32 adjustments in the annual allowance budgets to ensure that covered  
33 entities achieve their proportionate share of the 2050 emission  
34 reduction limit identified in RCW 70A.45.020. Nothing in this  
35 subsection precludes the department from making additional  
36 adjustments to annual allowance budgets as necessary to ensure  
37 successful achievement of the proportionate emission reduction limits  
38 by covered entities. The department shall determine and make public  
39 the circumstances, metrics, and processes that would initiate the  
40 public consideration of additional allowance budget adjustments to

1 ensure successful achievement of the proportionate emission reduction  
2 limits.

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

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

17 **Sec. 5.** RCW 70A.65.160 and 2022 c 181 s 7 are each amended to  
18 read as follows:

19 (1) (a) ~~The ((department shall establish a)) price ceiling for~~  
20 calendar years 2026 and 2027 shall be \$80 to provide cost protection  
21 for covered entities obligated to comply with this chapter. ((The  
22 ceiling must be set at a level sufficient to facilitate investments  
23 to achieve further emission reductions beyond those enabled by the  
24 price ceiling, with the intent that investments accelerate the  
25 state's achievement of greenhouse gas limits established under RCW  
26 70A.45.020.)) The department must adjust the allowance price  
27 containment reserve tier 2 price to reflect the 2026 and 2027 price  
28 ceiling, and the price ceiling must increase annually in proportion  
29 to the reserve auction floor price established in RCW 70A.65.150(1).

30 (b) If the department enters into a linkage agreement, and the  
31 linked jurisdictions do not amend their rules to synchronize with  
32 Washington's price ceiling established in (a) of this subsection, the  
33 department may amend its rules to synchronize Washington's price  
34 ceiling with those of the linked jurisdictions. The price ceiling may  
35 not be set at a level below the ceiling specified in (a) of this  
36 subsection unless the director of the department determines that an  
37 amendment to the price ceiling is necessary in order to enter into a  
38 linkage agreement.

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

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

21 NEW SECTION. **Sec. 6.** If specific funding for the purposes of  
22 this act, referencing this act by bill or chapter number, is not  
23 provided by June 30, 2025, in the omnibus appropriations act, this  
24 act is null and void.

25 NEW SECTION. **Sec. 7.** If any provision of this act or its  
26 application to any person or circumstance is held invalid, the  
27 remainder of the act or the application of the provision to other  
28 persons or circumstances is not affected.

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