

**WAC 173-424-500 Demonstrating compliance.** (1) **Compliance demonstration.** Each regulated party must meet its compliance obligation for the compliance period by demonstrating through submission of its annual compliance report that it possessed and has retired a number of credits from its account that is equal to its compliance obligation calculated under subsection (2) of this section.

(2) **Calculation of compliance obligation.** Ecology calculates a regulated party's compliance obligation as the sum of deficits generated in the compliance period plus deficits carried over from the prior compliance period, represented in the following equation:

$$\text{Compliance Obligation} = \text{Deficits Generated} + \text{Deficits Carried Over}$$

(3) **Calculation of credit balance.**

(a) Definitions. For the purpose of this section:

(i) Deficits generated are the total deficits generated by the regulated party in the current compliance period;

(ii) Deficits carried over are the total deficits carried over by the regulated party from the previous compliance period;

(iii) Credits generated are the total credits generated by the regulated party in the current compliance period;

(iv) Credits acquired are the total credits acquired by the regulated party in the current compliance period from other regulated parties, credit generators, and aggregators, including carryback credits;

(v) Credits carried over are the total credits carried over by the regulated party from the previous compliance period;

(vi) Credits retired are the total credits retired by the regulated party within the WFRS for the current compliance period;

(vii) Credits sold are the total credits sold by, or otherwise transferred from, the regulated party in the current compliance period to other regulated parties, credit generators, and aggregators; and

(viii) Credits on hold are the total credits placed on hold due to enforcement or an administrative action. While on hold, these credits cannot be used for meeting the regulated party's compliance obligation.

(b) A regulated party's credit balance is calculated using the following equation:

$$\text{Credit Balance} = (\text{Credits Gen} + \text{Credits Acquired} + \text{Credits Carried Over}) - (\text{Credits Retired} + \text{Credits Sold} + \text{Credits on Hold})$$

(4) **Small deficits.** At the end of a compliance period, a regulated party that has a net deficit balance may carry forward a small deficit to the next compliance period without penalty. A small deficit exists if the amount of credits the regulated party needs to meet its compliance obligation is five percent or less than the total amount of deficits the regulated party generated for the compliance period. Carrying forward a small deficit under this subsection is not allowed for more than two consecutive years.

(5) **Extended credit acquisition period.** A regulated party may acquire carryback credits between January 1st and April 30th to be used for meeting its compliance obligation for the prior compliance period. A regulated party must complete all carryback credit transfers in the WFRS prior to submitting their annual report, but no later than April 30th, in order for them to be valid for meeting the compliance obligation for that annual report's compliance period.

(6) **Nonsmall deficit.** Regulated parties who do not demonstrate compliance under subsection (1) of this section and whose deficit is not small as defined in subsection (4) of this section may demonstrate

compliance through participation in the credit clearance market under WAC 173-424-570.

[Statutory Authority: Chapter 70A.535 RCW. WSR 22-24-004 (Order 21-04), § 173-424-500, filed 11/28/22, effective 12/29/22.]