

## Focus On Implementing Cap-and-Trade

Governor Gregoire is asking state lawmakers to pass House Bill (HB) 1819 and Senate Bill (SB) 5735 to meet Washington's greenhouse gas (GHG) reductions by participating in the Western Climate Initiative's (WCI) regional cap-and-trade program to reduce GHG emissions over time. The WCI is a collaboration between seven states and four Canadian provinces that have designed the regional cap-and-trade program, which is serving as a model for federal action.

### The problem

Global climate change is the economic and environmental issue of our lifetime. The science is clear that we must move forward quickly to reduce GHG emissions if we are to mitigate its effects. Without this action, climate change will negatively affect nearly every part of Washington's economy through changes in temperature, more extreme precipitation events, increased droughts, and longer wild fire seasons.

State lawmakers have twice set GHG emission reductions for the state in statute. The first was in 2007 with the passage of SB 6001, which included emission reduction limits for 2020, 2035 and 2050. Those limits were reaffirmed with the passage of HB 2815 in 2008. Without enacting cap-and-trade, the state cannot realistically meet these reduction levels.

### The solution

The Governor has developed legislation that directs the Department of Ecology (Ecology) to adopt rules to implement the WCI's cap-and-trade program in our state. This follows the legislative direction from HB 2815 to design a regional market-based system to reduce GHG emissions and propose legislation to implement it by January 1, 2012.

Cap-and-trade will allow businesses to determine for themselves the best and most cost-effective strategies to reduce their emissions. No prior approval from the Department of Ecology will be required, allowing covered sources to respond quickly to market conditions. Ecology will remain focused on results.

### MORE INFORMATION

#### Washington's Climate Change Website:

[www.ecy.wa.gov/climatechange/index.htm](http://www.ecy.wa.gov/climatechange/index.htm)

#### "Growing Washington's Economy in a Carbon-Constrained World"

[www.ecy.wa.gov/climatechange/2008CompPlan.htm](http://www.ecy.wa.gov/climatechange/2008CompPlan.htm)

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There is a global race for market share in the clean energy economy, and now is the right time to get ready. By allowing firms to capture a return on their investment in solutions to reduce GHG emissions, cap-and-trade will unleash technological innovation throughout our state. As our existing industries shift to a low-carbon future and new clean energy industries develop, quality family-wage jobs will be developed or retained in our state. We're already seeing that at work in Washington, with our wind and solar industries, businesses that design, build, and operate highly efficient commercial buildings, firms that weatherize private homes, manufacturers of highly efficient window glass, and alternative fuel refiners.

### **What the bill does**

- Authorizes Ecology to create an allowance trading program. The program must include a majority of the emissions in the WCI or be linked to other regional programs or a national program.
- Creates a cap-and-trade work group. The group will develop and recommend to the Governor the timing and terms of Washington's participation in the regional cap-and-trade program.
- Creates a work group to recommend how to distribute emission allowances and whether or not any allowances should be set aside for specific uses, such as for hydroelectricity in a low water year.
- Sets requirements on setting annual caps, creating allowances and specifies the emissions that will be covered in the allowance trading program.
- Require the program be transparent and prevent market manipulation, excessive speculation, conflicts of interest and fraud.
- Requires Ecology to establish criteria for issuing and accepting offset credits for offset projects, with priority given to forestry, agriculture and waste sectors.
- Requires the development of a specific forestry offset policy and financial incentives for forestry and forest products.
- Sets compliance obligations and penalties. The compliance periods are three years in length. Compliance obligation is met by submitting allowances, offset credits, or both.
- Creates the Climate Protection Account. All receipts from auctioning of allowances, if any must be deposited into the Account and spent on specific purposes.
- Authorizes Ecology to enter into an agreement with other jurisdictions to form a regional organization to perform common administrative functions.
- Sets reporting requirements for fuels and electricity imported for use in the state.