PROPOSED RULE MAKING

CR-102 (June 2024)
(Implements RCW 34.05.320)
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FILED

DATE: July 06, 2026
TIME: 7:39 AM

WSR 26-15-011

Agency: Department of Ecology AO #24-02

☐ **Original Notice**

☐ **Supplemental Notice to WSR** _____

☒ **Continuance of WSR** 26-12-055

☒ **Preproposal Statement of Inquiry was filed as WSR** 25-08-057 **; or**

☐ **Expedited Rule Making--Proposed notice was filed as WSR** _____**; or**

☐ **Proposal is exempt under RCW 34.05.310(4) or 34.05.330(1); or**

☐ **Proposal is exempt under RCW** _____**.**

Title of rule and other identifying information: (describe subject) Chapter 173-441 WAC Reporting of Emissions of Greenhouse Gases and Chapter 173-446 WAC, Climate Commitment Act Program Rule – Cap-and-Invest Program Updates and Linkage

For more information on this rulemaking visit: : https://ecology.wa.gov/regulations-permits/laws-rules-rulemaking/rulemaking/wac-173-441-446-cap-and-invest-program-updates-and-linkage

Hearing location(s):

Date:	**Time:**	**Location:** (be specific)	**Comment:**
July 7, 2026	1:00 PM	Hearing via webinar. Join online and see instructions: https://waecy-wa-gov.zoom.us/meeting/register/8Z8ESjwxSSSnnkoHp9tvmw	Presentation, question and answer session followed by the hearing. We are holding this hearing via webinar. This is an online meeting that you can attend from any computer using internet access. For audio call US toll number 1-253-215-8782 and enter access code 873 6303 9529#. Or to receive a free call back, provide your phone number when you join the event.
July 13, 2026	9:00 AM	Hearing via webinar. Join online and see instructions:https://waecy-wa-gov.zoom.us/meeting/register/iyLZMsz1TlOFJ0JOclN5ZQ	Presentation, question and answer session followed by the hearing. We are holding this hearing via webinar. This is an online meeting that you can attend from any computer using internet access. For audio call US toll number 1-253-215-8782 and enter access code 812 9061 0429#. Or to receive a free call back, provide your phone number when you join the event.

Date of intended adoption: September 23, 2026 (Note: This is **NOT** the **effective** date)

Submit written comments to:

Name Surabhi Subedi

Address Send US mail to:
Department of Ecology
[Climate Pollution Reduction Program]
PO Box 47600, Olympia, WA 98504-7600

Assistance for persons with disabilities:

Contact Surabhi Subedi

Phone 564-999-3611

Or Send parcel delivery services to: Department of Ecology [Climate Pollution Reduction Program] 300 Desmond Dr. SE, Lacey, WA 98503 Email CPRRulemaking@ecy.wa.gov	Fax N/A
Fax N/A	TTY People with speech disability may call TTY at 877-833-6341. People with impaired hearing may call Washington Relay Service at 711.
Other Online comments can be submitted at: https://ecology.commentinput.com?id=frD53sZtA	Email CPRRulemaking@ecy.wa.gov
Beginning (date and time) June 1, 2026, at 12:00 a.m.	Other N/A
By (date and time) July 22, 2026, at 11:59 p.m.	By (date) June 30, 2026

Purpose of the proposal and its anticipated effects, including any changes in existing rules: Ecology is proposing amendments to chapters 173-446 WAC and 173-441 WAC to improve the implementation of the Cap-and-Invest Program, facilitate the linkage of Washington's carbon market with the California-Québec carbon market, and make other necessary updates consistent with amendments to the CCA.

The proposed amendments allow for the option to link Washington's carbon market with the California-Québec carbon market, creating a unified carbon market across the three jurisdictions. In a linked market, allowances issued by California and Québec could be used by Washington entities to cover their emissions, and vice versa. Linkage would also allow for joint allowance auctions, a common allowance price, and trading of allowances across jurisdictions. The rule amendments will not directly establish linkage. This rulemaking sets the stage for potential future action to link with California and Québec by aligning certain aspects of the Cap-and-Invest Program rules with those jurisdictions, including compliance period, allowance price containment provisions, registration requirements, corporate association requirements, and auction processes. The rule includes provisions that would become effective upon linkage with another jurisdiction. The rule also establishes processes for announcing a linkage effective date and adds provisions for Ecology to suspend or revoke linkage with another jurisdiction.

The proposed amendments set the allowance budgets for future compliance periods (2027-2050) and adjust 2023 through 2026 budgets consistent with statutory direction, ensuring that emissions reductions align with Washington's 2030, 2040, and 2050 greenhouse gas emissions limits. This rule also facilitates the entry of additional sectors —waste-to-energy and railroads—to coverage under the Cap-and-Invest Program in future compliance periods, as required by statute.

Ecology is proposing modifications to address topics associated with imported electricity and centralized electricity markets as well as amendments relevant to allowance allocation to electric utilities and natural gas utilities.

The proposal also implements sections of legislation, including Senate Bill 6058 (2024) to facilitate linkage; House Bill 1975 (2025), which modifies auction price containment mechanisms, allowance supply, and ceiling prices; House Bill 1912 (2025), which addresses the exemption for fuels used for agricultural purposes; and House Bill 2416 (2026), which concerns the treatment of waste-to-energy facilities.

In addition, the proposed rule includes amendments to enhance clarity, strengthen enforcement, and ensure that the market remains effective. These amendments are based on implementation experience from start of the Cap-and-Invest Program (2023) to date.

Overall, Ecology anticipates that these amendments will improve program implementation, facilitate potential future linkage, and ultimately strengthen market stability and confidence, as well as ensure the rule aligns with changes to statute.

Reasons supporting proposal: The proposed amendments add linkage related provisions and align certain aspects of Washington's Cap-and-Invest Program with California and Québec to enable potential future linkage, as directed by the Climate Commitment Act (chapter 70A.65 RCW).

Ecology is required under RCW 70A.65.070 to adopt the allowance budgets for the second compliance period (2027–2030), ensuring that emissions reductions align with Washington's 2030, 2040, and 2050 greenhouse gas emissions limits. Ecology is updating allowance allocation to natural gas utilities to be consistent with the updated budgets. Additionally, given the complexity and evolving nature of electricity markets in the Pacific Northwest, Ecology must further develop imported electricity reporting rules to ensure consistent and complete coverage of the sector.

Ecology is also making amendments relevant to allowance allocation to electric utilities, to improve certainty, strengthen decarbonization incentives, and support market functionality.

The rulemaking implements elements of recently enacted legislation including SB 6058 (2024), HB 1912 (2025), HB 1975 (2025), and HB 2416 (2026). In addition, Ecology is proposing amendments to the rules for clarity and efficiency to improve program implementation and enforcement.

Statutory authority for adoption: chapter 70A.65 RCW, Greenhouse Gas Emissions-Cap and Invest Program

Statute being implemented: chapter 70A.65 RCW, Greenhouse Gas Emissions-Cap and Invest Program; RCW 70A.15.2200, Washington Clean Air Act

Is rule necessary because of a:

Federal Law?	☐ Yes	☒ No
Federal Court Decision?	☐ Yes	☒ No
State Court Decision?	☐ Yes	☒ No

If yes, CITATION:

Agency comments or recommendations, if any, as to statutory language, implementation, enforcement, and fiscal matters: Ecology will conduct an Environmental Justice Assessment in accordance with RCW 70A.02.060 as a part of this rulemaking.

Name of proponent: (person or organization) Department of Ecology
Type of proponent: ☐ Private. ☐ Public. ☒ Governmental.

Name of agency personnel responsible for:

	Name	Office Location	Phone
Drafting	Eli Levitt	Lacey, Washington	360-280-2016
Implementation	Andrew Hayes	Lacey, Washington	360-489-4621
Enforcement	Derek Nixon	Lacey, Washington	360-485-7594

Is a school district fiscal impact statement required under RCW 28A.305.135? ☐ Yes ☒ No

If yes, insert statement here:

The public may obtain a copy of the school district fiscal impact statement by contacting:
Name N/A
Address N/A
Phone N/A
Fax N/A
TTY N/A
Email N/A
Other N/A

Is a cost-benefit analysis required under RCW 34.05.328?

☒ Yes: A preliminary cost-benefit analysis may be obtained by contacting:
Name Surabhi Subedi
Address Department of Ecology
Climate Pollution Reduction Program
PO Box 47600, Olympia, WA 98504-7600
Phone 564-999-3611
Fax N/A
TTY Dial 711 to call through the Washington Telecommunications Relay for services like text telephone (TTY). Visit Ecology.wa.gov/ADA for more accessibility information.
Email CPRRulemaking@ecy.wa.gov
Other

☐ No: Please explain:

Regulatory Fairness Act and Small Business Economic Impact Statement
Note: The Governor's Office for Regulatory Innovation and Assistance (ORIA) provides support in completing this part.

(1) Identification of exemptions:
This rule proposal, or portions of the proposal, **may be exempt** from requirements of the Regulatory Fairness Act (see chapter 19.85 RCW). For additional information on exemptions, consult the exemption guide published by ORIA. Please check the box for any applicable exemption(s):

☐ This rule proposal, or portions of the proposal, is exempt under RCW 19.85.061 because this rule making is being adopted solely to conform and/or comply with federal statute or regulations. Please cite the specific federal statute or regulation this rule is being adopted to conform or comply with, and describe the consequences to the state if the rule is not adopted.
Citation and description:

☐ This rule proposal, or portions of the proposal, is exempt because the agency has completed the pilot rule process defined by RCW 34.05.313 before filing the notice of this proposed rule.

☐ This rule proposal, or portions of the proposal, is exempt under the provisions of RCW 15.65.570(2) because it was adopted by a referendum.

☒ This rule proposal, or portions of the proposal, is exempt under RCW 19.85.025(3). Check all that apply:

- ☐ RCW 34.05.310 (4)(b) (Internal government operations)
- ☐ RCW 34.05.310 (4)(c) (Incorporation by reference)
- ☒ RCW 34.05.310 (4)(d) (Correct or clarify language)
- ☒ RCW 34.05.310 (4)(e) (Dictated by statute)
- ☐ RCW 34.05.310 (4)(f) (Set or adjust fees)
- ☐ RCW 34.05.310 (4)(g) ((i) Relating to agency hearings; or (ii) process requirements for applying to an agency for a license or permit)

☒ This rule proposal, or portions of the proposal, is exempt under RCW 19.85.025(4). (Does not affect small businesses).

☐ This rule proposal, or portions of the proposal, is exempt under RCW _____.

Explanation of how the above exemption(s) applies to the proposed rule:

(2) Scope of exemptions: *Check one.*

☐ The rule proposal: Is fully exempt. *(Skip section 3.)* Exemptions identified above apply to all portions of the rule proposal.

☒ The rule proposal: Is partially exempt. *(Complete section 3.)* The exemptions identified above apply to portions of the rule proposal, but less than the entire rule proposal. Provide details here (consider using this template from ORIA): Ecology baselines are typically complex, consisting of multiple requirements fully or partially specified by existing rules, statutes, or federal laws. Where the proposed rule differs from this baseline of existing requirements, it is typically subject to (i.e., not exempt from) analysis required under the Regulatory Fairness Act (RFA; chapter 19.85 RCW) based on meeting criteria referenced in RCW 19.85.025(3) as defined by the Administrative Procedure Act in RCW 34.05.310. The Small Business Economic Impact Statement (SBEIS) below includes a summary of the baseline for this rulemaking, and whether or how the proposed rule differs from the baseline.

☐ The rule proposal: Is not exempt. *(Complete section 3.)* No exemptions were identified above.

(3) Small business economic impact statement: *Complete this section if any portion is not exempt.*

If any portion of the proposed rule is **not exempt**, does it impose more-than-minor costs (as defined by RCW 19.85.020(2)) on businesses?

☐ No Briefly summarize the agency's minor cost analysis and how the agency determined the proposed rule did not impose more-than-minor costs. _____

☒ Yes Calculations show the rule proposal likely imposes more-than-minor cost to businesses and a small business economic impact statement is required. Insert the required small business economic impact statement here:

This Small Business Economic Impact Statement (SBEIS) presents the:

- Compliance requirements of the proposed rule.
- Results of the analysis of relative compliance cost burden.
- Consideration of lost sales or revenue.
- Cost-mitigating action taken by Ecology, if required.
- Small business and local government consultation.
- Industries likely impacted by the proposed rule.
- Expected net impact on jobs statewide.

A small business is defined by the Regulatory Fairness Act (chapter 19.85 RCW) as having 50 or fewer employees. Estimated costs are determined as compared to the existing regulatory environment—the regulations in the absence of the rule. The SBEIS only considers costs to "businesses in an industry" in Washington State. This means that impacts, for this document, are not evaluated for government agencies.

The existing regulatory environment is called the "baseline" in this document. It includes only existing laws and rules at federal and state levels.

This information is excerpted from Ecology's complete set of regulatory analyses for this rulemaking. **For complete discussion of the likely costs, benefits, minimum compliance burden, and relative burden on small businesses, see the associated Regulatory Analyses document (Ecology publication no. 26-14-045, June 2026)**

COMPLIANCE REQUIREMENTS OF THE PROPOSED RULE, INCLUDING PROFESSIONAL SERVICES

The regulatory baseline for our analyses generally consists of existing statutes and rules. This is what allows us to make a consistent comparison between the state of the world with and without the proposed rule amendments.

For this rulemaking, the regulatory baseline includes:

- Chapter 173-446 WAC, Climate Commitment Act Program Rule (the existing CCA rule).
- Chapter 173-441 WAC, Reporting of Emissions of Greenhouse Gases (the existing reporting rule).

- Chapter 70A.65 RCW, Greenhouse Gas Emissions – Cap-and-Invest Program (the CCA statute).
- Chapter 70A.45 RCW, Limiting Greenhouse Gas Emissions (including emissions limits referenced by the CCA statute, and an authorizing statute for the reporting rule).
- Chapter 70A.15 RCW, Washington Clean Air Act (including reporting referenced by the CCA statute, and an authorizing statute for the reporting rule).
- Recently enacted bills amending the CCA statute and Washington Clean Air Act:
    - Carbon Market Linkage – California-Québec Carbon Market, Chapter 352, Laws of 2024 (Engrossed Second Substitute Senate Bill 6058 passed in 2024; amended the CCA statute and Washington Clean Air Act).
    - Climate Commitment Act – Modification, Chapter 320, Laws of 2025 (Second Substitute House Bill 1975 passed in 2025; amended the CCA statute and Washington Clean Air Act).
    - Agricultural Fuel Use – Climate Commitment Act Exemptions, Chapter 282, Laws of 2025 (Engrossed Second Substitute House Bill 1912 passed in 2025; amended the CCA statute).
    - Waste-to-energy Facilities – Climate Commitment Act, Chapter 216, Laws of 2026 (Engrossed Second Substitute House Bill 2416 passed in 2026; amended the CCA statute).
- Chapter 19.405 RCW, Clean Energy Transformation Act (CETA; 2019), which commits Washington to an electricity supply free of greenhouse gases.
- Chapter 70A.535 RCW, Transportation Fuel – Clean Fuels Program, most recently updated in 2025, which requires transportation fuels to reduce their carbon intensity over time.

SUMMARY OF THE PROPOSED RULE AMENDMENTS

Proposed changes to the reporting rule

The proposed rule amendments to the greenhouse gas reporting rule would:

- Clarify and add definitions to facilitate linkage and support program efficiency and stability.
- Clarify program applicability and exit conditions, facilitate linkage, and align with statutory changes.
- Update reporting methodologies to align with statutory changes, facilitate linkage, and ensure accurate and consistent reporting.
- Update monitoring, reporting, recordkeeping, and verification to facilitate linkage and improve clarity.
- Update verification requirements to facilitate linkage and improve program efficiency and stability.
- Change calculation methods.

Proposed changes to the CCA rule

The proposed rule amendments to the CCA rule would:

- Add or amend definitions for clarity or to support alignment with statutory changes, facilitate linkage, and support program efficiency and stability.
- Update program coverage and compliance periods.
- Change registration requirements to support program efficiency and stability.
- Add exchange clearinghouse registration requirements to facilitate linkage and to support program efficiency and stability.
- Clarify use of future vintage allowances for compliance obligations.
- Add linkage processes and timing requirements to facilitate linkage.
- Update program accounts to facilitate linkage.
- Change corporate association requirements.
- Update corporate disclosure requirements to facilitate linkage, increase transparency for market participants and prevent unequal market advantage.
- Change account representative and viewing agent designation requirements.
- Update accounts and limits to facilitate linkage and support program efficiency and stability.
- Update allowance supply and allocation procedures to update total program baseline to reflect sectors entering the program in second and third compliance periods, establish allowance budgets for future years and update no-cost allowance provisions to EITEs, electric utilities, natural gas utilities and waste-to-energy facilities to align with statutory requirements.
- Reorganize Voluntary Renewable Electricity reserve account requirements for clarity.
- Update allowance removal and retirement attestations to support program efficiency and stability and to facilitate linkage.
- Reorganize allowance distribution dates with other sections for clarity.
- Change auction requirements.
- Change allowance reserve requirements and price control mechanisms.
- Change transaction and transfer requirements.
- Establish clearinghouse transaction processes to facilitate linkage and to support program efficiency and stability.
- Update compliance obligation requirements for clarity, to facilitate linkage, align with statutory changes related to offsets.
- Add and clarify enforcement requirements to support program efficiency and stability, to facilitate linkage, and to align with statutory changes.

- Update contact information to reflect current information.

CHANGES DIFFERING FROM REGULATORY BASELINE

We identified that proposed rule amendments affecting allowance supply or demand interact to result in impacts to compliance costs via the carbon market in a linked market scenario, compared to the regulatory baseline. We do not expect these impacts to occur under an amended and aligned but unlinked market. These impacts to compliance costs are described below.

We also identified that other proposed amendments are likely to independently result in impacts to compliance costs that were not modeled through carbon market impacts, while the remaining amendments are not likely to impact compliance costs because they align with the regulatory baseline. Amendments likely to result in impacts to compliance costs are:

- Reporting rule: Program applicability and exit conditions
- Reporting rule: Calculation methods
- CCA rule: Definitions – compliance period changes
- CCA rule: Registration requirements
- CCA rule: Designation requirements
- CCA rule: Transaction and transfer requirements
- CCA rule: Enforcement requirements

COSTS OF COMPLIANCE: EQUIPMENT, SUPPLIES, PROFESSIONAL SERVICES

Compliance with the proposed rule, compared to the regulatory baseline, is not likely to impose additional costs of equipment, supplies, or professional services.

COSTS OF COMPLIANCE: LABOR

Many of these proposed amendments would result in additional information being provided to Ecology about consultants, associations, or other business or structural relationships of which the Cap-and-Invest Program is not currently aware under the regulatory baseline. As such, we could not confidently assume the degree to which any given entity would have to make additional effort under the proposed rule amendments. Some entities may have little or no additional information that would need to be provided, while others may have large amounts of additional disclosures and information to submit. Considering the scope of additional procedural and administrative changes that would be required under the proposed rule amendments, as compared to the regulatory baseline, we assumed each affected entity would incur costs of 2 weeks of attorney time, for two attorneys, to implement these changes. We used an hourly attorney wage rate of $107.66 and applied this cost across each of 275 likely impacted entities. We also assumed this cost would be incurred immediately. This resulted in a **one-time total cost of approximately $4.7 million in 2027**. This reflects costs associated with:

- CCA rule: Registration requirements
- CCA rule: Designation requirements
- CCA rule: Transaction and transfer requirements

Additional costs to labor may result for some entities:

- **Reporting rule: Calculation methods:** We expect these changes to produce relatively minor increases to labor and reporting costs. These would fall on a limited number of biomass derived fuel suppliers using landfill gas or anaerobic digestion. There are currently 4 natural gas suppliers reporting natural gas derived from biomass. These entities can also report biogas using reporting requirements related to pipeline injected biogas and delivery points in Washington. Approximately 80% of 75 existing fuel suppliers also reported biomass derived fuels (primarily ethanol, biodiesel, and renewable diesel).

Entities covered by or participating in the state's Clean Fuels Program could potentially use information and methodologies they already use for lifecycle assessment to generate clean fuel credits. In discussion with Clean Fuels program staff, we identified that while for some reporters these proposed amendments may require an extra step, the actual amount of reported biomass derived fuels is not likely to change (it is likely to already meet statutory goals of how much their fuels reduce greenhouse gas emissions compared to petroleum-based fuels).

Additionally, we expect minor costs for market purchasers reporting total electricity purchased from each centralized electricity market, and total retail electricity sales of each load-serving entity in their territories. These data are a standard part of doing business and are likely very minor additions to existing reporting burden.

COSTS OF COMPLIANCE: ADMINISTRATIVE COSTS

Where applicable, Ecology estimates administrative costs ("overhead") as part of the cost of labor and professional services, above.

COSTS OF COMPLIANCE: OTHER

We estimated the following impacts to compliance costs under the proposed rule amendments, as compared to the regulatory baseline.

- Using a carbon market model, we estimated the impacts to compliance costs below, under a linked market. These are changes in the **cost of purchasing compliance instruments to comply with the amended rule under a linked market, compared to the regulatory baseline, over the analytic timeframe of 2027 - 2037**.

Cost Category	1.50% Discount Rate	2% Discount Rate	2.50% Discount Rate
Total costs	-$2.23 billion	-$2.34 billion	-$2.45 billion

- **Reporting rule: Program applicability and exit conditions**: We expect minor reporting costs for importers of electricity with associated emissions below 10,000 MT CO_2e. The threshold for reporting CO_2e amounts is reduced to zero in 2027, from the current 10,000 MT CO_2e. This impact is largely driven by the statutory requirement to cover electricity importers who import any unspecified electricity. We expect this change would affect a relatively small number of entities, but as this information is not currently reported, we cannot confidently quantify the number of affected entities. If entities report other emissions, we do not expect these proposed amendments to significantly impact reporting effort. Entities that do not report other emissions (these could be, e.g., small utilities) would also see costs mitigated by a federal power marketing administration's participation in the program if they take on compliance obligations for imported electricity.
- **CCA rule: Definitions – compliance period changes:** The proposed rule amendments change the compliance period length from 4-years to a combination of 2-year and 3-year compliance periods. The compliance period change would only go into effect in a linked market. We expect a change in the length of compliance periods to affect how covered and opt-in entities in the Cap-and-Invest Program plan their compliance. Depending on how entities choose to optimize compliance choices (when and how many allowances or offset credits to purchase, what emissions abatement to undertake and when, associated supply chain changes, banking compliance instruments, consignment to auction), the proposed rule amendments may reduce the timeframe over which they are able to optimize. This reduced flexibility would not be reflected in the market model and our quantified results in previous sections, as the market model is not able to account for compliance periods. However, shorter compliance periods may redistribute compliance costs over time, potentially smoothing market demand compared to longer compliance periods and reducing price variability.
- **CCA rule: Enforcement requirements** (rule section 610; see Chapter 2 section 2.3.23)

The proposed changes would clarify existing enforcement processes and are not expected to add significant costs as they represent a clarification of enforcement language and not a change in the enforcement processes themselves.

COMPARISON OF COMPLIANCE COST FOR SMALL VERSUS LARGE BUSINESSES

The impacts of the proposed rule would differ significantly across sectors and over time. To scale sectoral compliance costs to the individual business level, we identified specific small businesses and the largest 10% of businesses in each sector and estimated their average share of their sector's emissions. Based on this step, we identified that the proposed rule is not likely to result in compliance cost changes for small businesses in the electricity and natural gas sectors, as despite being identified in Ecology's database, the small businesses we identified represent zero percent of covered emissions in their respective sectors. They may report other emissions, but these are not covered emissions under the CCA.

The table below shows the median employment at the business level by sector.

Sector	Small Businesses	Largest 10% of Businesses
Fuel suppliers (transportation)	16	8,812
Facilities (industrial)	23	1,487

Since they are the sectors for which we identified small businesses with a nonzero share of emissions, we focused this analysis on the fuel supplier (transportation) and facility (industrial) sectors. Based on relative shares of emissions and cumulative cost estimates in Chapter 3 over the analytic timeframe of 2027 - 2037, we estimated the following compliance costs impacts per employee, under the proposed rule as compared to the regulatory baseline, under a linked carbon market.

Business Size and Sector	Compliance Cost Impact per Employee
Small, fuels (transportation)	-$0.05
Largest fuels (transportation)	-$0.01
Small facilities (industrial)	-$0.53
Largest (industrial)	-$0.01

Because we estimated net cumulative cost-savings under the proposed rule amendments in a linked market, both sectors would experience net cost-savings per employee. In both sectors, small businesses would receive a disproportionately larger amount of cost-savings than the largest 10 percent of businesses. We note that the level of disproportion depends on relative number of employees and relative cost impact under the proposed rule amendments. In our employment data, we believe employment numbers may be underestimated for small businesses – particularly in the industrial sector – as our data does not capture use of contractors and their employees. If these small businesses have higher employment than

found in our data, it would serve to mitigate disproportionate impacts above, and the disproportion reflected in Table 7 is overestimated.

We also separately estimated legal services costs of meeting multiple proposed requirements for additional information to be provided to Ecology. On a per-entity basis, these costs were approximately $9,000 and would be incurred by all entities participating in the Cap-and-Invest Program, including general market participants. As this is a point estimate, if we divide it by the employment at a small general market participant, compliance costs per employee will inherently be larger than for the largest general market participants. The median employment for general market participants with fewer than 50 employees was 6 employees. The median employment at the largest 10% of general market participants was 203. This means compliance costs per employee would be $1,500 at small businesses and $180 at the largest businesses. We note, however, that small businesses under the RFA definition in this case include large financial businesses and investment funds that may not have the same employment structure and responsiveness to compliance costs that a typical “mom and pop” small business (e.g., a store) would have.

In the scenario of an amended, aligned rule, but with an unlinked carbon market, the proposed rule amendments would not result in any of the impacts estimated using the market model. Only costs related to impacts independently resulting from other amendments would apply.

We concluded that the proposed rule amendments are likely to have disproportionate impacts on small businesses, even if both small and large businesses would experience cumulative net cost-savings. Therefore, Ecology has included elements in the proposed rule amendments to mitigate this disproportion, as far as it is legal and feasible.

MITIGATION OF DISPROPORTIONATE IMPACT

The RFA, at RCW 19.85.030(2) states that:

Based upon the extent of disproportionate impact on small businesses identified in the statement prepared under RCW 19.85.040, the agency shall, where legal and feasible in meeting the stated objectives of the statutes upon which the rule is based, reduce the costs imposed by the rule on small businesses. The agency must consider, without limitation, each of the following methods of reducing the impact of the proposed rule on small businesses:

a) Reducing, modifying, or eliminating substantive regulatory requirements;

b) Simplifying, reducing, or eliminating recordkeeping and reporting requirements;

c) Reducing the frequency of inspections;

d) Delaying compliance timetables;

e) Reducing or modifying fine schedules for noncompliance; or

f) Any other mitigation techniques including those suggested by small businesses or small business advocates.

We considered all the above options, and the goals and objectives of the authorizing statutes (see Chapter 6). We limited compliance cost-reduction methods to those that:

- Are legal and feasible.
- Meet the goals and objectives of the authorizing statute.

While our ability to modify substantive regulatory requirements of the proposed rule amendments can be limited – as they are often dictated to a large degree by statutes – we note that elements of statutory requirements already serve to reduce the burden of the Cap-and-Invest Program in general on small businesses. Additional cost to comply with the proposed rule amendments may disproportionately impact small businesses that are covered entities under the Cap-and-Invest Program. However, these rule amendments facilitate linkage with the California-Québec market. If Washington links, we expect those small business, covered entities, would benefit from lower overall costs to comply with the Cap-and-Invest Program.

While we did not find disproportionate compliance cost impacts to small electricity businesses, we note that elements of statutory requirements already serve to reduce disproportionate burden. In line with statutory requirements, the proposed amendments would allow small electricity importers to use existing qualifying reports to comply with the reporting rule, reducing duplicative work effort in recordkeeping and reporting. The proposed rule amendments also create an expedited exit from reporting rule requirements for electric power entities that have zero imported electricity because a FPMA has opted into the Cap-and-Invest Program. The proposed rule amendments also enable a utility that has no compliance obligation and elects to transfer all their no-cost allowances to a FPMA to not have to register in the Cap-and-Invest Program. Together these amendments could help reduce or eliminate administrative costs for some small utilities, if a FPMA opts into the Cap-and-Invest Program.

SMALL BUSINESS AND LOCAL GOVERNMENT CONSULTATION

We involved small businesses and local governments in development of the proposed rule amendments, using:

- E-mail listservs.
- Gov delivery messages to all rulemaking and Cap-and-Invest subscribers.
- July 2024 linkage informational session and draft language overview meeting.
- July 2024 environmental justice forum and listening session.
- November 2024 electricity public workshop.
- March 2025 electricity public workshop.
- April 2025 Cap-and-Invest informational session and draft language overview meeting.
- April 2025 electricity public workshop.
- May 2025 community forum on Cap-and-Invest topics.
- June 2025 electricity public workshop.

- July 2025 electricity public workshop.
- August 2025 Cap-and-Invest informational session and draft language overview meeting.
- August 2025 combined community forum on Cap-and-Invest topics.
- October 2025 public workshop on House Bill 1975.
- November 2025 electricity public workshop.
- Shared rule language for centralized electricity markets and electricity imports.

Representatives of small businesses, local governments, and Tribal governments were present at and participated in these public workshops, listening sessions, and community forums.

NAICS CODES OF INDUSTRIES IMPACTED BY THE PROPOSED RULE

The proposed rule amendments likely impact the following industries, with associated NAICS codes. NAICS definitions and industry hierarchies are discussed at https://www.census.gov/naics/.

- 1121 Cattle Ranching and Farming
- 1151 Support Activities for Crop Production
- 2111 Oil and Gas Extraction
- 2121 Coal Mining
- 2131 Support Activities for Mining
- 2211 Electric Power Generation, Transmission and Distribution
- 2212 Natural Gas Distribution
- 2213 Water, Sewage and Other Systems
- 2382 Building Equipment Contractors
- 3112 Grain and Oilseed Milling
- 3114 Fruit and Vegetable Preserving and Specialty Food Manufacturing
- 3115 Dairy Product Manufacturing
- 3116 Animal Slaughtering and Processing
- 3119 Other Food Manufacturing
- 3211 Sawmills and Wood Preservation
- 3212 Veneer, Plywood, and Engineered Wood Product Manufacturing
- 3219 Other Wood Product Manufacturing
- 3221 Pulp, Paper, and Paperboard Mills
- 3222 Converted Paper Product Manufacturing
- 3241 Petroleum and Coal Products Manufacturing
- 3251 Basic Chemical Manufacturing
- 3253 Pesticide, Fertilizer, and Other Agricultural Chemical Manufacturing
- 3271 Clay Product and Refractory Manufacturing
- 3272 Glass and Glass Product Manufacturing
- 3273 Cement and Concrete Product Manufacturing
- 3274 Lime and Gypsum Product Manufacturing
- 3279 Other Nonmetallic Mineral Product Manufacturing
- 3313 Alumina and Aluminum Production and Processing
- 3314 Nonferrous Metal (except Aluminum) Production and Processing
- 3315 Foundries
- 3344 Semiconductor and Other Electronic Component Manufacturing
- 3359 Other Electrical Equipment and Component Manufacturing
- 3363 Motor Vehicle Parts Manufacturing
- 3364 Aerospace Product and Parts Manufacturing
- 4231 Motor Vehicle and Motor Vehicle Parts and Supplies Merchant Wholesalers
- 4233 Lumber and Other Construction Materials Merchant Wholesalers
- 4238 Machinery, Equipment, and Supplies Merchant Wholesalers
- 4244 Grocery and Related Product Merchant Wholesalers
- 4245 Farm Product Raw Material Merchant Wholesalers
- 4247 Petroleum and Petroleum Products Merchant Wholesalers
- 4249 Miscellaneous Nondurable Goods Merchant Wholesalers
- 4451 Grocery and Convenience Retailers
- 4552 Warehouse Clubs, Supercenters, and Other General Merchandise Retailers
- 4571 Gasoline Stations
- 4572 Fuel Dealers
- 4592 Book Retailers and News Dealers
- 4821 Rail Transportation
- 4832 Inland Water Transportation
- 4841 General Freight Trucking

- 4842 Specialized Freight Trucking
- 4862 Pipeline Transportation of Natural Gas
- 4869 Other Pipeline Transportation
- 5223 Activities Related to Credit Intermediation
- 5231 Securities and Commodity Contracts Intermediation and Brokerage
- 5239 Other Financial Investment Activities
- 5416 Management, Scientific, and Technical Consulting Services
- 5417 Scientific Research and Development Services
- 5511 Management of Companies and Enterprises
- 5611 Office Administrative Services
- 5614 Business Support Services
- 5621 Waste Collection
- 5622 Waste Treatment and Disposal
- 5629 Remediation and Other Waste Management Services
- 6111 Elementary and Secondary Schools
- 6113 Colleges, Universities, and Professional Schools
- 6221 General Medical and Surgical Hospitals
- 6239 Other Residential Care Facilities
- 7211 Traveler Accommodation
- 7225 Restaurants and Other Eating Places
- 9211 Executive, Legislative, and Other General Government Support
- 9261 Administration of Economic Programs
- 9281 National Security and International Affairs

CONSIDERATION OF LOST SALES OR REVENUE, IMPACT ON JOBS

Businesses that would incur costs could experience reduced sales or revenues if the proposed rule amendments significantly affect the prices of the goods they sell. The degree to which this could happen is strongly related to each business's production and pricing model (whether additional lump-sum costs would significantly affect marginal costs). It is also related to the specific attributes of the markets in which they sell goods, including the degree of influence each firm has on market prices, as well as the relative responsiveness of market demand to price changes. Finally, overall shifts in economic activity in the state, including competition within markets and attributes of the labor market simultaneously adjust in response to changes in compliance costs.

Similarly, employment within directly impacted industries, other industries in Washington, the labor market within and outside of the state, and in the state as a whole will also adjust in response to a change in costs.

We used the REMI E3+ model, version 3.3.0 for Washington State to estimate the impact of the proposed rule amendments on directly affected markets, accounting for dynamic adjustments throughout the economy. The model accounts for variables including but not limited to: inter-industry impacts; price, wage, interstate and international trade, and population or labor market changes; and dynamic adjustment of all economic variables over time.

To be able to use the model, we disaggregated costs and benefits into electricity, natural gas, transportation, and industrial sectors based on their estimated emissions in the market model and assumed no-cost allowance allocation over time. To balance the model, transfers across sectors must be captured on the spender and receiver sides. In model inputs, we assumed:

- Sectoral spending on allowances would be spent by each sector and would be received by the state and sectors consigning no-cost allowances.
- Sectoral spending on offset credits would be spent by each sector and would be received by offset developers. The offset market is still developing in Washington, as the Cap-and-Invest Program Rule is revised over time to better allow for and regulate additional types of offsets, including updated regulation of forestry offset credit generation. Although limited forestry offsets have been issued in Washington so far, we assume under a linked market the use of forestry offset credits would be greater (as in other jurisdictions). For this REMI modeling, we made the simplifying assumption that revenues would be received by the forestry sector.
- Consignment revenues would go to the electricity and natural gas sectors, with spending on consigned allowances happening in proportion to sectoral shares of the emissions difference between the amended rule under a linked market and the regulatory baseline.
- SCC impacts would be captured as a perceived amenity value, that is reflected as changes to relative in-state wages in the model and changes the labor market mix attracted to the state. We ran multiple simulations, using the set of 4 SCC value trajectories used in our benefits estimates (Chapter 4).

It is not always straightforward to identify a perfect-fit variable in the model to reflect all types of changes and spending. It is important to note that actual spending of state revenues is determined through appropriation by the state Legislature, and this rulemaking does not affect how funds are spent. In the case of this rulemaking, there is both uncertainty and likely variability in how state revenues will be spent (under the amended rule or regulatory baseline). Spending of CCA revenues to date reflects a broad range of transportation, electrification, incentives for transit mode switching, energy assistance, heat pump installation, habitat restoration, wildfire resiliency, and other projects.

We ran multiple simulations to better understand the contribution of CCA revenue spending assumptions and SCC assumptions on employment and output impact estimates, including:

- Excluding SCC.
- 1.5% SCC.
- 1.5% SCC excluding state spending impacts.
- 1.5% SCC applying spending changes to the construction and related professional trades (electricians and electrification infrastructure development, landscape construction, remodeling) instead of government spending.
- 2% SCC.
- 2.5% SCC.
- Double 2% SCC.

We found the following modeled employment and output impacts of the proposed rule under a linked carbon market, as compared to the regulatory baseline, over the ten-year analytic timeframe. We note that the REMI model did not identify significant impacts to either employment or output under a comparison of the amended rule without linkage, as costs we were able to quantify for this scenario are small compared to overall economic activity. Across our sensitivity scenarios using different spending and SCC assumptions, the model results estimated the following cumulative impacts over the analytic timeframe of 2027 – 2037:

- Cumulative employment gains of approximately 2,500 to 12,600 jobs. Compared to the regulatory baseline, this is a gain of between 0.05% and 0.27% of statewide employment.
- Cumulative output gains of approximately $5.2 billion to $7.6 billion. Compared to the regulatory baseline, this is a gain of between 0.36% and 0.47% of statewide output.

We note that employment impacts are highly sensitive to inclusion of how state revenues from the carbon market is spent. Estimated employment impacts are aggregations of changes to employment across all sectors in the state, in terms of full-time employee (FTE) equivalents within each year and should not be interpreted as numbers of individuals losing or gaining jobs.

The public may obtain a copy of the small business economic impact statement or the detailed cost calculations by contacting:

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Other

Date: July 6, 2026	**Signature:**
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