

EITE Policy Advisory Group

Meeting 1: November 13, 2024

Welcome!

EITE Policy Advisory Group:

1st Meeting

Ecology staff

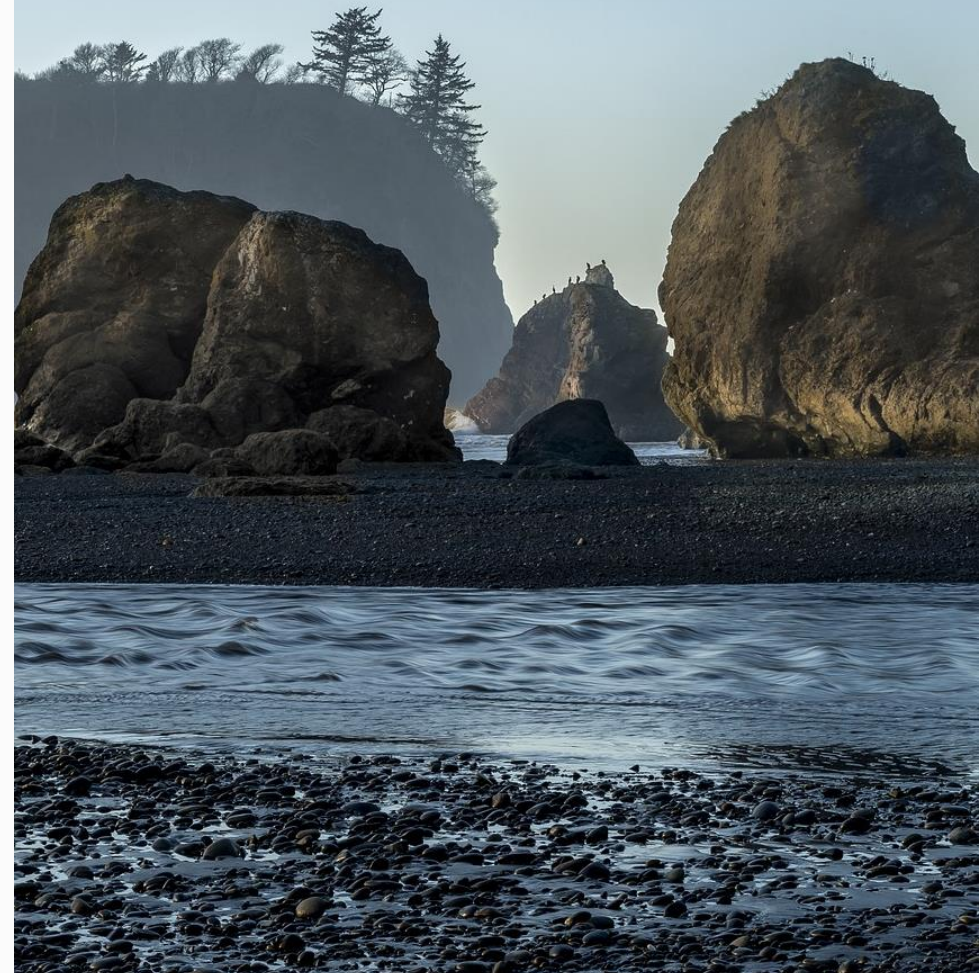
- Jihan Grettenberger – Facilitator
- Adrian Young – Cap-and-Invest Industrial Policy Lead
- Andrew Hayes – Cap-and-Invest Policy Section Manager
- Joel Creswell – Climate Pollution Reduction Program Manager

Meeting basics

- Meetings are open to the public and recorded
- Advisory Group members will appear as “Panelists” in the Zoom meeting
- Members of the public will appear as “Attendees”
- Attendees may unmute and provide comment in the public comment portion of the meeting
- Meeting materials and summary notes will be published on the [Advisory Group webpage](#)

Agenda – Meeting #1

- Member Introductions
- Group charter, purpose, and expectations
- Background and context for EITE allocation
- Report to legislature on EITE allocation 2035-2050
- Overview of EITE Industries in WA
- Wrap up and next steps
- Public comment opportunity



Member introductions

- Please share:
 - Name
 - Position and affiliation





EITE Policy Advisory Group

Purpose, expectations and important details

Purpose of EITE Policy Advisory Group (PAG)

- Composed of 10 members representing covered entities within Cap-and-Invest Program and other interested parties.
- 2 members of the EITE Industries Advisory Group will also participate in meetings
- Provide input on a report to the Legislature related to the allocation of no-cost allowances to EITEs from 2035 to 2050.
- Ecology will use input to inform its report to the legislature, in tandem with input from other interested parties.



Timeline and engagement approach



Charter details to note

- Advisory Group not asked to reach consensus – not a decision-making body
- Participation does not imply endorsement for any actions taken by Ecology
- Members can send a delegate to attend a meeting on their behalf with notice to Ecology
- Members who change employment/affiliation must notify Ecology as soon as possible
- Format/composition of Advisory Group may be modified in early 2025 in advance of further meetings

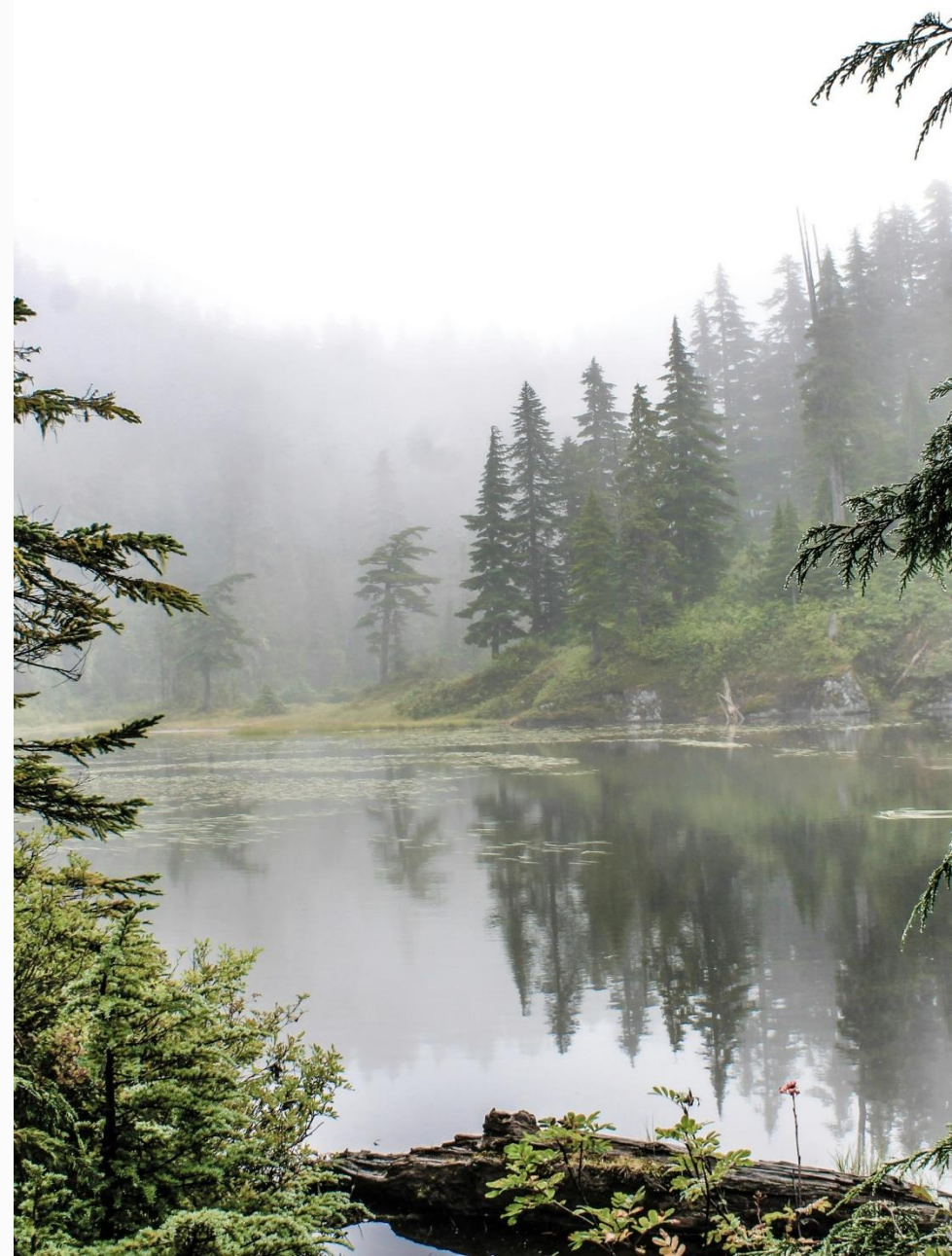


Market Sensitive Information

- Cap-and-Invest Program creates a multimillion-dollar market for GHG emission allowances
- Ecology required to guard against bidder collusion and minimize the potential for market manipulation ([RCW 70A.65.100](#))
- Registered entities must avoid disclosing or discussing certain auction information, like bidding strategies ([WAC 173-446-317](#))
- Market sensitive information can affect prices of allowances. Examples include:
 - confidential business information, “insider information” and “market position”
- Ecology will exercise due diligence to ensure all potentially market influencing information is managed appropriately

Anti-trust statement

- Meeting participants may be competitors and subject to antitrust laws
- Parties participating in the Advisory Group are committed to compliance with all applicable antitrust laws
- Discussions which might be misconstrued as price fixing, customer or market allocation, attempts to alter the competitive open bidding season, or boycott of suppliers and customers are not allowed
- Discussions of other competitively sensitive subjects are not allowed
- If any meeting participant has any questions regarding these antitrust considerations then that person should consult their legal counsel



Covered entities and interested parties represented on Advisory Group

Organization/Covered Entity	Type
Clean and Prosperous	Climate/Clean Energy Policy Advocacy
Climate Solutions	Climate/Clean Energy Policy Advocacy
Cowlitz Public Utility District No. 1	Covered Entity - Utility/First Jurisdictional Deliverer
IAM 751	Organized Labor
Puget Sound Energy	Covered Entity - Utility
SEI Fuel Services (7-Eleven)	Covered Entity - Fuel supplier
TNC	Climate/Clean Energy Policy Advocacy
United Steelworkers Union - local 338	Organized Labor
Washington Conservation Action	Climate/Clean Energy Policy Advocacy
Washington Public Ports Association	Ports
<i>2 delegates from EITE IAG</i>	<i>Covered Entity - EITEs</i>

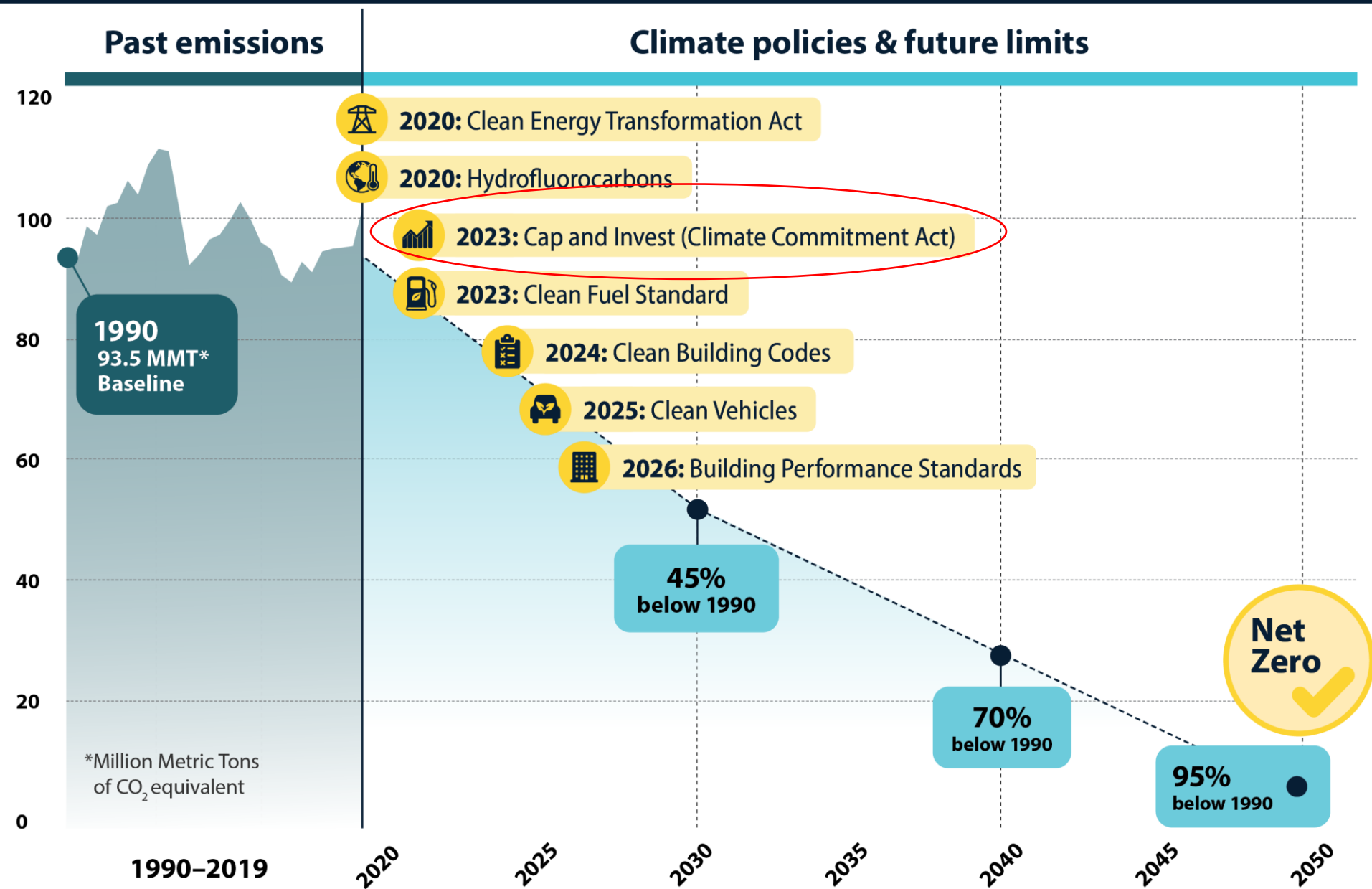
Discussion

- Any other questions or concerns about anything in the charter or the composition of this advisory group?



Cap-and-Invest Program Overview

How Washington is cutting pollution 95% by 2050



Cap-and-Invest

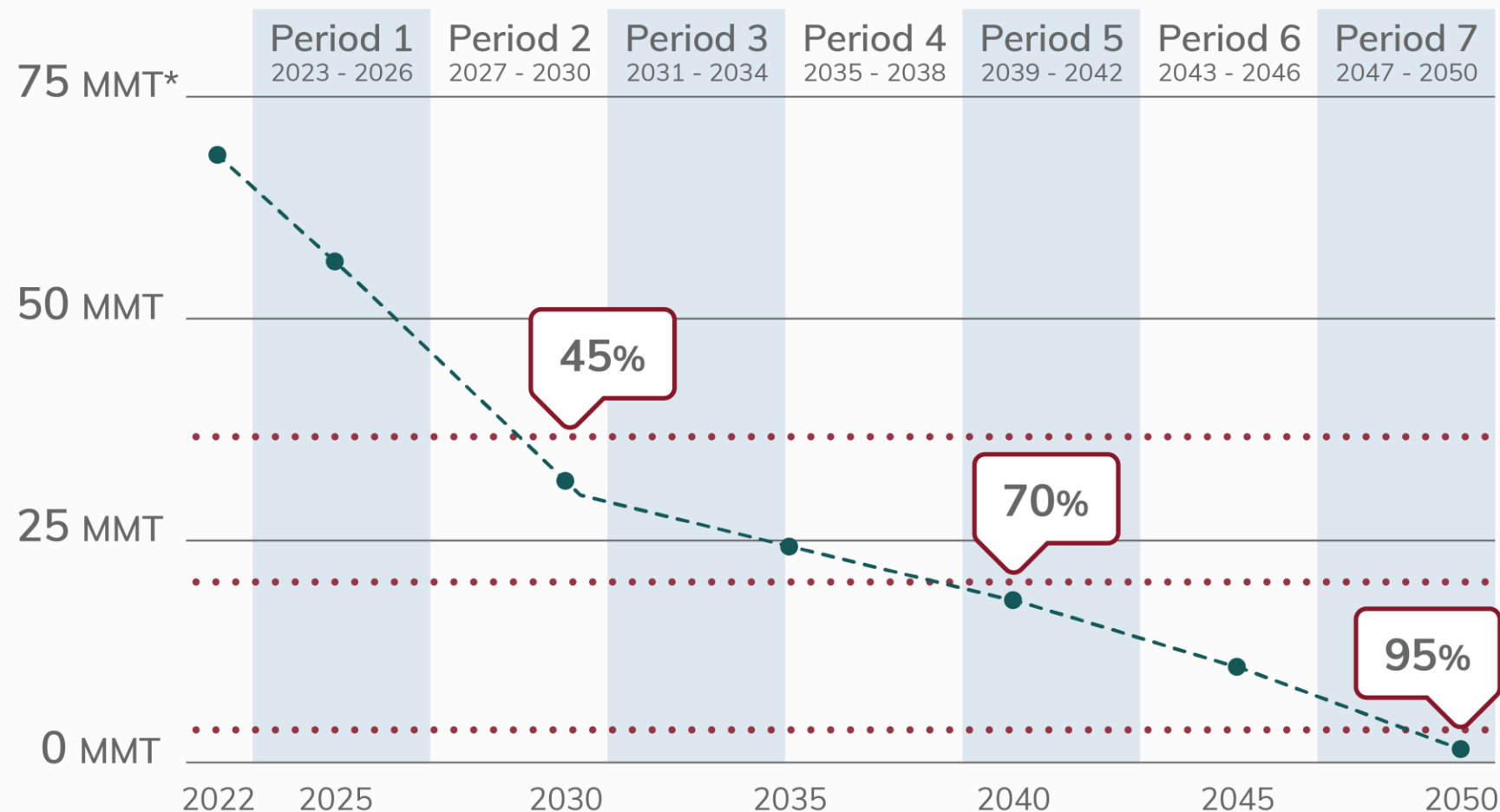
- Program launched Jan. 1, 2023
- Caps emissions, cap declines over time
 - Emissions cap = allowance budget
 - One allowance = one metric ton of CO₂e
- Entities must obtain allowances equal to “covered emissions”
 - Four-year compliance periods + annual deadlines
- Some entities receive no-cost allowances
 - Consignment by natural gas and electric utilities



Emissions cap reductions

Projected Emissions Cap Over Time

* million metric tons of CO₂ equivalent



*MMT = million metric tons of CO₂ equivalent

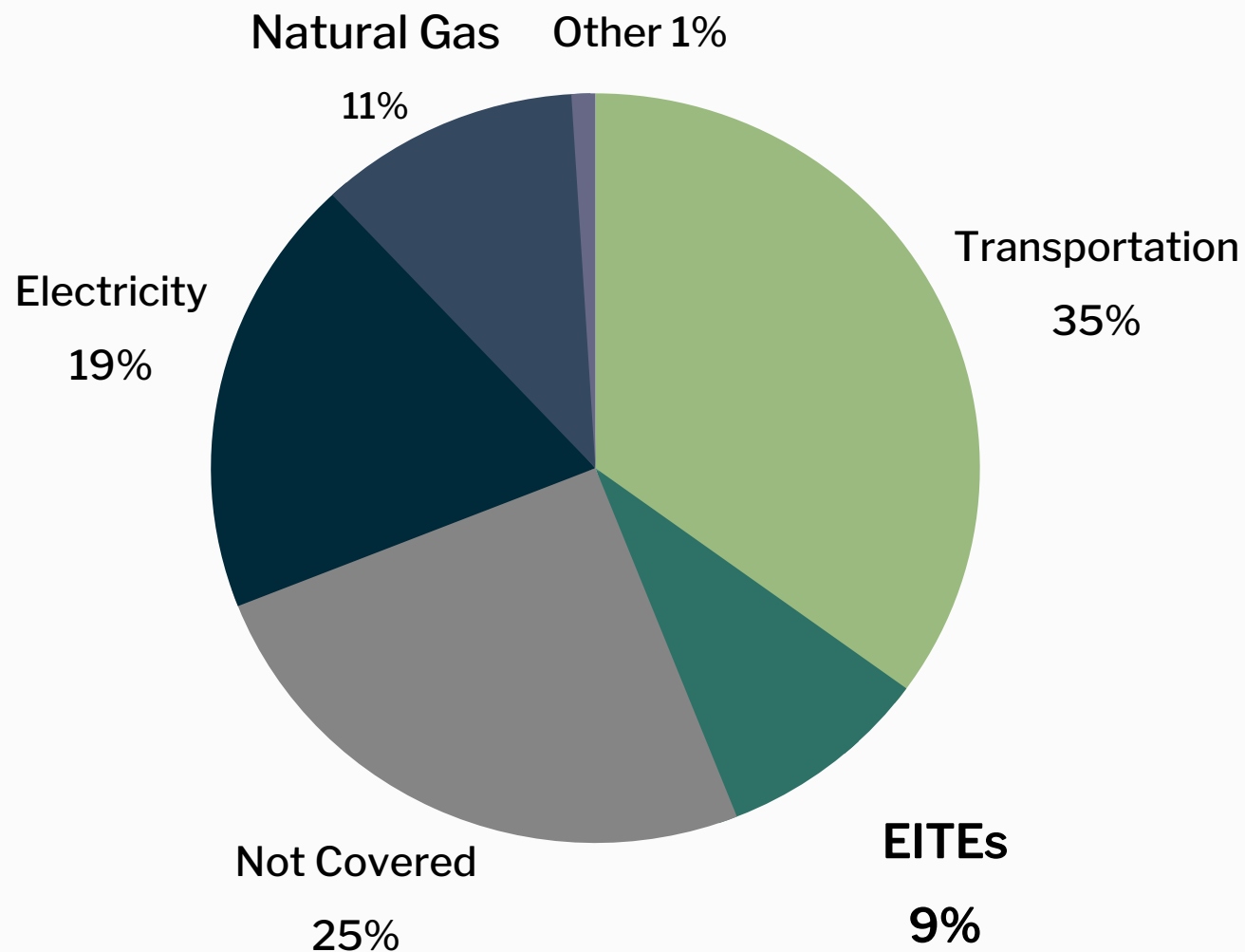
What's “covered”?

Covered emissions - 75%

- Facilities emitting 25,000+ metric tons CO₂e annually
- Gasoline and on-road diesel
- Electricity consumed in WA
- Natural gas
- 2027 - Waste-to-energy facilities
- 2031 - Railroads

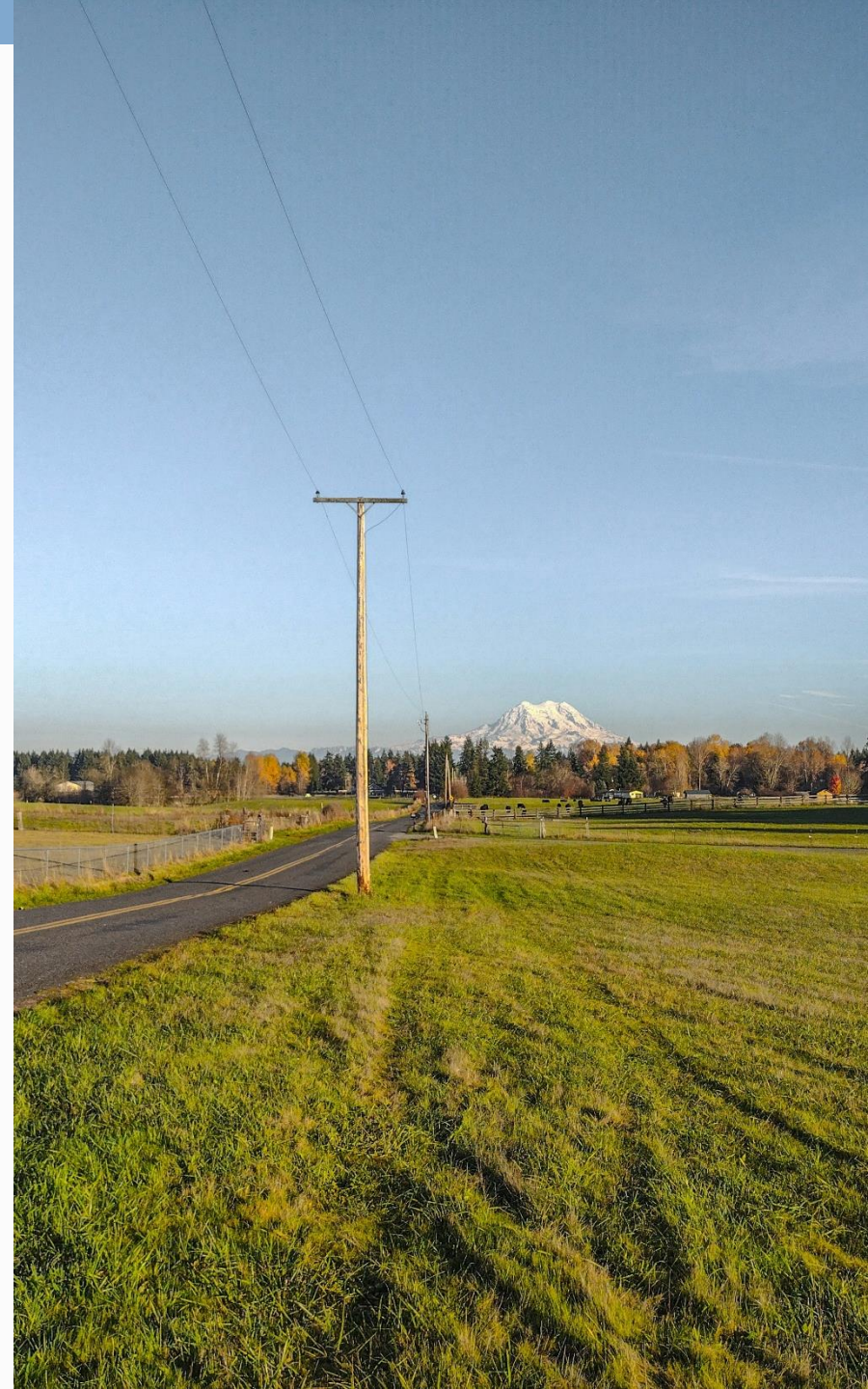
Not covered - 25%

- Facilities emitting less than 25,000 metric tons CO₂e
- Exempt fuels: Agricultural ops, maritime, aviation, etc.



Auctions and compliance

- 7 quarterly auctions, 2 reserve auctions
- First compliance deadline Nov. 1, 2024
 - 30% of allowances due for 2023 emissions
- \$2.6 billion in auction revenue



CCA auction proceeds

CERA

**Carbon
Emissions
Reduction
Account**

CIA

**Climate
Investment
Account**

AQHDIA

**Air Quality &
Health Disparities
Improvement
Account**

All revenue to be appropriated by the Legislature: further information at climate.wa.gov

Air quality & Environmental Justice

- Ecology must expand monitoring and improve air quality in overburdened communities and Tribal lands
- Improving air quality will happen in stages over multiple years
- Ecology is engaging with communities as we expand the WA air monitoring and provide community grants
- More protective air quality requirements



- | | | |
|-------------------------------|------------------------------|--------------------------------|
| 1. Ellensburg | 6. Moxee Valley | 12. Tri-Cities to Wallula |
| 2. Everett | 7. Northeast Puyallup | 13. Vancouver |
| 3. George & West Grant County | 8. North Seattle & Shoreline | 14. Wenatchee & East Wenatchee |
| 4. South King County | 9. South Seattle | 15. East Yakima |
| 5. Mattawa | 10. Spokane & Spokane Valley | 16. Lower Yakima Valley |
| | 11. South & East Tacoma | |

Linkage process & timeline

First half of 2023

Linkage Exploratory Process



Fall 2023

Decision to Pursue Linkage

2024 through 2025

Align Market Policies

Environmental Justice Assessment



2025 or later

Linkage Agreement

California and Québec would need to go through their own processes before linking with WA

Overview Questions?



Cap-and-Invest Program

Emissions-intensive, trade-exposed industries (EITEs)

What are EITEs?

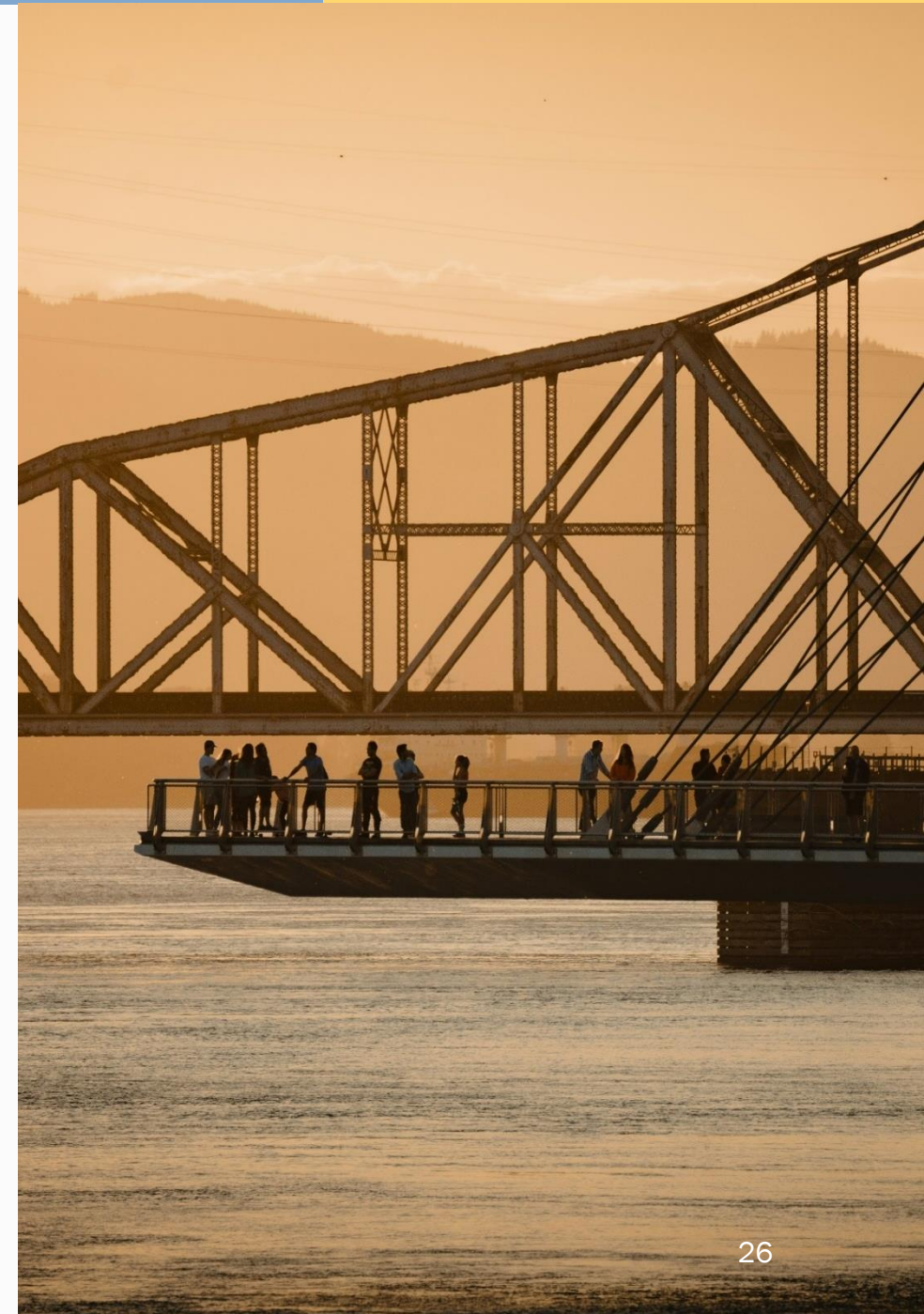
- Industries that face unique challenges in reducing emissions in early years of Cap-and-Invest
- Manufacturing facilities with high energy needs and high GHG emissions that face significant national and global competition for their products
- About 40 facilities in Washington qualify as EITEs, including producers of paper, food, building materials, airplanes, semiconductors, and transportation fuels
- List of active EITEs is published on Ecology's [website](#)



EITE allowance allocation

- EITEs receive no-cost allowances until 2034
 - 9.2 million allowances in 2023* (~15% of 'cap')
- Intended to protect jobs and investments and avoid 'leakage'
- Most carbon trading programs take this approach to EITEs
- Natural gas and electric utilities also receive no-cost allowances
 - 23.5 million allowances in 2023 (~37% of cap)

**Preliminary allocation issued in September 2023*



Calculation of EITE allowances

- Approach set out in the CCA ([RCW 70A.65.110](#)) and program rule ([WAC 173-446-220](#))
- Number of allowances is based on EITE facility's baseline emissions and total production each year:
 - Baseline emissions reflect average emissions per unit of product by each EITE facility during 2015-2019
 - Allowances to EITEs updated each year to reflect actual production ('output-based allocation')
- Total no-cost allowances to EITEs declines over time through 2034 (as shown in table opposite)

Years	No cost allowances to EITEs
2023-2026	100% of baseline emissions
2027-2030	97% of baseline emissions
2031-2034	94% of baseline emissions

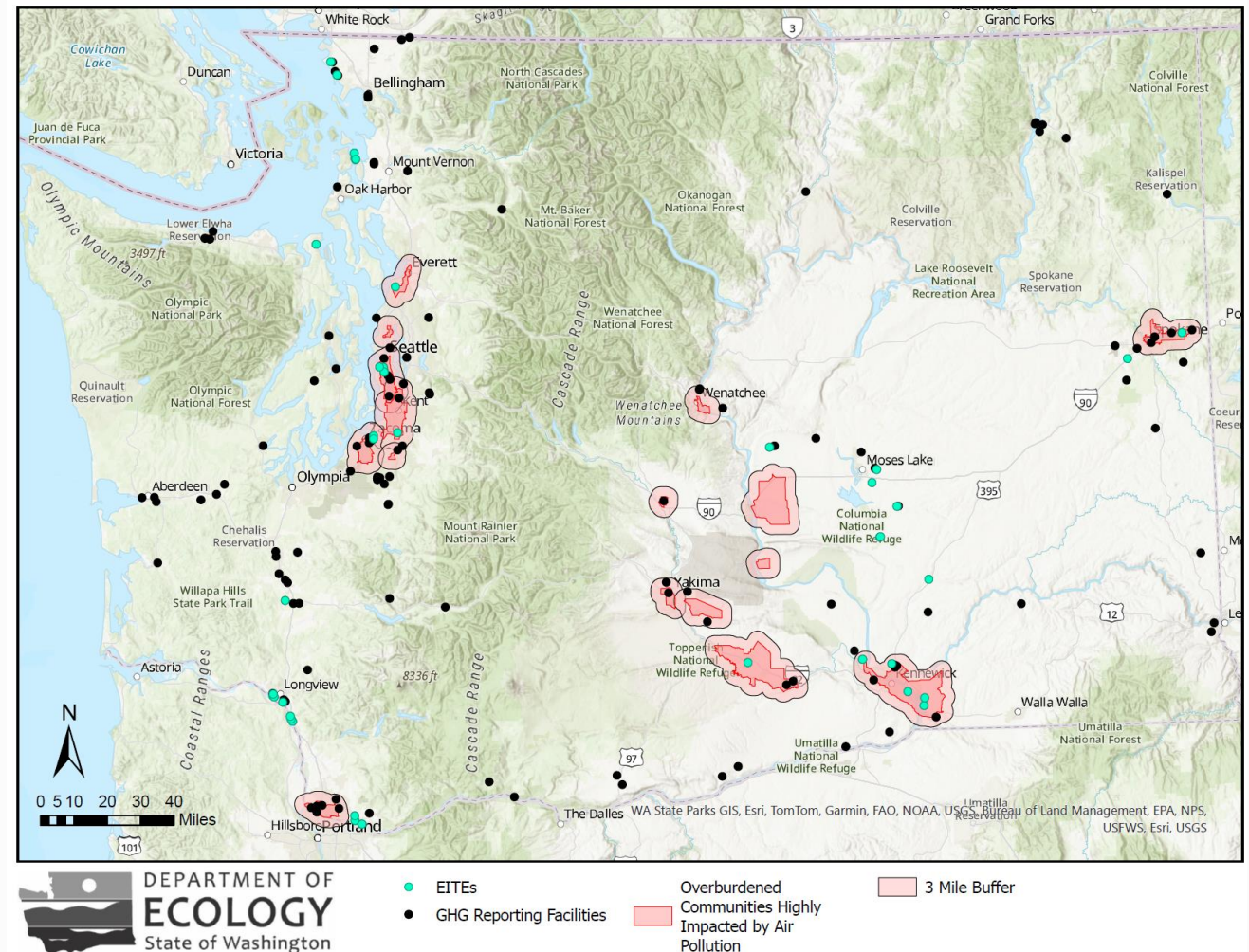
EITEs are subject to the cap

- EITEs are *still* required to reduce GHG emissions and help achieve Washington's net zero goal by 2050, but have a longer lead time
- Short-term incentive to lower emissions through efficiency:
 - EITEs can save any extra allowances for future use or sell them on secondary market
- An EITE with covered emissions exceeding its no-cost allowances must purchase additional allowances to meet its compliance obligation



Environmental justice considerations for EITEs

- EITEs can emit large amounts of “criteria” air pollutants or “co-pollutants” that are known to harm human health
- Some EITEs are located within or nearby Tribal Lands and overburdened communities
- EITE allocation policy may influence pace of emission reductions by EITEs
- Limits auction revenues
- Preliminary Environmental Justice Assessment



CCA Environmental Justice

Requirements related to EITEs

- Ecology must consider air quality in overburdened communities when making decisions on petitions for EITE designation under [WAC-173-446A](#)
- Newly constructed EITE facilities must mitigate impact on particle pollution in overburdened communities: [RCW 70A.65.020\(3\)](#)
- Offsets use can be restricted for EITE facilities that contribute substantively to cumulative air pollution in overburdened communities



Questions?



Report to the Legislature

EITE Allowance Allocation 2035-2050

Report on EITE allocation: 2035-2050

- The Legislature has not specified the approach to EITE allocation for 2035-2050
 - Difficult to anticipate technologies and compliance options
 - Ecology proposed legislation in 2021 to address this gap; the bill ([HB 1682](#)) did not pass
- Ecology must compile a report that offers information and recommendations on how best to proceed (due Dec. 2026)
- Legislature will need to determine the approach to EITE allocation for 2035-2050 by 2027 legislative session
- Ecology aiming to submit report by Nov. 2025

Years	No cost allowances to EITEs
2023-2026	100% of baseline emissions
2027-2030	97% of baseline emissions
2031-2034	94% of baseline emissions
2035-2050	Not specified in CCA (default is 94%)

Ecology's report will focus on:

- ✓ Best practices for avoiding 'leakage' of emissions
- ✓ Alternative methods for measuring the emissions generated by EITEs per unit of production (i.e. baseline emissions for EITEs)
- ✓ How to determine the amount of allowances EITEs receive in 2035-2050
- ✓ Opportunities and barriers for decarbonization of EITEs in Washington
- ✓ Implications for environmental justice outcomes, including local air quality impacts, and statewide emissions limits
- ✓ Potential impacts on Cap-and-Invest revenues

Timeline: report and advisory groups

Phase 1:

Aug–Dec 2024

Collect information, discuss technical issues, and identify factors affecting EITE allocation & decarbonization

EITE Industries AG

EITE Industry & Facility perspective

EITE Policy AG

Program & statewide perspective

Break

Phase 2:

Mar–Aug 2025

Discuss and assess policy and technical considerations

Discuss draft policy recommendations for EITE allocation 2035-2050

EITE Industries AG

EITE Policy AG

Phase 3:

Sep–Nov 2025

Ecology prepares final report for legislature

Report submitted to legislative committees

Other engagement opportunities: Tribes, EJ Council, communities experiencing environmental and health harms

EITE PAG: Work Program Phase 1

Meeting 1 Nov. 13rd Background and context (this meeting)

- Policy Advisory Group purpose and expectations
- Background and context for EITE allocation
- Report to the Legislature on EITE allocation 2035-2050
- EITEs in Washington: emissions profile and related information

Meeting 2: Dec. 12th Policy objectives of CCA and interface with EITE allocation

- Policy objectives of the CCA and interface with EITE allocation in the Cap-and-Invest Program
- How leakage is addressed in the CCA and EITE allocation
- Discuss topics and issues to be considered in Phase 2

EITE IAG: Work Program Phase 1

Meeting 1: Aug. 22 Background and context

- Meeting [recording](#), [presentation](#), and [summary notes](#)

Meeting 2: Oct. 17th Theory and practice of carbon leakage policies

- Meeting [recording](#), [presentation](#), and summary notes

Meeting 3: Nov. 14th Decarbonization challenges and opportunities for EITEs in WA

- [Meeting registration](#)

Meeting 4: Dec. 19th GHG emission baselines and benchmarks for EITE facilities

- [Meeting registration](#)

Report & Program Discussion

- Any feedback on topics being addressed in the report any other matters we might want to consider?
- Feedback on work program for Phase 1?



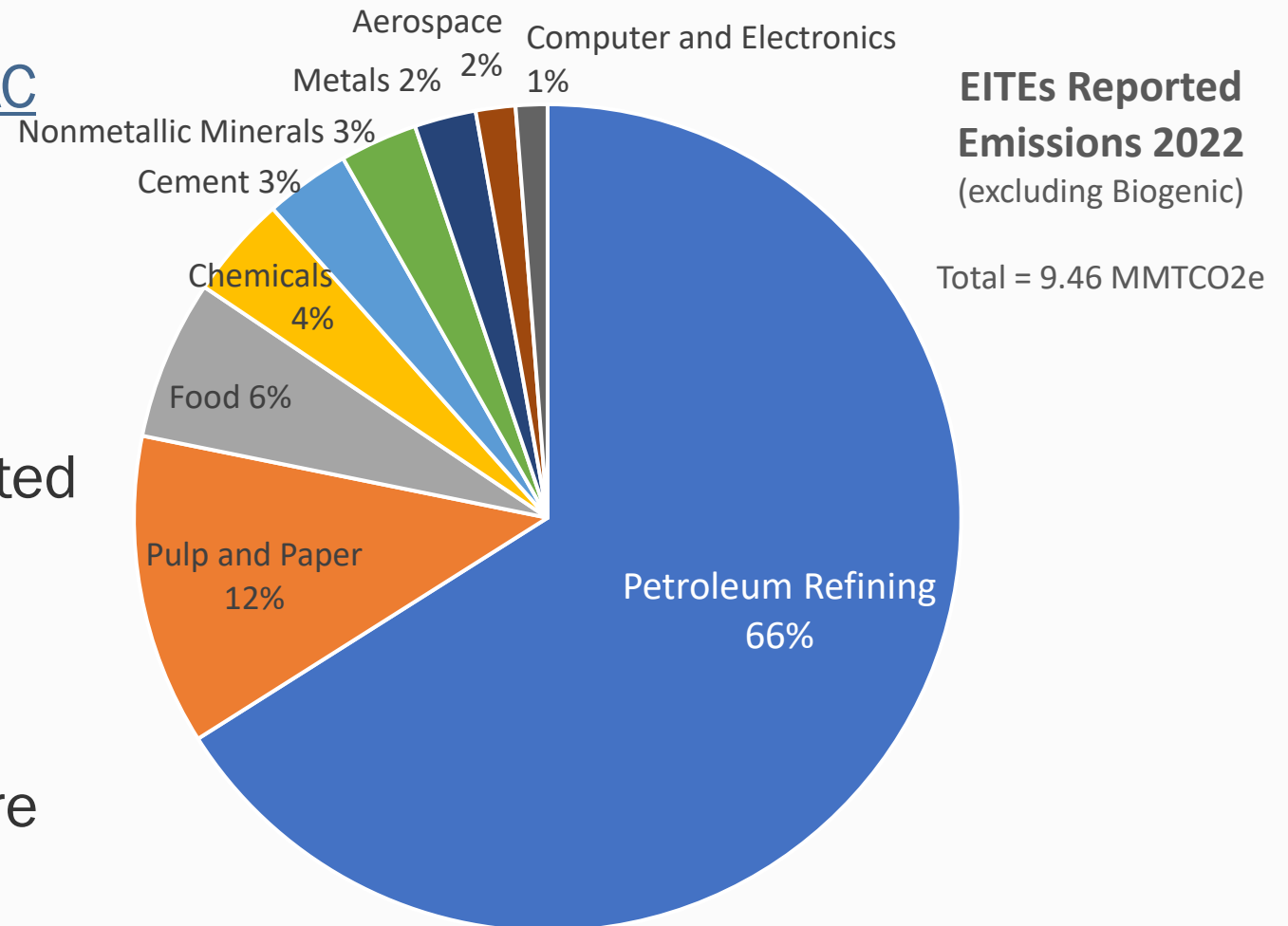


EITE industries in Washington

Reported emissions and related information

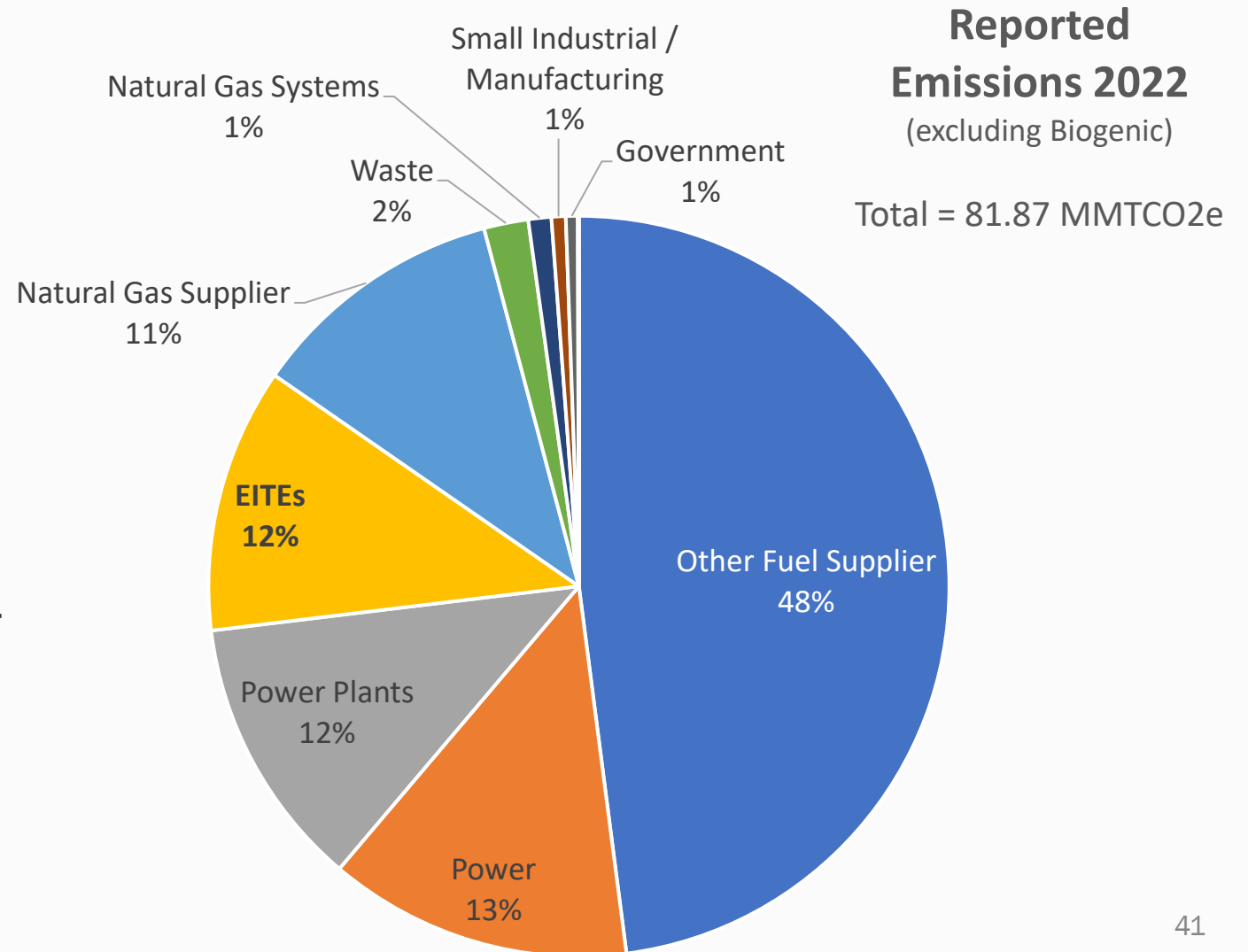
Reported emissions from EITEs

- Covered emissions defined in [WAC 173-446-040](#):
 - exceptions include: biogenic, agricultural, aviation & marine fuels
- EITE emissions generally associated with onsite combustion of fossil fuels or other process emissions
- Total EITE reported emissions (excluding biogenic) for 2022 were 9.4 MMTCO₂e

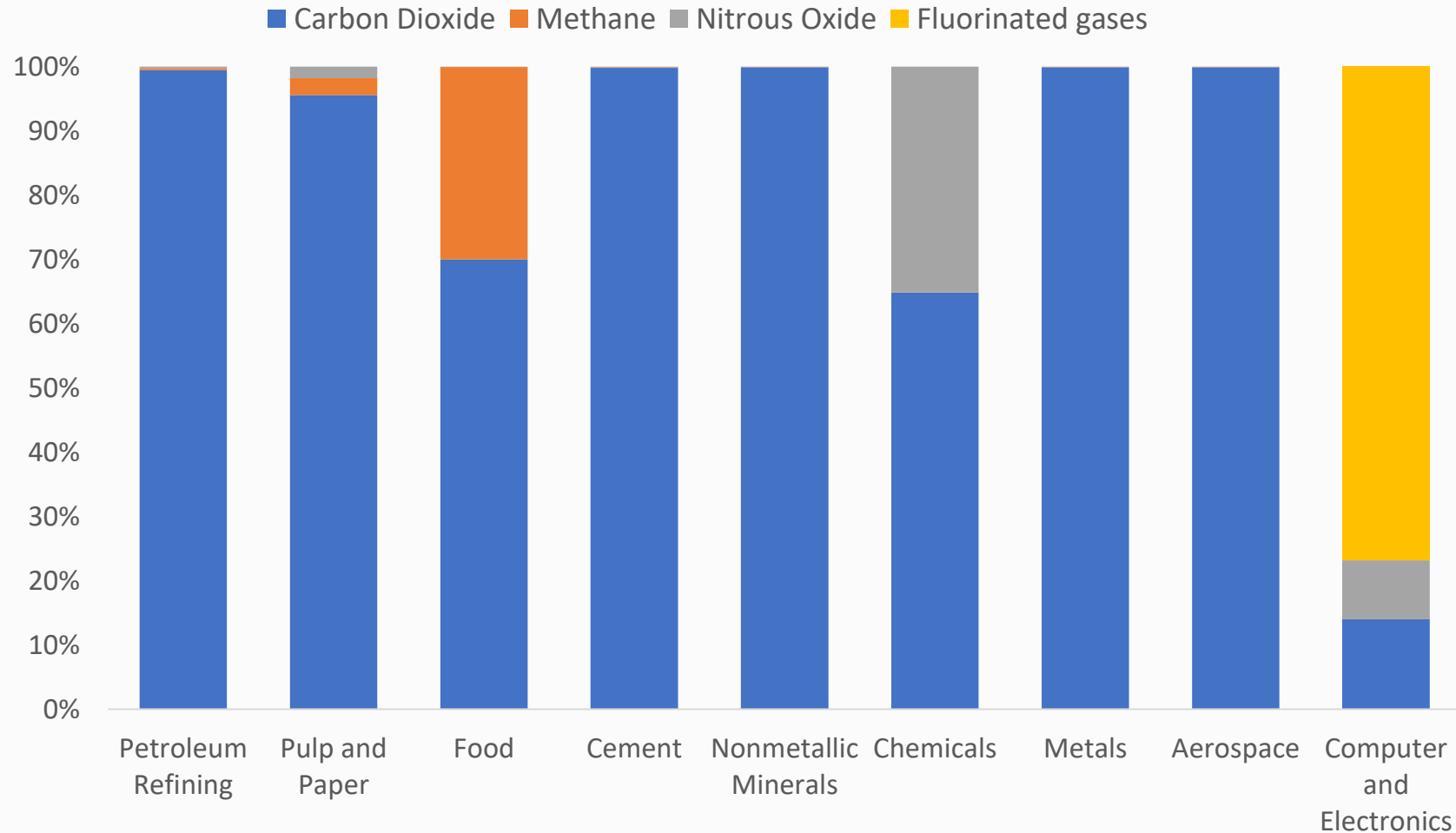


2022 emissions from all reporters

- EITEs represented 12% of total reported emissions in 2022
- Other fuel suppliers were largest proportion at 48%
- When combined, electric power and power plants were 25%

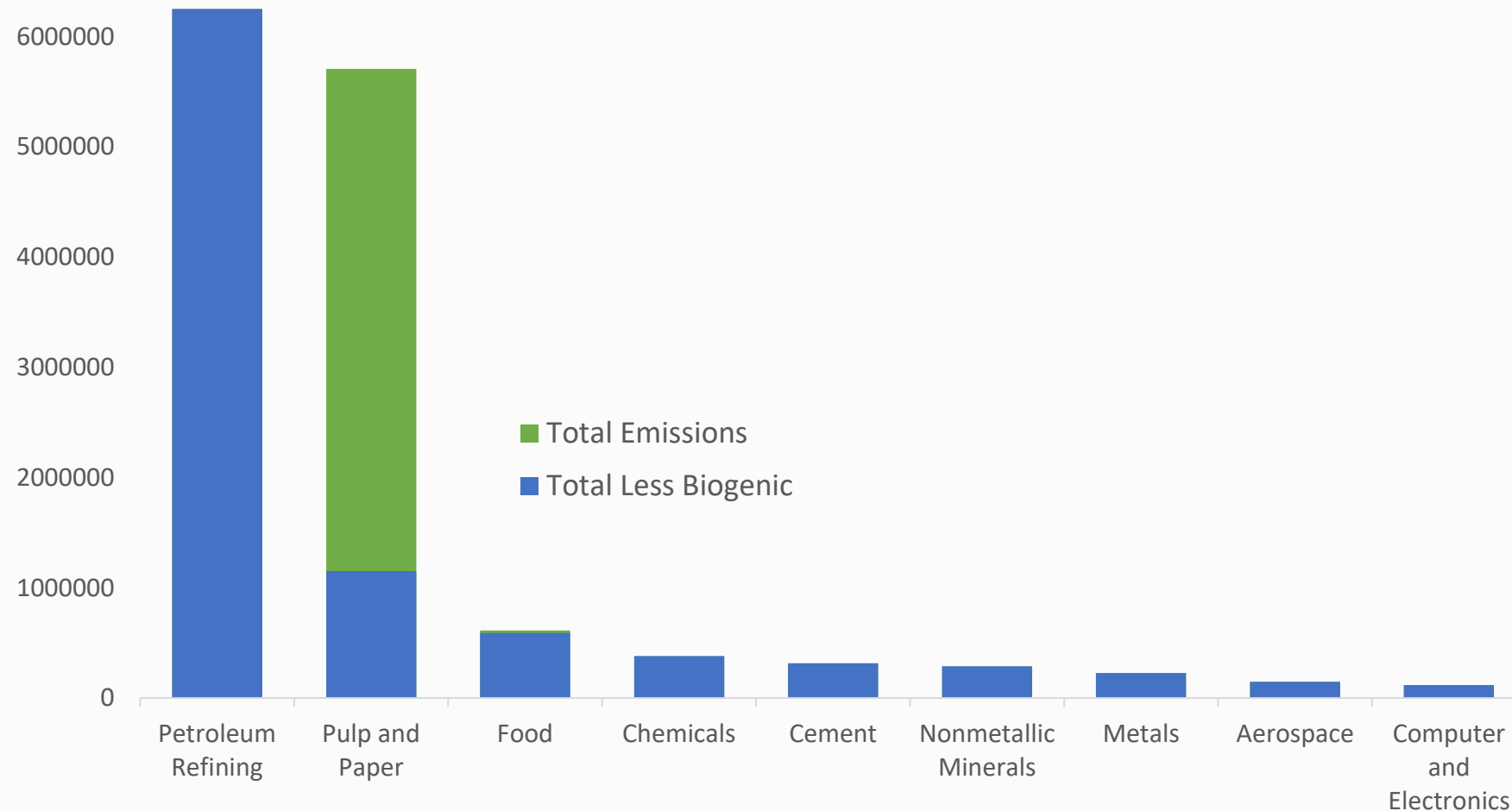


Reported EITE emissions: 2022



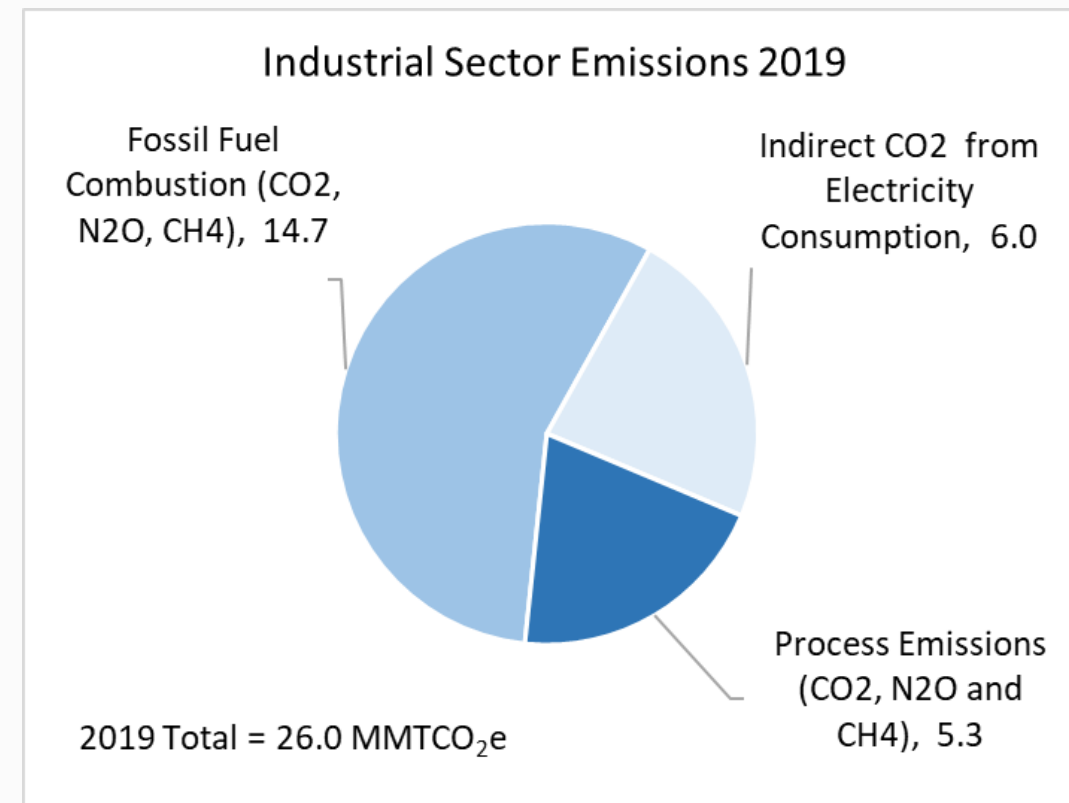
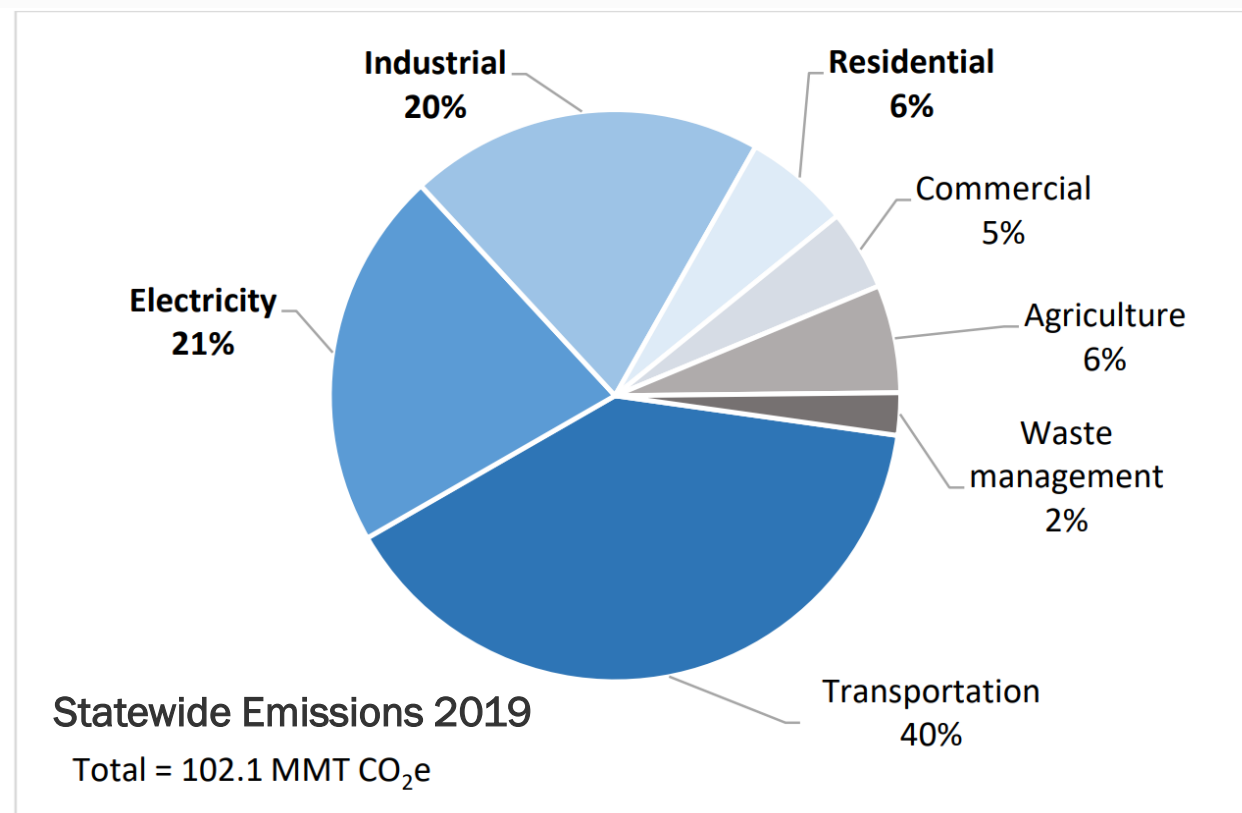
- Carbon dioxide largest proportion of total GHG emissions (ex. biogenic)
- Methane and nitrous oxide = 30-35% of emissions in food and chemicals
- Fluorinated gases = 76% of emissions from computer & electronics

Reported EITE emissions: 2022 continued



- Pulp and paper, and food reported biogenic emissions in 2022
- Biogenic not covered emissions under CCA, but can impact local air quality

GHG Inventory: 2019 industrial sector emissions



Emissions intensity of production

- Reported emissions published by Ecology does not indicate emissions intensity of production by EITEs
- Requires consideration of production data alongside emissions to determine the emissions intensity per unit of production
- Production data generally considered confidential business information (CBI) and not published
- EPA published carbon intensity data for certain industrial sectors in 2021 (including cement, flat glass, container glass)
- California has also developed 90 product-based benchmarks derived from production and emissions data for EITE sectors in CA

Next steps

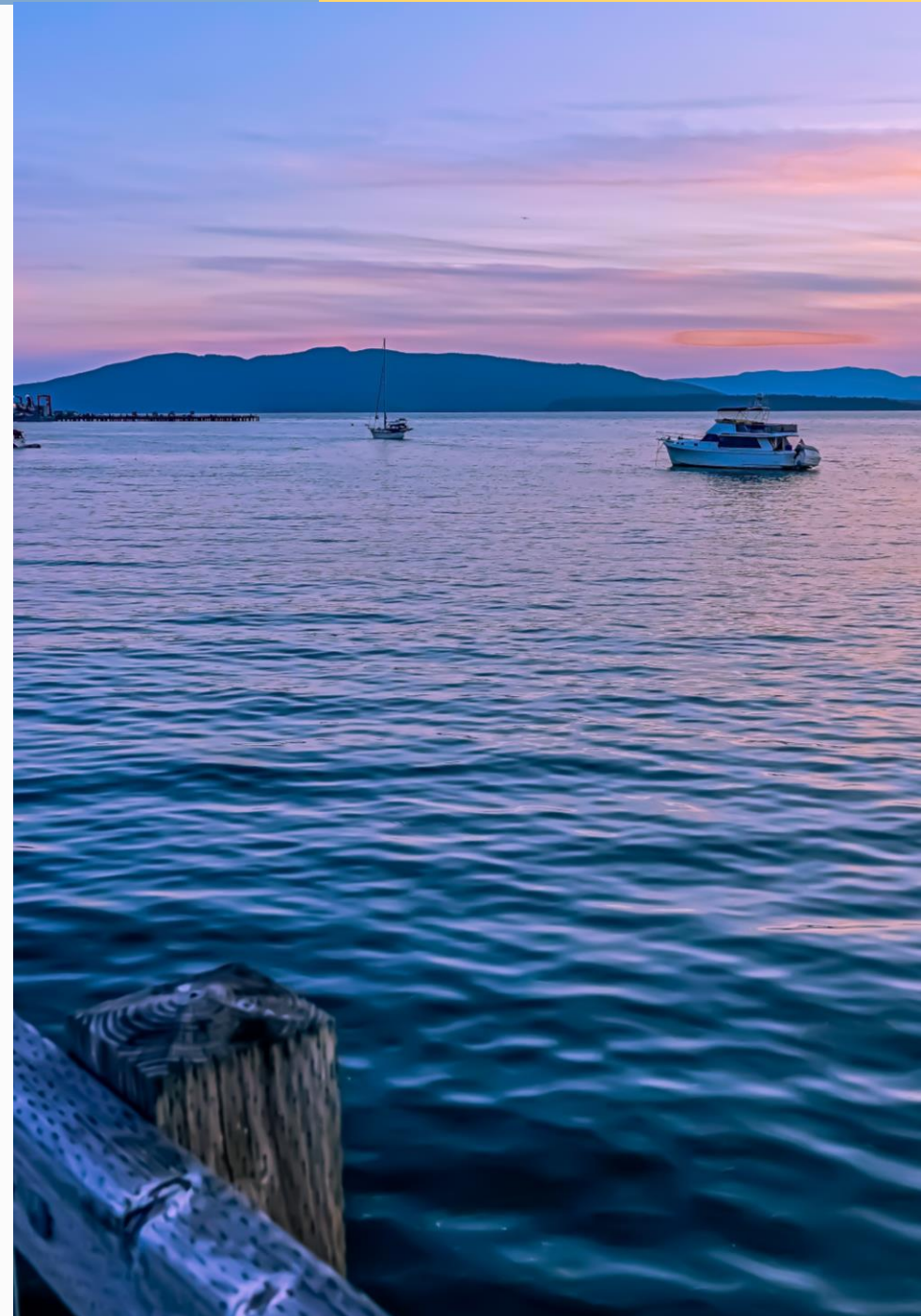
- Summary notes circulated for feedback
- Meeting #2: Dec. 12 from 9 a.m.- noon P.T.
- Topic: Policy objectives of CCA and interface with EITE allocation
- EITE Industries Advisory group meetings on Nov. 14.



Public comment opportunity

Guidelines for providing public comment

- Up to two minutes per person
- Host will unmute you and begin timer
- Please keep the comments related to EITEs and the report to the Legislature
- Ecology will not respond to comments in this meeting
- To submit written comments, use our [digital comment platform](#)
- Please use “raise hand” button to indicate that you wish to provide a comment



Thank you!

If you have additional questions or comments, please send them to:

Adrian Young

Cap-and-Invest Industrial Policy Lead

CCAETEIndustries@ecy.wa.gov