Washington Research Council

Policy Brief

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I-2117: Repealing the Climate Commitment Act

Briefly

Initiative 2117 would repeal the Climate Commitment Act (CCA). The CCA was enacted in 2021 with the goal of reducing carbon dioxide emissions in the state to 5% of 1990 levels by 2050.

The average price of carbon emission allowances at 2023 auctions was $54.74, more than twice the $22.78 anticipated in the 2021 fiscal note for the CCA. However, the average price in 2024 so far is $28.52, suggesting that the prospect of I-2117 has dampened the market for allowances.

Allowance costs may be passed on from fuel suppliers to customers. Based on the Energy Information Agency's estimates of the carbon content of fuels, an allowance price of $30 would increase the cost of a gallon of gasoline by roughly 24 cents and a gallon of diesel by roughly 31 cents. The actual impacts at any given time would depend on market forces.

Since the first auction was held, proceeds to the state have totaled $2,306.2 million. Revenues may generally be used to reduce carbon emissions, to mitigate the impacts of carbon emissions on communities, to deploy renewable energy, to increase building energy efficiency, and to increase climate resilience.

Importantly, the auction revenues make up a large share of the 16-year transportation revenue package adopted in 2022. If I-2117 is approved, the Legislature could end up reconsidering its carbon reduction strategy and the Move Ahead Washington transportation package.

In 2021 the Legislature passed and the governor signed Senate Bill 5126, the Climate Commitment Act (CCA). The CCA created a cap and trade program that is intended to reduce carbon dioxide emissions in the state to 5% of the 1990 level by 2050. Initiative 2117 would prohibit state agencies from implementing any type of cap-and-trade program, and it would specifically repeal the CCA.

Under the CCA, Cap-and-Trade is the Mechanism for Reducing Emissions

Under the CCA program, which is called "Cap-and-Invest" by the state, every covered business (see the box on the following page) is required to obtain a state-issued "allowance" for each metric ton of carbon dioxide it emits. The total number of allowances that the state will issue is fixed. (This is the "cap" in cap and trade.) While some allowances will be distributed free of charge (see the appendix), the majority will be sold through auctions. Once issued, allowances may be bought and sold in secondary markets. (This is the "trade" in cap and trade.) The price emitters pay to obtain allowances provides a financial incentive to reduce emissions.

The Department of Ecology will hold "regular" auctions of allowances four times each year. The first of these auctions was held on February 28, 2023. All allowances sold at regular auctions in a specific year are said to have that year as their "vintage." At regular auctions, each bid specifies a price and the num-

> **Ecology Describes Who is Covered by Cap and Invest:**
>
> "Roughly 75% of statewide emissions will be covered under this program. Generally, businesses are covered under the program if they generate covered emissions that exceed 25,000 metric tons of CO_2 equivalent per year.
>
> Covered business types include (but are not limited to) fuel suppliers, natural gas and electric utilities, waste-to-energy facilities (starting in 2027), and railroads (starting in 2031)." (Ecology, n.d.)

ber of allowances the bidder is willing to buy at that price. Participants are allowed to make multiple bids. The "settlement" price for an auction is the lowest price for which the total number of allowances bid at that price or at higher prices equals or exceeds the total number of allowances that Ecology has offered to sell. All successful bidders pay the settlement price. Bids with prices higher than the settlement price receive the full number of allowances requested. The remaining available allowances are prorated across bids with price equal to the settlement price.

The program is based upon four-year compliance periods, the first of which extends from 2023 to 2026. For emissions in a specific year, businesses must surrender 30 percent of the required allowances by November 1 of the next year and the remaining 70 percent by November 1 of the year following the compliance period. For example, a business that emitted 10 tons in 2023 is required to surrender three allowances (which must be of vintage 2023) to Ecology on November 1, 2024 and to surrender seven allowances (which must be of vintage 2026 or earlier) on November 1, 2027; a business that emitted 10 tons in 2024 is required to surrender three allowances (which must be of vintage 2023 or vintage 2024) on November 1, 2025 and seven allowances (which must be of vintage 2026 or earlier) on November 1, 2027.

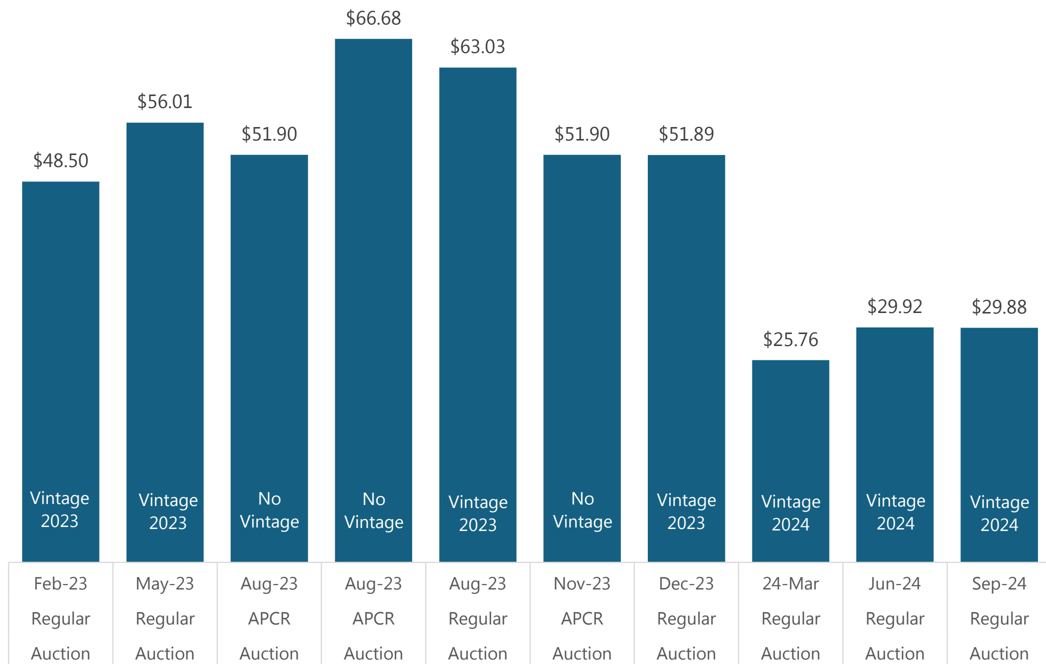
Five percent of total allowances (18.7 million) have been set aside in the Allowance Price Containment Reserve (APCR) during the years 2023—2026. In order to restrain prices, Ecology holds special auctions of allowances from the APCR when quarterly auction prices reach predetermined thresholds. (For 2023 the threshold was $51.90; for 2024 it is $56.16.) Ecology held two of these price containment auctions in 2023. At the first, which was held in August, 527,000 allowances were sold for $51.90 and 527,000 were sold for $66.68; at the second, which was held in November, 5,000,000 were sold for $51.90. Ecology also holds an APCR auction one month before each surrender date. Allowances bought at these surrender date auctions may only be used for the buyer's immediate surrender obligation. The first surrender-date auction was held on October 2. At this auction 2,982,000 allowances were offered for $56.16. APCR allowances do not have a vintage and are functionally equivalent to Vintage 2023 allowances. In an APCR auction a participant can only bid prespecified prices.

Allowance Prices. The 2021 fiscal note for the CCA assumed that the Washington program would be linked to California's similar Cap-and-Trade program and that the average auction price of allowances would be $22.78 in 2023 and $24.66 in 2024. To date, no linkage has been established and prices have been higher than the fiscal note anticipated. In March, however, California and Quebec did formally express interest in the potential linkage of their shared carbon market with Washington's.

Chart 1 on page 3 shows auction prices for vintage 2023 and vintage 2024 allowances and for the APCR auctions held in 2023. The average price across the six 2023 auctions was $54.74, more than twice the $22.78 anticipated in the fiscal note.

The average price of allowances across the three regular auctions held thus far in 2024 is $28.52,

Chart 1: Vintage 2023, Vintage 2024, and APCR Auction Prices



somewhat above the fiscal note's estimate, but well below the 2023 result. The most likely explanation for the lower 2024 prices is I-2117. There is no provision in either the CCA or the initiative for owners of allowances to be compensated if the cap-and-invest program is terminated. The amount bidders were willing to pay for allowances may have been reduced by the possibility that voters will approve I-2117 on November 5. The initiative may have analogously reduced the number of allowances sold at the October APCR auction.

Compliance Costs for Various Fuels. While the ultimate cost to consumers will be affected by the competitive dynamics of the wholesale and retail fuels markets, the conventional wisdom is that the costs of allowances will be passed on to fuel suppliers' customers (Taylor 2017). Table 1 shows supplier compliance costs for various fuels at various allowance price values, calculated using carbon dioxide emissions coefficients from the Energy Information Administration (EIA 2024). For example, an allowance price of $30 would increase the cost of a gallon of gasoline by 24.3 cents and a gallon of diesel by 30.6 cents.

Table 1: Compliance Costs

	Allowance Price per Kilogram CO2			
	$10	$30	$50	$70
Gasoline* (Per Gallon)	$0.081	$0.243	$0.405	$0.567
Diesel and Home Heating Fuel (Per Gallon)	$0.102	$0.306	$0.509	$0.713
Jet Fuel (Per Gallon)	$0.098	$0.293	$0.488	$0.683
Natural Gas (Per 1,000 Cubic Feet)	$0.549	$1.646	$2.743	$3.841

*Gasoline contains 10% ethanol

Use of Auction Proceeds. Revenues from the auctions are deposited in seven dedicated CCA accounts. These revenues may generally be used to reduce carbon emissions in transportation and other sectors, to mitigate the impacts of carbon emissions on communities, to deploy renewable energy, to increase building energy efficiency, and to increase climate resilience. The 2022 Move Ahead Washington transportation revenue package relies in part on $5.4 billion of CCA auction proceeds over 16 years (WRC 2023). The state spent $54.3 million from the CCA accounts in 2023, and it has appropriated $3.250 billion from the CCA accounts for 2023–25 (WRC 2024).

Fiscal Impact of I-2117

Through September, the CCA auctions have raised $2.306 billion. The Office of Financial Management (OFM) estimates (based on Ecology's June 2024 auction revenue forecast) that if I-2117 is approved, the state would not collect future revenues of $754.1 million in 2023–25, $1.634 billion in 2025–27, and $1.442 billion in 2027–29. These CCA auction proceeds are deposited in the dedicated CCA accounts.

Additionally, the state collects business and occupation (B&O) tax revenues on the sale of allowances in the secondary market. OFM estimates that I-2117 would reduce revenues to funds subject to the outlook (NGFO) by $4.0 million in 2023–25, by $16.9 million in 2025–27, and by $18.6 million in 2027–29.

If I-2117 is approved, OFM estimates that, on net, $784.5 million of spending authority from the auction proceeds would be eliminated. In 2024, the Legislature made $704.5 million of its CCA appropriations for 2023–25 contingent on the rejection of I-2117. The Legislature specified that another $235.6 million in appropriations would lapse if they could not be spent before the effective date of the initiative. This implies that the state will not be able to spend $80 million of the $235.6 million before the initiative is effective (if it is approved). We detailed how the state structured its current CCA appropriations and how the money is spent in our recent special report: "Where Does All the Money Go: Spending Carbon Emission Allowance Auction Proceeds in the Shadow of I-2117."

Comment

To reduce carbon emissions, the cap-and-trade system put in place by the CCA effectively increases the price of emitting carbon. Ultimately, that will increase the costs paid by consumers.

So far, the allowance auctions have raised $2.306 billion, which is being used by the state for various emission reduction activities. Importantly, the auction revenues make up a large share of the 16-year transportation revenue package adopted in 2022.

If I-2117 is approved, the Legislature could end up reconsidering its carbon reduction strategy and the Move Ahead Washington transportation package.

Table 2: Future Fiscal Impact of I-2117

	FY 2025*	FY 2026	FY 2027	FY 2028	FY 2029
Auction Revenue	$754,056,000	$841,882,000	$791,906,000	$771,543,000	$670,954,000
B&O Revenue	$4,000,000	$8,300,000	$8,600,000	$9,100,000	$9,500,000
Total Revenue	$758,056,000	$850,182,000	$800,506,000	$780,643,000	$680,454,000
Number of Allowances Sold	18,093,647	18,753,861	16,398,659	14,913,834	12,133,402
Average Price	$41.68	$44.89	$48.29	$51.73	$55.30

*Excludes completed 9/4/24 Regular Auction

Appendix: Free Allowances

Manufacturers: To cushion the impact of the cap-and-trade system on the state economy, the CCA provides free allowances to certain emissions-intensive, trade-exposed (EITE) manufacturing businesses, based on historical emissions rates, adjusted to current production levels. For the first 4-year compliance period (2023–26), free allowances will be equal to 100% of historical emissions; for the second 4-year compliance period (2027–30), 97% of historical emissions; for the third 4-year compliance period (2031–2034), 94% of historical emissions.

Electric Utilities: To cushion the impact of the cap-and-invest program on ratepayers, both investor-owned and consumer-owned electric utilities receive annual allocations of cost-free allowances under rules established by Ecology sufficient to cover their expected compliance obligations based on utility-specific supply and demand forecasts.

Natural Gas Utilities: Similarly, natural gas utilities receive cost-free allowances. The number of allowances they receive declines annually in proportion to CCA's targeted decline in overall emissions. In 2023, 65% of these no-cost allowances must be consigned to auction. The percentage of allowances consigned to auction increases by 5% each year. The amounts received from selling allowances must be used to benefit customers. This could be via credits on customer bills, with low-income customers prioritized and with the amount credited unrelated to the volume of gas used. It also could be through weatherization, decarbonization, conservation and efficiency services, or bill assistance.

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