Making Clean Electrification Affordable
How the Legislature Can Leverage Cap & Trade Revenues

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The politics of cap-and-trade reauthorization and energy pricing have aligned this year to present a triple-win opportunity. Using cap-and-trade funds for big electric rate reductions can make energy more affordable, accelerate clean electrification, and shore up political support for climate mitigation. California legislators should seize this opportunity.

High electric rates burden customers and discourage clean electrification

Faced with the third-highest electric rates in the country,[1] many California families have difficulty paying their bills, even with generous subsidies for low-income households. The affordability crisis has also made the public more receptive to dangerously misleading (though not entirely false) claims by the fossil-fuel lobby blaming high energy costs on California's climate policies.

Environmental and consumer groups such as NRDC and TURN highlight another problem: California's high electric rates discourage the clean electrification of home heating and vehicles, thus undercutting the state's climate goals. *Studies by University of California economists show that our state's high rates may slow the adoption of heat pumps and electric vehicles by as much as a third*.[2]

One major contributor to California's high electric rates is the embedded cost of state programs and policies that do not specifically contribute to the generation or delivery of electric power. These include wildfire prevention programs,[3] residential solar subsidies, and low-income support. All are important, but many policy experts, including the California Public

[1] U.S. Energy Information Administration, *Table 5.6.A. Average Price of Electricity to Ultimate Customers by End-Use Sector.* March 2025.

[2] The Energy Institute at University of California Berkeley, *Paying for Electricity in California: How Residential Rate Design Impacts Equity and Electrification*. September 2022. This estimate relates to rates as of 2019 and may now be low given the sharp increase in rates since then.

[3] For example, in the 2023-2026 PG&E General Rate Case, the CPUC authorized $9.4 billion for wildfire system hardening and vegetation management. This is a primary cause of the most recent and dramatic spike in the distribution component of PG&E rates.

Utilities Commission (CPUC) Public Advocate's Office and NRDC,[4] maintain these programs should be funded by progressive state taxes rather than regressive volumetric electric rates.[5]

Leveraging cap-and-trade revenue can lower rates and encourage electrification

There is another potential funding source to reduce electric rates: emissions allowances auctioned or granted by the state's cap-and-trade program, which are worth more than $8 billion a year and projected to rise. This idea isn't new; the Legislative Analyst's Office,[6] Joint Legislative Committee on Climate Change Policies,[7] Independent Emissions Market Advisory Committee[8], and CPUC[9] have previously endorsed tapping this resource to lower rates.

An allocation of just $2.5 billion annually from the cap-and-trade program to pay for costs now embedded in rates like wildfire prevention would *quickly* reduce residential rates more than 10%.[10] Such a cut would encourage major new consumer investments in home and vehicle electrification,[11] while easing the burden on all electric ratepayers, especially low-income and working families. Some additional revenue could also be returned to households in the form of annual climate credits to offset rising gasoline costs.

The result would be a triple win: lower bills for working families, reduced political threat to environmental programs, and faster progress on climate-friendly electrification. In contrast, as the Legislative Analyst's Office has documented, many programs that currently receive cap-and-trade funds do little or nothing to achieve any of those goals. Polling shows that 75% of California voters support using cap-and-trade revenue for wildfire prevention, which could lower electric rates while protecting homes and lives. No other option ranks as high.[12]

**Climate Future California is a nonprofit, nonpartisan group of volunteer climate activists who are dedicated to helping the State of California craft equitable, sustainable, and cost-effective strategies for climate mitigation and adaptation*.

[4] NRDC, Mohit Chhabra, *Powering Change: Understanding California's Electric Rate Challenge and Affordability Solutions.* March 2025.
[5] Volumetric electric rates refer to the charge per kilowatt-hour (kWh) customers pay for the energy they consume. The rates are regressive because low-income households spend a greater proportion of their income on energy bills compared to higher-income groups.
[6] Legislative Analyst's Office, *Cap-and-Trade: Overview and Affordability Considerations.* February 2025.
[7] Joint Legislative Committee on Climate Change Policies, *California's Cap-and-Trade Program and Affordability: Emerging Challenges and Potential Solutions*. February 2025.
[8] Meredith Fowlie and Dallas Burtraw, *Assessing the Affordability Implications of California's GHG Cap and Trade Program.* January 2025.
[9] *CPUC Response to Executive Order N-5-24.* February 2025.
[10] *CPUC Response to Executive Order N-5-24.* February 2025; UCSB emLab calculator, "Using Cap-and-Trade Revenue to Lower Electricity Prices," https://emlab-ucsb.shinyapps.io/cap-and-trade-tool/.
[11] Jesse Buchsbaum, "Long-Run Price Elasticities and Mechanisms: Empirical Evidence from Residential Electricity Consumers," October 2022, UC Haas School Working Paper 331.
[12] Slingshot Strategies, "California Climate Policy Poll," February 13, 2025.