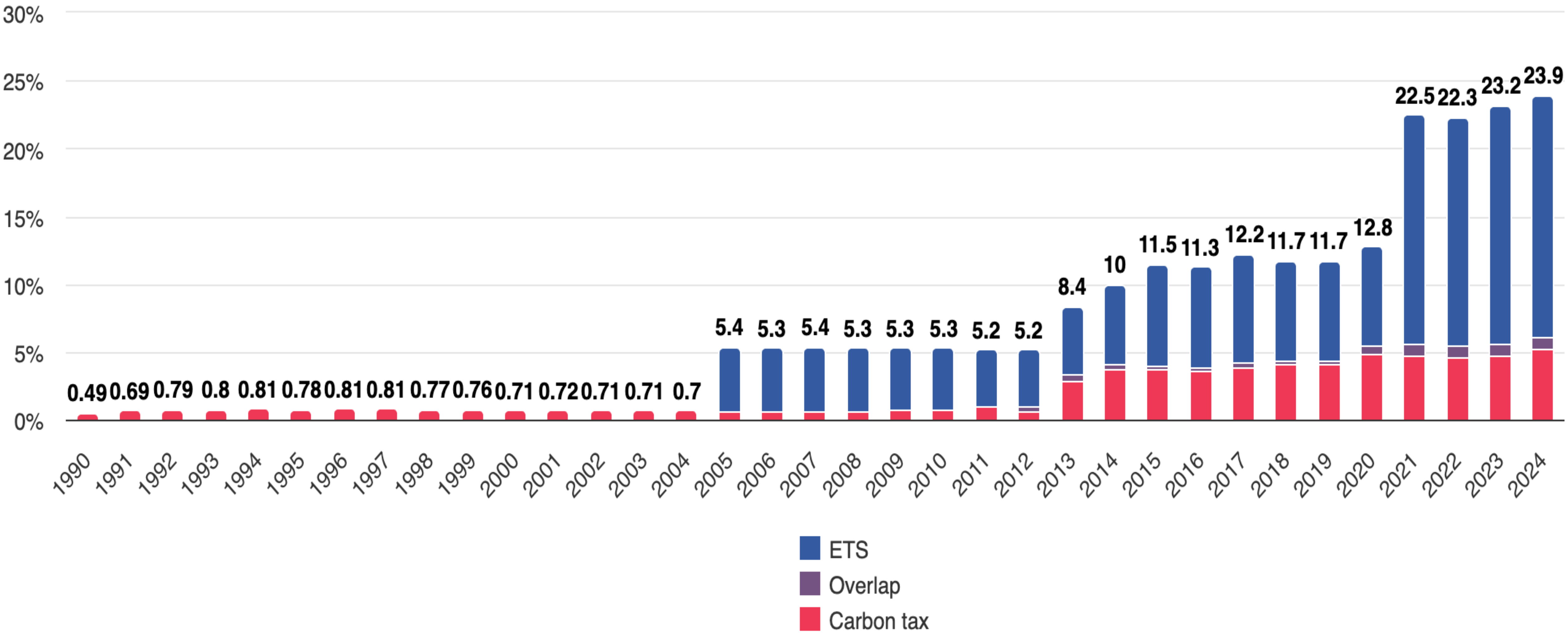
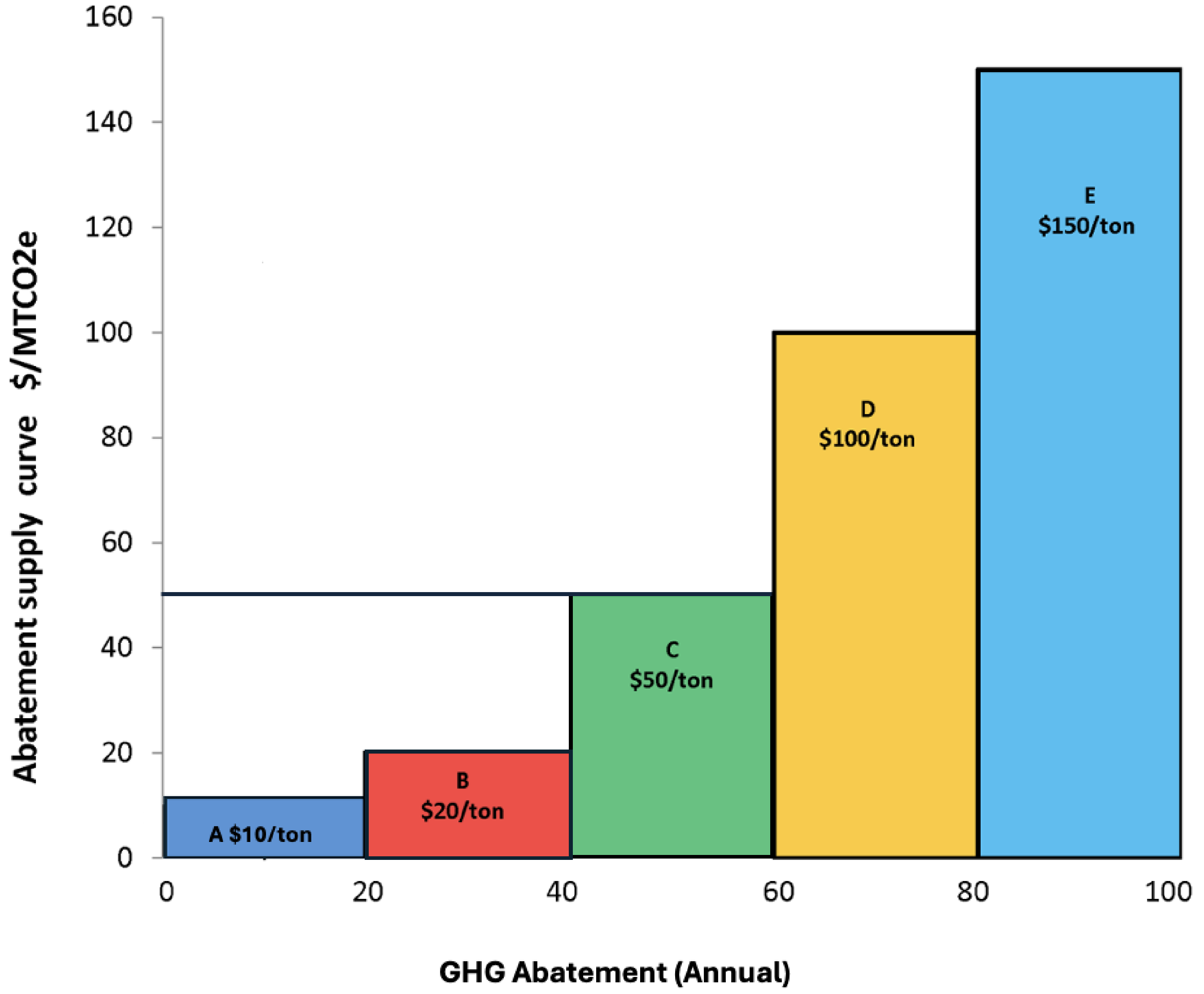
Framing observations

1. California is grappling with the costs of adapting to a changing climate.
2. California GHG emissions comprise a very small share of global emissions.
3. In response to changes at the federal level, state-level policies can provide critical help sustain momentum behind the most promising climate solutions.
4. State-level climate action must be balanced against mounting affordability concerns. Carbon pricing offers a powerful tool to identify and deploy least-cost climate solutions.
5. Program re-authorization conversation provides an important opportunity to redesign program elements with affordability top of mind.

California has been a leader in the climate policy arena



Carbon pricing coordinates least cost abatement strategies



Carbon pricing in an affordability context

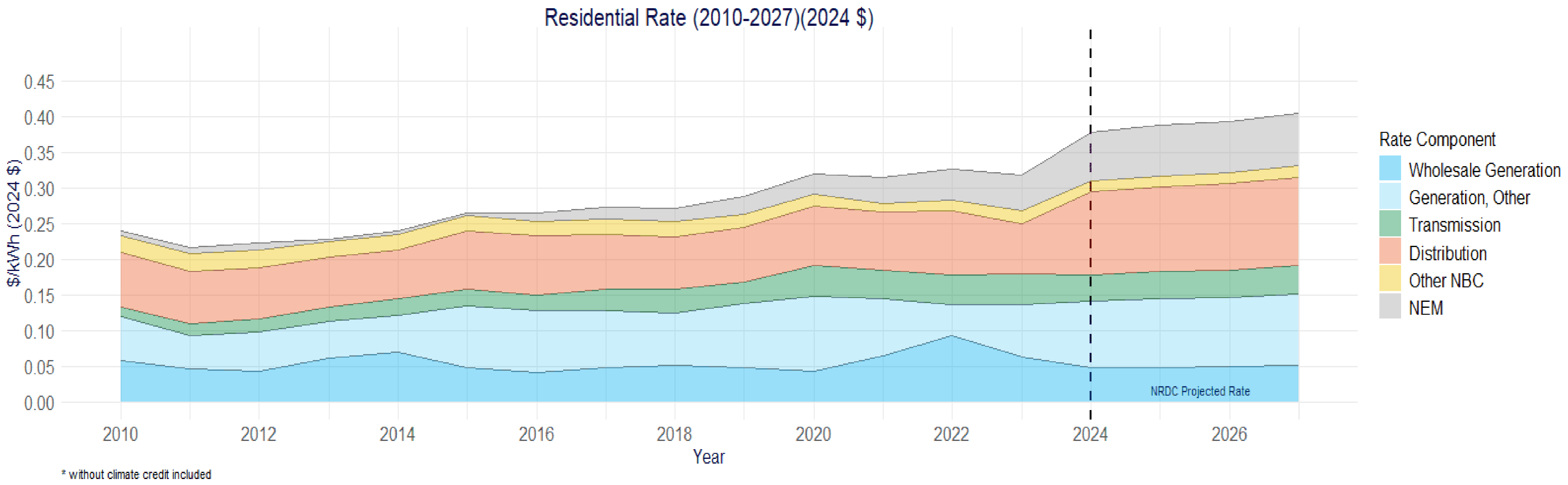
- Reauthorization of the GHG cap-and-trade program would affirm California’s commitment to reducing statewide GHG reductions and provide incentives to invest in relatively low cost GHG abatement.

- Over time, a reduced reliance on fossil fuels will benefit household finances and public health.

- However, California’s GHG cap-and-trade program puts upward pressure on fossil fuel prices, raising concerns around the “affordability” of climate action.

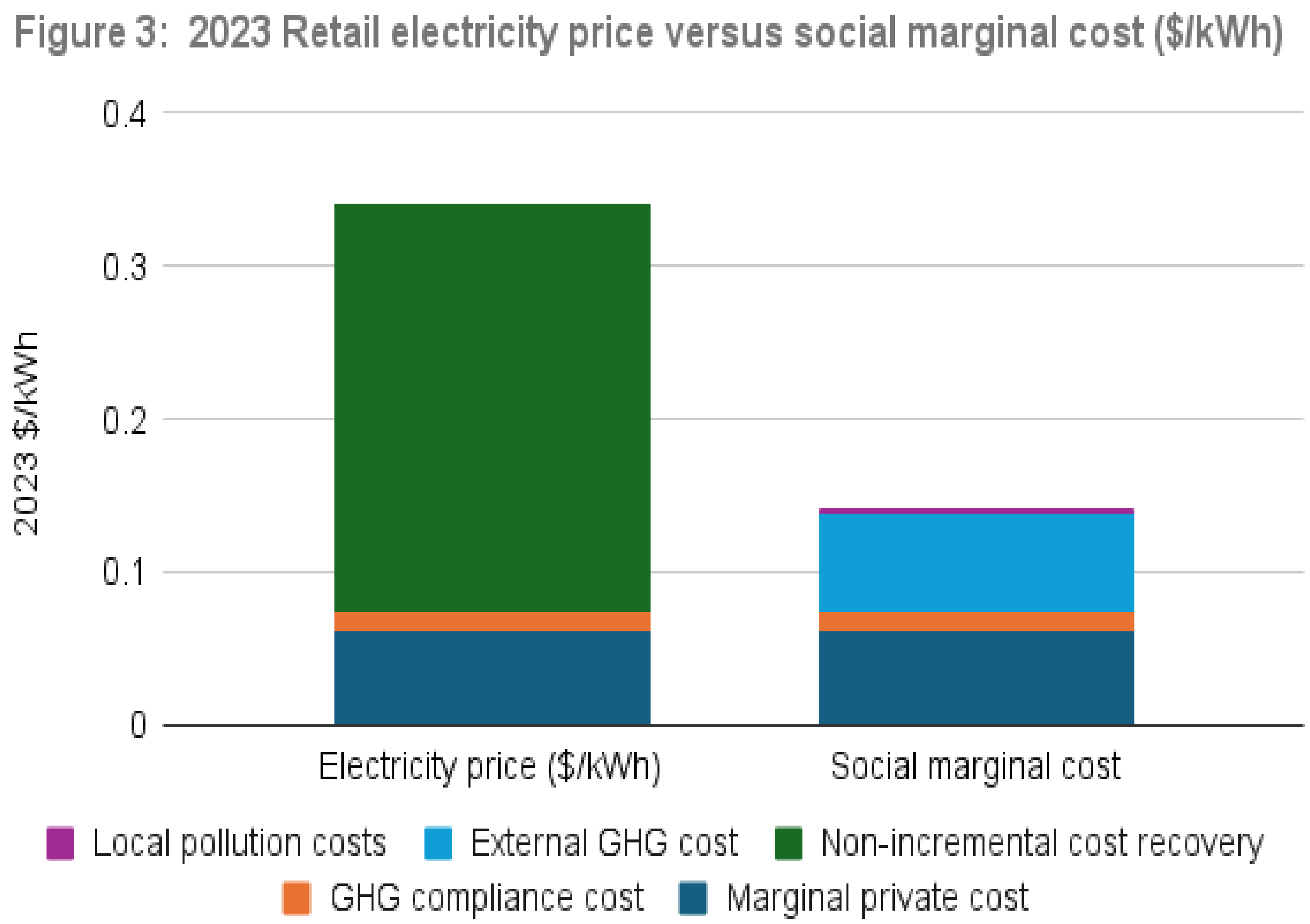
- **It is important to clarify what is driving retail energy price increases and affordability concerns – and what role cap-and-trade can play in addressing these concerns.**

Factors driving retail electricity price increases



Source: NRDC

Carbon pricing has played a small role in driving retail electricity price increases



- We estimate that carbon prices increased retail electricity prices by less than 5% in 2023 (using PG&E data).
- Climate change adaptation costs, such as wildfire risk mitigation, are causing more significant increases.
- Importantly, the utility bill impacts of carbon pricing have been largely offset by the climate credit.

Cost containment is the goal of carbon pricing (but we can do better on "affordability")

- In contrast to other factors that can drive retail energy price increases, **GHG allowance prices generate revenues for the state of California.**

- Revenue generation is not the central purpose of carbon pricing. However, carbon market revenues can be used to offset the burden of energy price increases, while at the same time accelerating the transition towards more sustainable energy alternatives.

- **Restructuring the climate credit** to reduce volumetric electricity rates would make electrification a more affordable choice for investments by households and businesses.
- **Auction revenues could also be used to help households transition away from gasoline consumption**.