

Presentation to California Climate Policy Summit 2025

California's Cap-and-Trade Reauthorization and Affordability: Emerging Challenges and Potential Solutions

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Cap and Trade Reauthorization

- Affordability is the key challenge
- How do we decarbonize (and therefore how should we spend money)?
- Climate credit redesign
- Increased allocation of allowances to utilities
- Subsidies to buy down cost of needed electric system investments

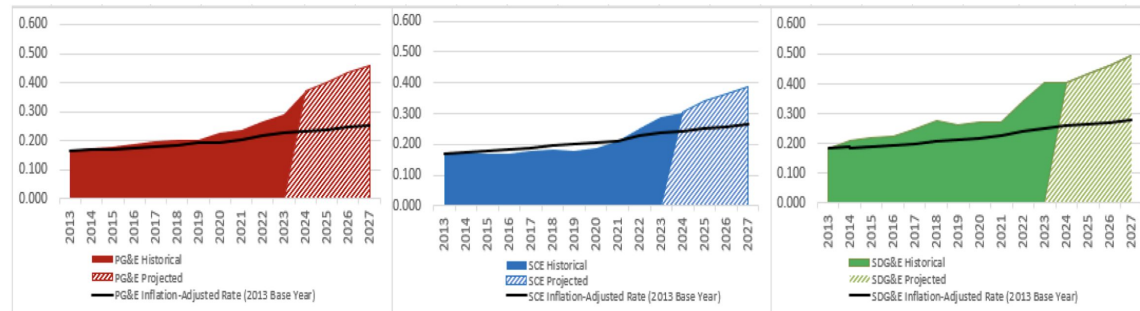


Cap and Trade Reauthorization

- Affordability is the key challenge

2024 SENATE BILL 695 REPORT

PG&E, SCE, and SDG&E Electric Bundled Residential Average Rates (\$/kWh)

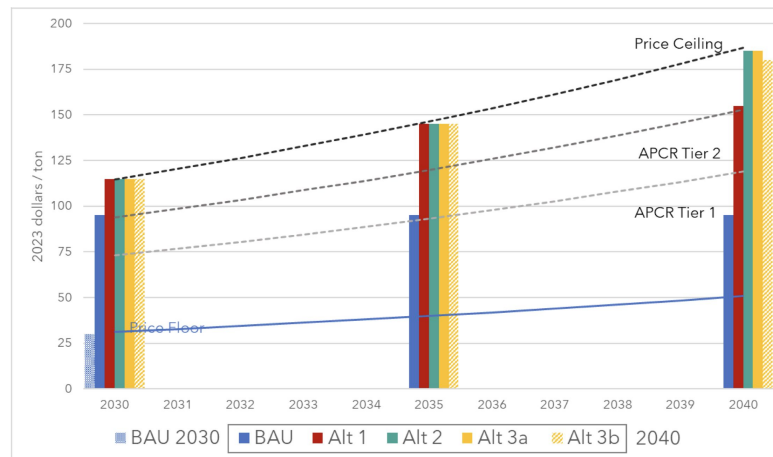


CPUC SB695 Affordability Report (2024)

Cap and Trade Reauthorization

- Affordability is the key challenge

Modeled Prices Under Different Scenarios

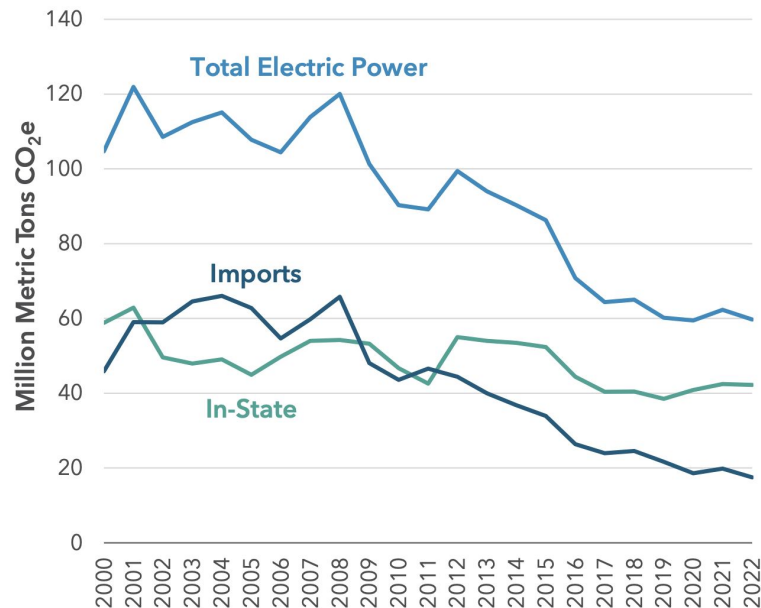


Allowance Supply and Demand
in California's Cap and Trade Market: Initial
Results,
Bushnell et al (2024) for CARB

Cap and Trade Reauthorization

- How do we decarbonize (and therefore how should we invest money)?

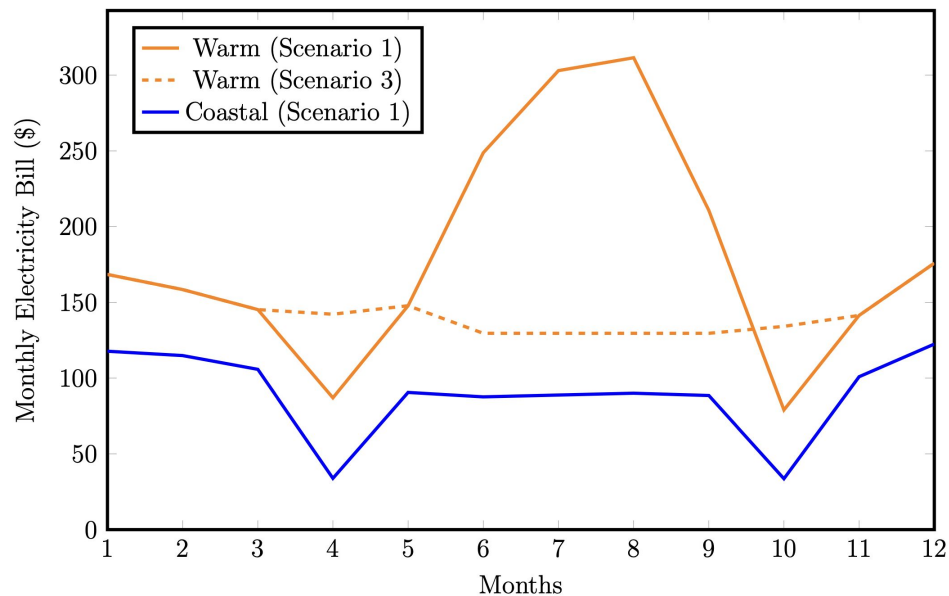
Figure 10. GHG Emissions from the Electricity Sector.



CARB GHG Emissions Trends Report
(2024)

Cap and Trade Reauthorization

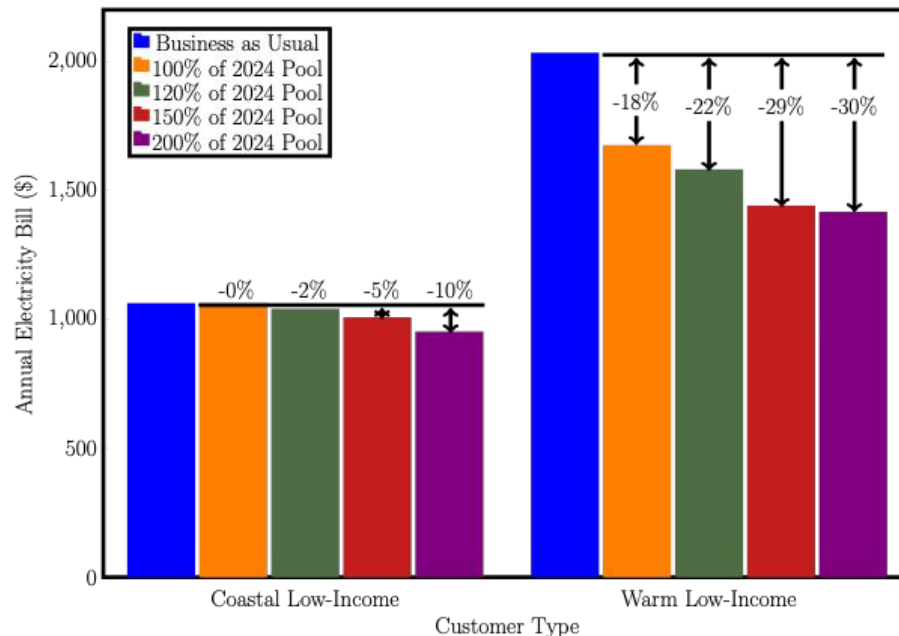
- Climate Credit redesign



Reallocating the Residential California Climate Credit to Low-income Customers, Smith, Mastrandrea, and Wara (2024)

Cap and Trade Reauthorization

- Increased allocation of allowances to utilities

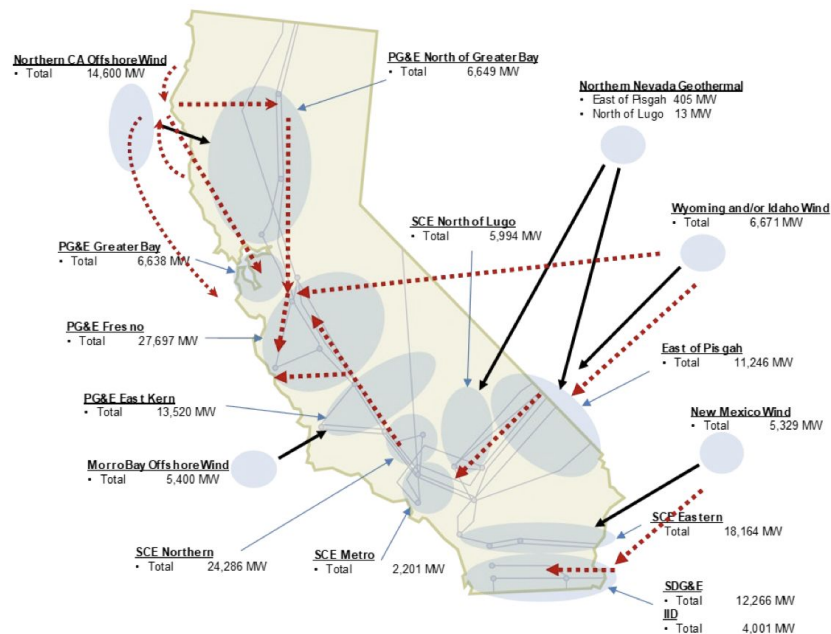


Smith, Macomber, Ahumada-Paras, Mastrandrea and Wara *in prep*

Cap and Trade Reauthorization

- Subsidies to buy down cost of needed electric system investments

Figure ES-1: Transmission Development



CAISO 20-year Transmission Outlook Update
(2024)

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Conclusions

- Decarbonization requires
 - 100% clean power
 - Electrification of end uses
- Reauthorization will likely raise cap-and-trade costs
- California should use cap-and-trade money to buy down the transition cost
- That will make both electricity and decarbonization more affordable to Californians
- That will help ensure that cap-and-trade is economically and politically sustainable