

# Climate Future California (Jonathan Marshall)

Please see attached comments.



## **Public Comment in Support of Proposed Amendments to Use Cap-and-Invest Allowance Revenue for Electric Rate Reductions**

March 6, 2026

State climate laws, including AB 32, AB 398 and AB 1207, require that implementing agencies take into account consumer affordability among several important goals. To that end, California's cap-and-trade (now cap-and-invest) program requires utilities to return the revenue from the sale of their free emissions allowances to customers in the form of lump-sum California Climate Credits. We are pleased that the Legislature last year mandated a phased transition of natural gas utility allowances to Electrical Distribution Utilities (EDUs), which may encourage households to adopt cleaner electricity-powered solutions for their heating and transportation needs. *However, in the spirit of AB 1207, we urge CARB to commit to a much faster transition schedule to make the state's support for clean electrification clear to every Californian.*

*We also support a further step in furtherance of that goal: returning allowance revenues to EDU customers in the form of volumetric rate reductions.* The longstanding policy against such volumetric returns no longer makes sense now that electricity rates in California have risen far beyond the marginal cost of service, including the full social cost of carbon. The traditional goal of promoting electric energy efficiency through high rates has become counterproductive in an era when clean electrification is California's primary strategy to achieve its climate goals. We are pleased that the [CARB staff report released January 20, 2026](#) appears to acknowledge this fact on pages 52-53.

Faced with electric rates that are double the national average, many California families have difficulty paying their bills, even with generous subsidies for low-income households. Environmental and consumer groups highlight another problem: high electric rates discourage customers from electrifying their home heating and vehicles, thus slowing the state's climate progress. In its Response to Executive Order N-5-24 on February 18, 2025, the California Public Utilities Commission (CPUC) noted, "In addition to creating financial hardship, continued rate inflation will put stress on meeting the state's climate goals. Electrifying the transportation, building and industrial sectors are critical decarbonization

strategies that become increasingly difficult with every increase in electricity rates.”

The magnitude of this problem is surprisingly large. [A report by University of California economists](#) in 2022 showed that our state’s high rates may have slowed the adoption of heat pumps and electric vehicles by as much as a third. That estimate was based on 2019 data. Since then rates have risen dramatically, no doubt compounding the problem.

A [study issued in 2022](#) by the Energy Institute at the University of California’s Haas School concluded that a 10% change in electric rates could induce a 24% swing in demand for electrical services from residential customers. The author declared, “My findings highlight the importance of getting electricity prices right and suggest that retail electricity prices might play a more significant role than previously thought in determining the pace of energy transitions to cleaner technologies.”

Many economists, policy analysts, and regulators have argued that converting EDU Climate Credits into a reduction in volumetric rates would boost the cause of clean electrification. As the CPUC noted in its February 2025 report to the Governor, this simple, modest change “could potentially make electrification more appealing to ratepayers. It would also reduce month-to-month bill volatility, easing ups and downs of utility bills for many Californians.” Its 2024 annual report, CalEPA’s Independent Emissions Market Advisory Committee similarly declared, “Restructuring the climate credit to reduce volumetric electricity rates would make electrification a more affordable choice for investments by households and businesses.”

This step will not cure California’s crippling high rates all by itself, but it would be an easy start to a longer-term program of reform driven by the Legislature. We therefore applaud CARB’s proposal to lift the prohibition on EDUs returning revenue from emissions allowances to customers in the form of lower volumetric rates.

In the interests of promoting statutory goals for emissions reductions and affordability, however, *we strongly urge CARB to accelerate its timetable for transitioning natural gas utility allowances to the EDUs.* Significant electric rate reductions are a highly progressive way to share revenue from the cap-and-invest program with California households and a highly effective way to enlist them in climate progress through clean electrification.

*[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.*

