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Expect higher electric bills this summer -- by as much as 20%: Opinion

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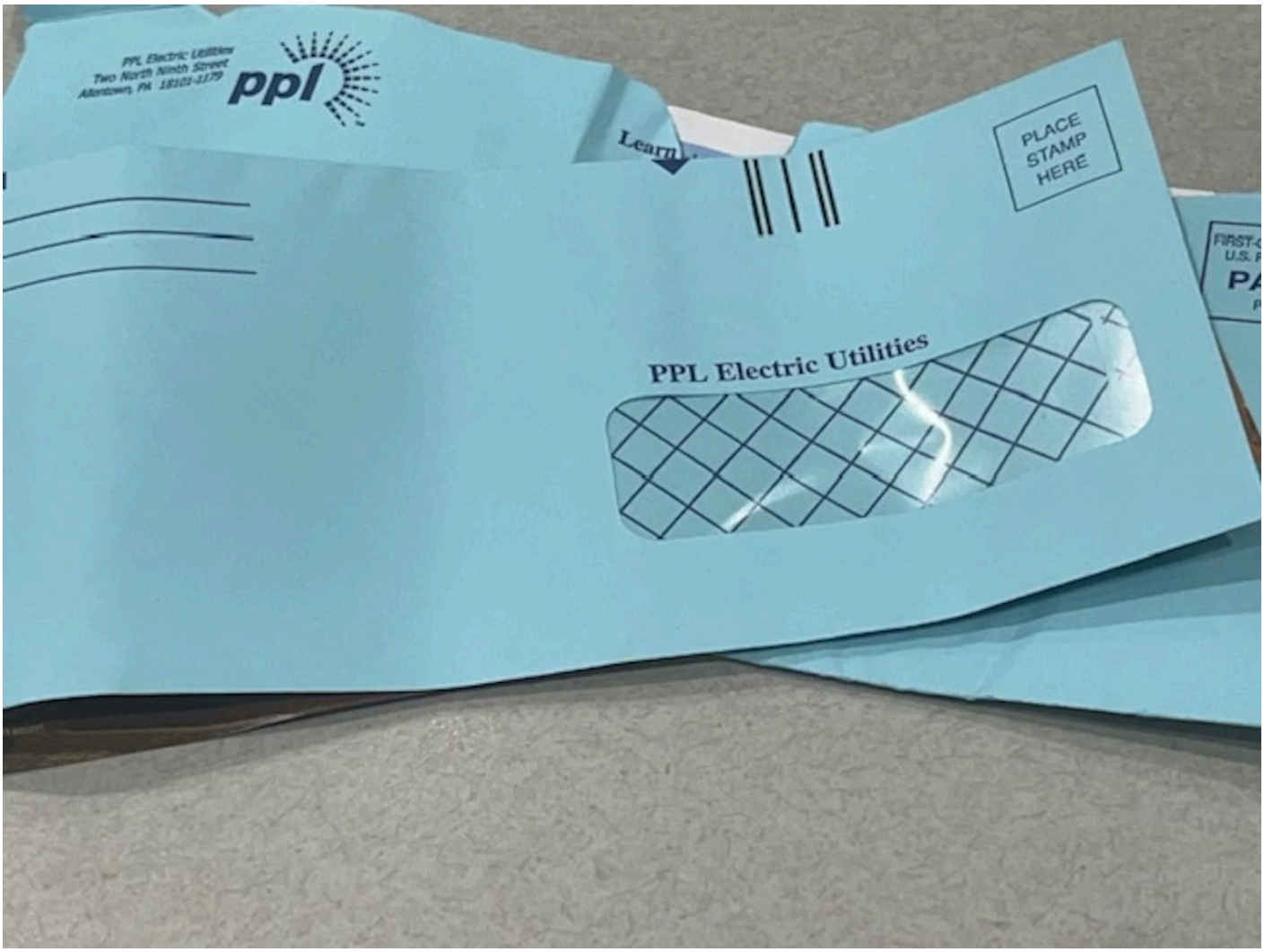
By Guest Editorial

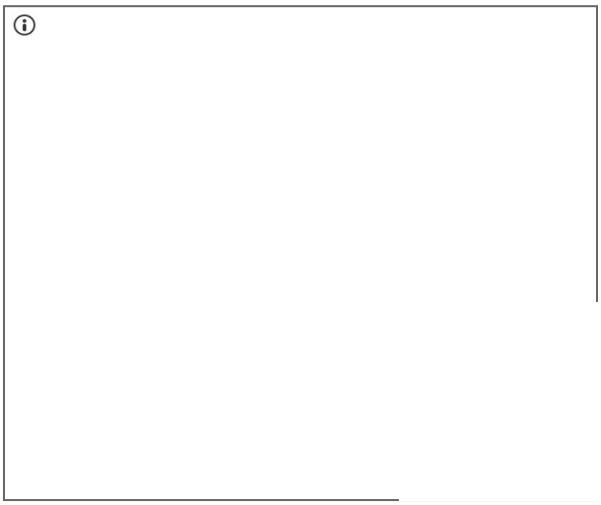


Your electricity bill is likely to go up on June 1. (Daniel Urie, PennLive)

By Rob Altenburg

Your electric bill will rise this summer. Exactly how much depends on many factors, but it could be between 5 and 20 percent. This isn't because of inflation and the potential effects of new tariffs, although we may also see those increases. This spike is because our electric market isn't working as it should.

You may have heard that Gov. Josh Shapiro recently settled a lawsuit with our electric grid operator, PJM Interconnection (PJM). While this settlement may avert even more catastrophic spikes in energy prices next year, it won't prevent prices from skyrocketing this summer. And, even with this settlement, we will still be paying significantly more for our energy than we are paying today.



Why are prices going up?

It's tempting to assume it's just the inevitable laws of supply and demand from new data centers and artificial intelligence. But the spiking prices result from a market failure with a specific cause: PJM's broken capacity market.

The capacity market is an auction designed to ensure our grid has enough energy supply to meet future demand. Participating large electricity generators like natural gas, nuclear, and coal plants promise to be available in the future if we agree to pay them a fixed payment amount regardless of whether or not we need to use their electricity. If they sell electricity to the grid, we pay them for that, too.

PJM determines the capacity needed for a given year—ideally three years in the future—and a reserve margin for reliability. Generators submit bids to meet this requirement. The price PJM must pay to secure enough commitments from these generators sets the market clearing price. This year, the clearing price is almost $29 per megawatt-day, so a plant with 500MW that cleared the market would be guaranteed about $5 million annually.

Starting this summer, those prices will jump to almost $270, netting that same plant nearly $50 million! Across the entire grid, the costs will soar by many billions of dollars, which means much higher electricity bills for consumers.

Another auction will take place this summer for the 2026/2027 delivery year. It was feared that these prices would climb to as much as $500 per megawatt-day. However, Gov. Shapiro's agreement with PJM puts a price cap of $325 on the next two auctions and establishes a price floor of $175. That provides some insurance against sky-high prices, but for at least the next three years, we will be locked into prices between 6 and 11 times what we currently pay. The critical question is, "Why?"

It's not the same as egg prices.

The gas industry and many policymakers want us to believe that the high electricity price is a market signal telling us to build more power plants, much like the rising cost of eggs signals that demand is higher than supply, but the reality is very different.

We shouldn't blame our grocery stores for supply shortages out of their control, but if thousands of farmers were waiting in line to sell their eggs and the grocery stores' arbitrary rules kept eggs off the shelf and prices high, we would rightly be mad. That is, in effect, what is happening with our power grid.

Thousands of projects—primarily inexpensive solar power, storage, wind, as well as some fossil fuels—have been stuck in PJM's interconnection approval process for years. This is the worst backlog in the country, and we are left paying to incentivize what we know can't happen.

Worse yet, PJM's flawed market rules have failed to count the generation we already have on the grid. That results in us paying extra for more and more expensive capacity on paper when it already exists on the ground.

Ultimately, when a poorly designed market costs consumers more and fails to reflect the actual energy landscape, it is not a free market; it's an outright market failure.

PJM has tried to address this issue by allowing up to 50 projects—mostly polluting fossil fuels—to jump to the head of the line waiting for approval, but none of these projects will be built for years—they certainly aren't going to impact electric bills this summer.

Fossil fuels won't save us.

For many years, PJM assumed that gas generation was reliable and gave the gas plants full credit in their planning process. However, extreme weather events in Texas and the Northeast demonstrated the danger of this assumption.

We learned a costly lesson in Pennsylvania during Winter Storm Elliott in 2022 when gas plants failed. Even though gas was less than half of the generation on our grid, it was responsible for more than 70% of the failures.

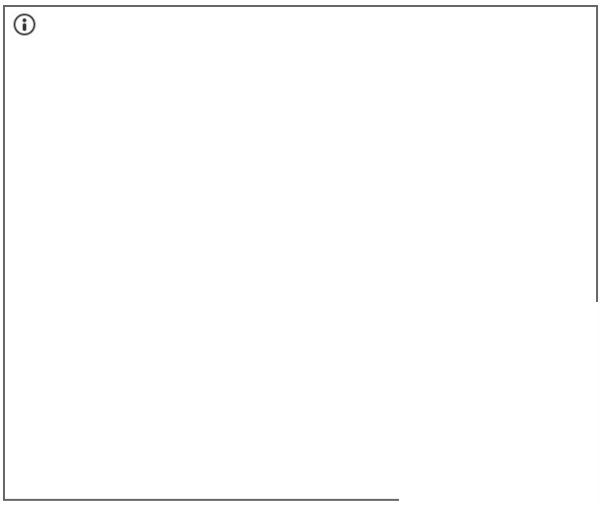
In 2021, Texas experienced extreme freezing temperatures, which resulted in more than 5 gigawatts of generation going offline. The consequences of that energy loss included more than 4 million people losing power and more than 100 people losing their lives. Despite initial attempts in the media to blame renewable generation, gas was again responsible for about two-thirds of the outages.

Like Texas, PJM has treated failures at gas plants as isolated events. This dangerously ignores the reality that gas tends to fail *en masse* because of their fragile reliance on the same pipelines we need to deliver gas to our homes, along with insufficient weatherization and other issues. Worse yet, these mass failures tend to happen with little to no warning. During Winter Storm Elliott, PJM reported that for a staggering 90 percent of failures, there was less than an hour's notice, and mostly with no notice at all.

What can we do today?

For this summer and next, there is little time to act. To better support Pennsylvanians, our legislature could help immediately by increasing investments in energy-efficient options through tax incentives, grants, and loan programs. Our legislature could pass a community solar program that would expand access to solar for millions.

Renters, people who live in multi-family housing, and others who can't install solar panels on their roofs could benefit from community solar.



What about reliability in the future?

The gas industry claims that building more gas plants will solve reliability issues, but that would be both expensive and risky. Like investing, diversification is one of the best ways to protect ourselves from the unexpected. With more than 60 percent of our generation coming from gas, we already have more than enough eggs in that basket. We need a different path, and it only makes sense to buy the least expensive power first—clean, renewable generation like solar and wind.

Recent findings from RMI suggest co-locating storage and renewable generation at existing gas plants can address load growth issues, cut pollution, and save money.

NRDC's Tom Rutigliano pointed out in testimony to the PA House Environmental Resources and Energy Committee in October 2024, improving the capacity rating of gas plants from its current 76% to 90% through weatherization, through investments would significantly increase to 12.2 gigawatts of capacity, save billions, and alleviating capacity problems.

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In the end, PJM is falling behind other regions of the country in adding cheap, clean energy and battery storage that can be combined to improve reliability. Building even just a fraction of what is sitting in the backlog of renewables could significantly improve reliability and affordability. By some estimates, prices could be reduced by as much as two thirds.

Rob Altenburg is Senior Director of Energy & Climate, PennFuture.