SECTOR IN-DEPTH
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Regulated Electric and Gas Utilities – US

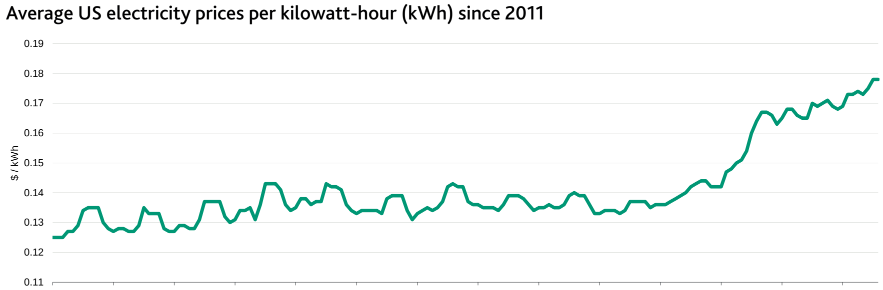
Potential for higher energy costs spurs efforts to address affordability concerns

As power supply ramps up to meet rising load forecasts, the potential for higher electricity prices may leave US regulated utilities with greater credit exposure to social risk. Although natural gas prices have declined from their recent peak in 2022 and interest rates have stabilized and appear likely to fall, electricity prices will continue to rise in some regions to pay for elevated utility investments to upgrade aging infrastructure and harden networks to withstand extreme weather events. Over the longer term, rising baseload power demand from the proliferation of data centers, growing industrial needs and electrification will apply further upward pressure on electricity prices.

Affordability is a key credit consideration and social risk for regulated electric and gas utilities because their rates are subject to a public regulatory process that can sometimes lead to adverse outcomes if regulators feel that customers have become too burdened. Most regulated utilities have moderate credit exposure to social risk, as is reflected in their social issuer profile scores. Demographic and societal trends are a common risk for all utilities because of public concerns about service affordability and environmental issues that could lead to adverse regulatory or political intervention. Persistently elevated electric and gas prices could increase credit exposure to social risk, particularly during periods of high inflation.

After remaining largely range-bound for about a decade, average US electricity prices surged in 2022 and continued to rise through 2024 even as natural gas prices declined (see Exhibit 1).

Exhibit 1
Electricity prices have increased roughly 30% since 2022
Average US electricity prices per kilowatt-hour (kWh) since 2011



Source: US Bureau of Labor Statistics

As utilities seek to pass through higher capacity payments and new investment costs to customers, regulators will continue to be mindful of the scale of the rate increases they approve, sometimes with negative credit consequences. For example, in August 2023, the Connecticut Public Utility Regulatory Authority's (PURA) final order in The United Illuminating Company's (Baa1 stable) first rate case since 2016 approved an incremental revenue increase of $23 million over one year. This was less than one-fifth of the $131 million increase over three years that the utility had requested, with the PURA citing customer affordability as a contributing factor behind its decision.

Utilities may seek to mitigate customer bill impact after spike in PJM capacity prices

July's nearly tenfold jump in PJM Interconnection LLC's (Aa2 stable) capacity auction price to $270 per megawatt-day across nearly all of its regional zones for the 2025-26 planning year will prompt regulated utilities in PJM to consider ways of mitigating the impact on customer bills (see Exhibit 2). Although purchased power is largely a pass-through cost for regulated utilities in the PJM market and capacity prices have much less of an impact than energy prices, state regulators are sensitive to the overall affordability of electric and gas service, especially for residential customers. This will be a particular focus in the wake of the PJM auction results. According to a report released by Maryland's Office of People's Counsel[1], the jump in PJM capacity prices could increase electricity bills in the state by as much as 24% depending on location.

Exhibit 2

Auction prices for the 2025-26 planning year surged in most PJM zones

Capacity prices in PJM Interconnection regional zones by planning year ($ per megawatt-day)

	2021/22	2022/23	2023/24	2024/25	2025/26
RTO	$140	$50	$34	$29	$270
EMAAC	$166	$98	$49	$55	$270
MAAC	$140	$96	$49	$49	$270
ATSI	$171	$50	$34	$29	$270
BGE	$200	$127	$70	$73	$466
DPL-South	$166	$98	$70	$426	$270
COMED	$196	$69	$34	$29	$270
DOM	-	-	-	-	$444

Auction periods start in June and conclude in May of the following year.
Source: PJM Interconnection

PPL Corporation (Baa1 stable), which operates in PJM through its subsidiary PPL Electric Utilities Corporation (A3 stable), said last month that it expects to partially mitigate the impact of higher capacity prices on customer bills through its continued focus on reducing operating costs and socializing transmission costs across all customers in PJM, which will increasingly include large data centers.

FirstEnergy Corp. (Baa3 stable), another utility holding company with regulated subsidiaries in PJM, said in July that the higher capacity costs may be partially offset in some jurisdictions by declining energy costs, which had risen because of the surge in natural gas prices following Russia's invasion of Ukraine in 2022.

Elevated capital spending will also continue to pressure affordability while slowing carbon transition

Over the longer term, the regulated utility sector's elevated capital expenditures will also continue to increase customer bills. Most of the capital spending is focused on transmission and distribution investments primarily aimed at hardening infrastructure against severe weather and integrating new renewable generation. Some utilities are also investing in new renewable generation capacity like wind, solar and battery storage to meet demand for more carbon-free generation resources. In addition, some leading technology companies seek to power their data centers with renewable energy as part of their broader net-zero strategies[2]. Over time, this may require additional utility investments in renewables to meet this demand.

At the same time, near-term efforts to meet growing power demand from data centers may delay the scheduled early retirement of some fossil-fuel plants whose closures were aimed at meeting decarbonization targets. In many cases, extending the life of existing power plants or building new natural-gas-fired generation are the most cost-effective ways to satisfy rising data center demand.

Vertically integrated utilities serving major data center markets are already preparing to invest heavily in new generation. For example, Virginia Electric and Power Company's (VEPCO, A2 negative) May 2023 integrated resource plan (IRP) included various alternatives it is considering to serve surging data center demand, which could include the construction of about 3 GW in wind capacity, 11 GW in solar capacity and about 1 to 3 GW of storage capacity over a 15-year horizon[3].

Similarly, in April, the Georgia Public Service Commission (PSC) approved Georgia Power Company's (Baa1 positive) IRP update, which detailed plans to build new fossil-fuel power plants with up to 1.4 GW of generating capacity to serve sharply rising demand from data centers and other large customers. With Georgia Power customers already facing three consecutive years of rate increases to pay for previously announced investments[4], affordability remains a concern for regulators. After the recent passage of state legislation that lowered Georgia Power's state corporate tax rate, the PSC voted last week to expedite the return of about $122 million to the utility's customers beginning in January 2025[5].

Endnotes

1 Bill and Rate Impacts of PJM's 2025/2026 Capacity Market Results & Reliability Must-Run Units in Maryland, Office of People's Counsel, August 2024

2 Inside Google Cloud: Announcing 'round-the-clock clean energy for cloud, 14 September 2020

3 Depending upon which of the alternative paths are pursued, VEPCO could also add 1, 3 or 6 GW in natural gas capacity and 0, 1 or nearly 2 GW of small modular nuclear reactor capacity, assuming the technology is available and affordable

4 Georgia Public Service Commission approves Georgia Power's amended 2022 rate request, 20 December 2022

5 Georgia Public Service Commission approves motion to deliver $122 million in savings to Georgia Power customers beginning in January, 5 September 2024

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