Electricity Price Outlook for April 2020

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The Office of Technical and Regulatory Analysis presents the outlook for wholesale electricity prices each month. This assessment considers trends in electricity futures markets as well as forecasted weather, economic growth, and input fuel prices.

**Key Points in this Month’s Outlook**

- On June 1st, new, lower Standard Offer Service ("SOS") electric rates took effect. Overall, residential customers will see an average bill decrease of 2.7 percent, while small commercial customers will see an average bill decrease of 1.1 percent.

- Plentiful natural gas in the PJM region is lowering wholesale electricity prices.

- Natural gas now exceeds coal as a generation fuel source in the PJM region.

**Wholesale Electricity Futures Market**

Contracts to deliver electricity in future months are traded for the multi-state region that is served by regional transmission operator PJM Interconnection and includes the District of Columbia. Figure 1 below shows the futures contract “price strips” through May 2021 as settled on March 24, 2020, *(blue line)*, and on April 17, 2020, *(red line)*.¹

Because electricity cannot be easily stored, the effect of seasonal temperature changes on the price of future delivery contracts stands out sharply, with yearly peaks in the hot summer months and cold winter ones. Wholesale prices rise to incentivize high-

¹ See PJM Western Hub Peak Calendar-Month Real-Time LMP Swap Futures; CME Group.
cost generators to turn on their power plants to meet the high demand for electricity to run air conditioning on hot summer days and heating systems on cold winter days.

In Figure 1 above, the red line shows trading values for futures contracts on April 17, 2020, revealing that price expectations for all months are well below last year's levels. The dashed purple line shows the trading values for the “price strip” from one year ago (February 21, 2020). Futures prices for the remaining months of 2020 have risen slightly since last month as investors continue to evaluate the early effects of the COVID-19 pandemic-induced economic slowdown. The trend of winter prices exceeding summer prices continues.

Price expectations during the “shoulder months” are below where they were a year ago. The green arrows (see Figure 1 above) point to the “shoulder months” of October 2020 and April 2021. During these months, temperatures are moderate and demand can be met from less expensive generation like nuclear and wind.

The green line in Figure 2 (below) illustrates how investors have responded to the unusually cold winter weather experienced during the “Polar Vortex” of January 2014, the February 2015 cold snap, and January 2019 -- as they form expectations about the price of electricity in coming winter months. In May 2014, the price of a MWh for delivery in January 2015 closed at $79.30. Investors' fears about the risk of January generation outages seem to be moderating and have returned to pre-Polar Vortex levels. The most recent price for January 2021 delivery is $44.75 – a 9.4 percent increase from the previous month.
PJM reports that these January 2014 cold-weather events resulted in an unusually high level of “forced outages” of generators serving the PJM system; this created a “shortage effect” that drove wholesale prices temporarily higher.2

Progress made by PJM in managing extreme winter peak demand was demonstrated during January 2018 when usage achieved levels within the “PJM Top Ten Winter Peaks” (see figure below). PJM President Andy Ott told the U.S. Senate Committee on Energy and Natural Resources on January 23, 2018, that “Preliminary data shows that overall forced outages during the peak demand hour of the recent cold snap were about half what they were during the Polar Vortex.”3

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According to a preliminary report, on Thursday, January 31, 2019, at 8 a.m., PJM experienced a peak demand of 139,452 MW; this amounts to the fourth-highest recorded peak.\(^4\) Forced outages by generators were only slightly greater than normal and large price swings were avoided, despite the shutdown of a generating unit at PSE&G’s Salem nuclear plant in New Jersey early Thursday after ice formed on the screens protecting its water intake, limiting the flow needed to cool the reactor.\(^5\)

**Retail Residential Electricity Prices**

The U.S. Energy Information Administration’s (EIA) *Short-Term Energy Outlook (STEO)* reports that retail residential electricity prices are expected to be flat in 2020 nationwide and a 2.8 percent increase is projected in 2021.\(^6\) Factors other than generation costs are included in the prices reported by EIA, including the cost of continued investment in transmission and distribution infrastructure.

On March 18, 2020, the Public Service Commission of the District of Columbia approved the results of the annual competitive auction for new electric generation rates for default service, called Standard Offer Service or SOS, which went into effect on June 1, 2020. As a result of a competitive auction overseen by the Commission, on average, the rate for SOS (which consists of the generation and transmission price) for a residential customer will decrease by about $1.98 per month for the average user. On average, the rate for small commercial SOS customers will decrease about $2.71 per month for the

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\(^5\) “Cold weather forces Salem nuclear unit offline as owner PSE&G presses for subsidies,” *Utility Dive*, February 1, 2019.

\(^6\) *April 2020 Short-Term Energy Outlook (STEO)*; Table 7c; [http://205.254.135.24/forecasts/steo/](http://205.254.135.24/forecasts/steo/).
average user. Overall, residential customers will see an average bill decrease of 2.7 percent, while small commercial customers will see a bill decrease of 1.1 percent.\(^7\)

The following sections provide a brief discussion of some of the factors affecting this month’s outlook, including the three-month weather forecast, the overall economic outlook, and the prices of fuels used in power generation.

**Weather Outlook**

Sea-surface temperatures in the equatorial Pacific Ocean influence weather patterns across North America; these so-called *La Niña/El Niño* conditions are the primary factor in the three-month temperature outlook which, in turn, impacts investor expectations about future electricity prices.

The National Oceanic and Atmospheric Administration’s April 9th *El Niño* watch indicates that ENSO-neutral is favored for the Northern Hemisphere summer 2020 (~60% chance), remaining the most likely outcome through autumn.\(^8\) NOAA notes that, with the end of *El Niño* conditions, there is some chance of above-normal average temperatures in the mid-Atlantic region through the May-June-July.\(^9\) NOAA also expects above-normal precipitation during the next three months in the mid-Atlantic region.

Heating-degree days measure the demand for heating during the winter. EIA reports that heating degree days in our region are projected to be fifteen percent higher in 2021 than in 2020. Projected heating degree days for 2020 are sixteen percent below the ten-year average.\(^10\)

Cooling-degree days measure the demand for air conditioning during the summer. EIA projects cooling-degree days in the Census region that includes the District of Columbia will be roughly the same in 2020 as the ten-year average. The projection for summer 2020 is 9.5 percent lower than 2019.\(^11\) The long-term warming trend continues.\(^12\)

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\(^7\) Formal Case No. 1017; Order No. 20311; March 18, 2020.


“ENSO” means *El Niño Southern Oscillation*; “ENSO-neutral” means that neither *El Niño* nor *La Niña* conditions are present.

\(^9\) [http://www.cpc.ncep.noaa.gov/products/predictions/90day/fxus05.html](http://www.cpc.ncep.noaa.gov/products/predictions/90day/fxus05.html).

\(^10\) STEO, Table 9c.

\(^11\) STEO; Table 9c.

\(^12\) NOAA National Climatic Data Center; [Contiguous U.S. Temperature 1896 – 2018](https://www.ncdc.noaa.gov/cpc/paleo/).
Economic Growth and Electricity Consumption

The outlook for economic activity in 2020 remains one of moderate growth. Real (inflation-adjusted) gross domestic product (GDP) grew by 2.3 percent in 2019 and is projected to decline by 2.0 percent in 2020 and grow by 3.7 percent in 2021.13 These figures reflect the impact of the COVID-19 pandemic-induced economic slowdown which will become more pronounced in coming months. Economic growth is unlikely to affect electricity price trends positively unless it is sustained above three percent; on the other hand, any negative growth will have a moderating impact of electricity prices.

EIA forecasts that nationwide residential electricity sales (measured in millions of kilowatthours per day) will decrease by one percent in 2020, followed by an increase of 1.6 percent in 2021. Nationwide electricity sales for all sectors will decrease by three percent in 2020, with a one-percent increase projected in 2021.14

Fuel Prices

In recent years, the cost of fuels for electricity generation has been restrained, with the exception of petroleum-based fuels where the market remains volatile in both directions. This moderate trend is driven by historically low natural gas prices and moderate economic growth. The cost of natural gas for generation is projected to remain below the $3 level in 2020 and 2021.15

Petroleum

The outlook for international crude oil prices has dimmed recently along with growth expectations in the wake of the COVID-19 pandemic.16 Travel restrictions, an economic slowdown and a Saudi-Russia oil price war are factors driving crude oil prices lower.17

EIA warns that the uncertainty in its energy price forecasts has increased significantly due to the pandemic conditions, particularly for petroleum. Brent crude oil prices averaged $32 per barrel in March, a decrease of $24 per barrel from the average in February and the lowest monthly average since January 2016. Brent crude is forecast to average $33 per barrel in 2020 and $46 per barrel in 2021, compared to an average of $64

13 STEO; Table 1.
14 STEO; Table 7b.
15 STEO, Table 7a.
17 “U.S. oil prices plunge to lowest level in 18 years;” Wall Street Journal; March 18, 2020.
per barrel in 2019. \(^{18}\) EIA expects prices will average $23 per barrel during the second quarter of 2020 before increasing to $30 per barrel during the second half of the year. EIA expects retail gasoline to average $1.86 per gallon in 2020 and $2.16 in 2021, compared to $2.60 per gallon in 2019. \(^{19}\)

U.S. shale oil producers are cutting back on drilling and domestic output of both crude oil and natural gas is slowing as a result of falling oil prices. Annual U.S. crude production averaged 12.2 million b/d in 2019, an increase of 1.3 million b/d over 2018. EIA projects an average rate of production of 11.76 million barrels per day in 2020 (a significant cut in previous month 2020 forecast of 13 million b/d. In 2021, EIA projects production averaging 11 million b/d – which still surpasses the 1970 record of 9.6 million b/d. \(^{20}\)

The latest Monthly Drilling Productivity Report from the EIA shows a drop in crude oil output and a decline in gas production in the U.S. shale-producing basins surveyed (see Figure 3 below). \(^{21}\) Output in shale regions depends on high rates of drilling activity which investors are no longer willing to finance as generously as they have in the past. \(^{22}\) Figure 3 illustrates how shale oil and gas production have declined in the past six months.

Net liquid fuel imports to the United States peaked at over 60 percent of domestic supply in 2005 and then fell to three percent in 2019 – the lowest level since 1970; this

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\(^{18}\) STEO, page 1. The “North Sea Brent Crude” is the key contract for setting the price of crude oil in international markets.

\(^{19}\) STEO, Table 2.

\(^{20}\) STEO, pages 1 and Table 4a.


represents a major shift in the structure of world oil markets. EIA projects the net import share to fall to zero in 2020. However, EIA projects a reversal of this trend in 2021, with net imports of petroleum increasing significantly. See Figure 4 below.

Only time will tell whether growing domestic petroleum output will continue to moderate the price of crude oil. Petroleum fuels supplied less than one percent of the PJM generation during 2019.

Natural Gas

Natural gas prices are significantly below 2008 levels when the Henry Hub price averaged $8.94 per one million British Thermal Units (MMBtu). Recently, the spot price has headed in the direction of the lows reached in early 2012 when it briefly touched $2 per MMBtu.

Natural gas prices in the spot market result from the interaction of trends in domestic production, growing gas-fired generation of electricity, and expected winter heating needs; expanding natural gas exports may impact prices in the future. Record domestic production has offset rising exports and above-average usage. EIA expects Henry Hub spot prices to average $2.11/MMBtu in 2020 and $2.98 in 2021. Natural gas prices are now projected to remain below 2018 levels through 2021.
The Henry Hub spot price is more volatile than the cost of natural gas actually paid by electricity generators where long-term contracts and hedging are typically involved. EIA projects that the cost of natural gas for power generation will remain well below $3 in 2020 and 2021.\textsuperscript{28}

U.S. liquefied natural gas (LNG) export capacity is growing. Sabine Pass LNG (Texas) began export operations in February 2016; and commercial exports from Dominion Energy’s Cove Point LNG in Maryland have begun.\textsuperscript{29} EIA reports that Cove Point utilized 94 percent of its capacity in May. EIA expects exports to grow faster than domestic production, possibly putting modest upward pressure on natural-gas prices; EIA expects LNG export capacity to grow through 2021.\textsuperscript{30}

\textsuperscript{28} STEO; Table 7a.
\textsuperscript{30} See Table 5a and https://www.eia.gov/todayinenergy/detail.php?id=37732. “Bcf/d” is billion cubic feet per day.
The gap between projections for LNG export capacity (above) and projected amounts (below) suggests that not all of the new capacity under construction is currently committed by supply contracts.

Regional variations in natural-gas prices also impact regional wholesale electricity markets like PJM – influenced by local gas production and the availability of gas pipeline transportation capacity. The *Wall Street Journal* reports that plentiful natural gas in the Appalachian region has fueled an expansion of gas-fired generation and depressed electricity prices in the PJM wholesale market.31 This is confirmed in a brief analysis from EIA: *Natural-gas fired plants are being added and used more often within the region served by PJM Interconnection.* EIA explains that gas-fired capacity has being growing in the region

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and that gas-fired generation has a rising “capacity factor” which combine to increase megawatthours generated by natural gas.32

The long-term impact of inexpensive natural gas can be seen easily in PJM wholesale electricity price trends. “Figure 3-24” (below) shows the monthly and annual average load-weighted LMP for January 1999 through December 2019.33 Annual average LMP has declined since natural-gas prices peaked in 2008. (Note the January price spike in 2018, the result of extreme winter cold.)

![Figure 3-24 Real-time, monthly and annual, load-weighted, average LMP: January 1999 through December 2019](image)

Natural gas accounted for 36.7 percent of the PJM generation fuel mix during 2019.34

**Coal**

Coal has been displaced by natural gas, wind, and nuclear in electricity generation. Nationwide, coal consumption in electric power generation has not returned to the peak level of 2007. EIA estimates that coal production was 690.1 million short tons (MMst) in 2019, it is projected to fall by 22 percent to 536.7 million short tons in 2020.35

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32 U.S. EIA; Natural-gas fired plants are being added and used more in PJM Interconnection; October 17, 2018. [https://www.eia.gov/todayinenergy/detail.php?id=37293](https://www.eia.gov/todayinenergy/detail.php?id=37293).

33 Independent Market Monitor; 2019 State of the Market Report for PJM (March 12, 2020); page 152. LMP means “locational marginal price” which refers to the price-setting methodology used in PJM’s wholesale electricity market.

34 STEO; Table 7d.

35 STEO; Table 6. Historical data can be found at [http://www.eia.gov/totalenergy/data/annual/pdf/sec7_9.pdf](http://www.eia.gov/totalenergy/data/annual/pdf/sec7_9.pdf). See also The Brattle Group; Coal Plant
EIA reports that the delivered price of coal for power generation peaked at $2.39 in 2011. EIA estimates the delivered price of coal averaged $2.02 per MMBtu in 2019, and forecasts $2.00 per MMBtu in 2020 and $2.04 in 2020.36

In the PJM wholesale market that serves the District of Columbia, the cost of natural gas is a more important factor than coal in setting the overall level of wholesale market prices for electricity.37 Coal represented 23 percent of the PJM generation fuel mix during 2019.38 As noted above, the natural gas share of PJM generation is rising, in line with national trends. Coal has fallen to third place behind nuclear and natural gas a share of the PJM fuel mix.

Across the United States, coal generation plants are being retired and new natural gas-fired generation plants are being built, mirroring trends in the PJM region. EIA projects that the natural gas share of electricity generation nationwide will remain at 37 percent in 2019 and 38 percent in 2020. Coal’s share of generation will fall to 20 percent in 2020, down from 24 percent in 2019.39 EIA’s forecasted generation shares for coal and natural gas are very sensitive to the natural-gas price forecast: if natural-gas prices rebound in 2021 as EIA expects, then coal’s share of generation will rise at expense of natural gas.

Renewables

Nationwide, EIA projects that all nonhydropower renewables accounted for 11 percent of electricity generation in 2019 and may reach 14 percent in 2021.40 Wind generated more electricity than hydropower for the first time in 2019.

Renewable Portfolio Standards (“RPS”) enacted by many states are stimulating the rapid growth of solar in the PJM market. This stimulus will intensify as scheduled increases will raise the RPS for solar in coming years, as shown in “Table 8-11” below.41


36 STEO; Table 7a.
37 EIA reports prices for coal as delivered under long-term contracts that are less volatile than the spot prices reported for other fossil fuels. See Table 6, STEO.
38 STEO; Table 7d.
39 STEO; Table 7d.
40 STEO; Table 7d.
41 Independent Market Monitor; 2019 State of the Market Report for PJM (March 12, 2020); page 375.
Table 8-11 Solar renewable standards by percent of electric load for PJM jurisdictions: 2019 to 2030

<table>
<thead>
<tr>
<th>Jurisdiction with RPS</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
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<tbody>
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<td>2.25%</td>
<td>2.50%</td>
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<td>3.25%</td>
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<td>1.50%</td>
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Prices for Solar Renewable Energy Credits (“SECs”) are much higher in the District of Columbia than in neighboring jurisdictions, as can be seen in “Figure 8-8” below.42

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Trends in Generation Fuel Mix

EIA’s monthly Short-Term Energy Outlook includes forecasts of the fuel sources for electricity generation (natural gas, nuclear, renewables, and so forth). Nationwide, the shares generated from natural gas and renewables are projected to increase while coal’s share will decline. Hydro and nuclear are not adding capacity so their shares remain relatively stable.

![Electric Generation Fuels, United States](Source: EIA, STEO, Table 7d.)
EIA provides the same information for individual wholesale market regions such as PJM (see below). PJM reflects the national trends with some differences.

- Renewables are a smaller share of the generation mix in the PJM region compared to the nation as a whole; their share is also growing more slowly than in the nation as a whole.
- The natural-gas share is growing in PJM and is projected to be larger than the U.S.-wide share by 2021.
- Coal will be a smaller share of PJM generation than nationwide by 2021.
- PJM has much less hydro capacity than the U.S. overall.

![Electric Generation Fuels, PJM Region](image-url)

Source: EIA, STEO, Table 7d.
Trends in Generation Fuel Prices

Nationwide trends in generation fuel prices are displayed in the figures below. The declining outlook for natural-gas prices in 2020 stands out clearly.

**Electric Power Sector Fuel Prices**
($/MMBtu)

- **Petroleum Fuels on Right-hand Axis.**


Source: EIA, *Short-Term Energy Outlook*, Table 7a, Apr 2020.

**Electric Power Sector Fuel Prices**
(Percent Change, Year Ago)


Source: EIA, *Short-Term Energy Outlook*, Table 7a, Apr 2020.
Wholesale Electric Market Assessment Information

*Price of Electricity Futures Contracts for March and April 2020*

Twelve Month NYMEX Strip Components

$/MWh (for $/kWh, divide by 1000)

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<th>Apr-20</th>
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<td>May-20</td>
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<td>$28.40</td>
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PEPCO DC Zone Locational Marginal Price (Hourly Integrated LMP for the hour ending 1200)

April 17, 2020: **$17.10**

The above are wholesale energy prices only. Transmission and distribution rates are not included.

**Weather Forecast**

1. Current for next few days to one week:


2. National Oceanic and Atmospheric Administration, Climate Prediction Center Outlook:


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