Electricity Price Outlook for September 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 has lowered wholesale electricity prices; however, this could change as natural gas prices are projected to rebound strongly in 2021. Natural gas now exceeds coal as a generation fuel source in the PJM region.

- Due to COVID-19, overall electricity consumption in the United States is projected to fall by 2.4 percent in 2020 compared to 2019; this decline is led by a 6.4 percent projected decline in retail sales to the commercial sector. EIA forecasts residential sector retail sales will increase by 3.5 percent in 2020 driven by higher summer cooling and increased working from home. EIA expects electricity consumption in 2021 will be similar to 2020.1

Wholesale Electricity Futures Market

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1 September 2020 Short-Term Energy Outlook (STEO) at page 3.
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 July 2021 as settled on August 14, 2020, (blue line), and on September 15, 2020, (red line).2

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-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.

![Figure 1: Wholesale Electricity Futures Prices ($/MWh)](image)

In Figure 1 above, the red line shows trading values for futures contracts on September 15, 2020, revealing that price expectations for all months are similar to last year’s levels. The dashed purple line shows the trading values for the “price strip” from one year ago (September 19, 2019). Futures prices for the remaining months of 2020 have declined since last month as investors continue to evaluate the future effects of the COVID-19 pandemic-induced economic slowdown and prospects for recovery. The trend of winter prices exceeding summer prices continues.

Price expectations during the “shoulder months” are also 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

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2 See PJM Western Hub Peak Calendar-Month Real-Time LMP Swap Futures; CME Group.
recent price for January 2021 delivery is $46.20 – a 1.5 percent increase from the previous month and an 3.6 percent decrease from one year ago.

Figure 2: Fading Impact of the 2014 Polar Vortex on January Futures

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.³

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.”⁴

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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 1.1 percent increase is projected in 2021. Factors other than generation costs are included in the prices reported by EIA, including the costs 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 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.

The figure below shows the overall trend of prices in the PJM wholesale market where SOS generation is sourced, including EIA’s projection for 2021.

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5. September 2020 *Short-Term Energy Outlook (STEO)*; Table 7c; http://205.254.135.24/forecasts/steo/.
6. Formal Case No. 1017; Order No. 20311; March 18, 2020.
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 September 10th *El Niño* watch indicates that *La Niña* conditions are present and are likely to continue through the Northern Hemisphere winter (~75% chance). NOAA notes that above-normal temperatures are favored in the mid-Atlantic region through the October-November-December period. NOAA also expects below 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 7.3 percent higher in

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8  [http://www.cpc.ncep.noaa.gov/products/predictions/90day/fxus05.html](http://www.cpc.ncep.noaa.gov/products/predictions/90day/fxus05.html).
2021 than in 2020. Projected heating degree days for 2021 are about the same as the ten-year average.\(^9\)

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 about two percent lower in 2021 than the ten-year average. The projection for summer 2021 is 2.2 percent lower than 2020.\(^10\) The long-term warming trend continues.\(^11\)

**Economic Growth and Electricity Consumption**

The outlook for economic activity in 2020 remains one of negative growth. Real (inflation-adjusted) gross domestic product (GDP) grew by 2.2 percent in 2019 and is projected to decline by 4.8 percent in 2020 and grow by 3.1 percent in 2021.\(^12\) These figures reflect the impact of the COVID-19 pandemic-induced economic slowdown which cannot be projected with certainty. 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, as is the case presently.

EIA forecasts that nationwide residential electricity sales (measured in millions of kilowatthours per day) will increase by 3.5 percent in 2020, followed by a very small increase in 2021. Nationwide electricity sales for all sectors will decrease by 2.5 percent in 2020, with a 0.4 percent increase projected in 2021.\(^13\)

**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. *In response to the economic dislocation caused by the COVID-19 pandemic, the cost of natural gas for generation is projected to approach the $2 level in 2020 and rebound strongly to average over $3.50 in 2021.*\(^14\)

**Petroleum**

\(^9\) STEO, Table 9c.
\(^10\) STEO; Table 9c.
\(^11\) NOAA National Climatic Data Center; *Contiguous U.S. Temperature 1896 – 2018*.
\(^12\) STEO; Table 1.
\(^13\) STEO; Table 7b.
\(^14\) STEO, Table 7a.
The outlook for international crude oil prices has dimmed recently along with growth expectations in the wake of the COVID-19 pandemic. Travel restrictions, an economic slowdown and a Saudi-Russia oil price war are factors driving crude oil prices lower. In June, OPEC and Russia announced plans to extend the deep production cuts previously scheduled to expire at the end of June; whether this deal will hold is uncertain.

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 $45 per barrel in August, an increase of $2 per barrel from the average in July. Brent crude is forecast to average $44 per barrel in the fourth quarter of 2020 and $49 per barrel in 2021, compared to an average of $64 per barrel in 2019. EIA expects retail gasoline to average $2.16 per gallon in 2020 and $2.28 in 2021 (compared to $2.60 per gallon in 2019).

U.S. shale oil producers cut back on drilling and domestic output of both crude oil and natural gas slowed as a result of falling oil prices. Annual U.S. crude production peaked at 12.9 million b/d in November 2019, and then fell to 10.0 million b/d in May 2020 for a 22 percent decline in six months. Crude production increased to 10.8 million b/d in August. EIA projects an average rate of production of 11.4 million barrels per day in 2020 (a significant cut from EIA’s pre-pandemic forecast of 13 million b/d). In 2021, EIA projects production averaging 11.1 million b/d (which still surpasses the pre-shale record of 9.6 million b/d in 1970).

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). 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. Figure 3 illustrates how shale oil and gas production have declined in the past six months; the latest contraction appears to have halted and a recovery in output has begun.

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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.
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 represents a major shift in the structure of world oil markets.\textsuperscript{23} EIA projects the net import share to fall below zero in 2020. However, EIA projects a reversal of this trend in 2021, with net imports of petroleum increasing significantly.\textsuperscript{24} See Figure 4 below.

Only time will tell whether high domestic petroleum output will continue to moderate the price of crude oil; recovery of global demand will also be an important factor

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Monthly Net Change Domestic Shale Oil and Gas Production thru Sept 2020.}
\label{fig:monthly_net_change}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{Import Share of U.S. Petroleum Consumption}
\label{fig:import_share}
\end{figure}

\textsuperscript{23} STEO; Table 4a. \textit{EIA Monthly Energy Report}; July 2018; Table 3.1; http://www.eia.gov/totalenergy/data/monthly/pdf/mer.pdf.

\textsuperscript{24} STEO, Table 4a.
Petroleum fuels supplied less than one percent of the PJM generation during 2019.\(^{25}\)

**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).\(^{26}\) Recently, the spot price has headed in the direction of the the lows reached in early 2012 when it briefly touched $2 per MMBtu – EIA projects it to fall below $2 during the second and third quarters of 2020.\(^{27}\)

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 $2.16/MMBtu in 2020 and $3.19 in 2021.\(^{28}\) *Natural gas prices are now projected to remain at or 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 may fall below $2 briefly in 2020 and rise sharply to $3.54 in 2021.\(^{29}\)

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\(^{25}\) STEO; Table 7d.

\(^{26}\) EIA; 2011 *Annual Energy Outlook*; page 115.

\(^{27}\) STEO; Table 2.

\(^{28}\) STEO; page 2.

\(^{29}\) STEO; Table 7a.
EIA expects exports to grow faster than domestic production, eventually putting modest upward pressure on natural-gas prices; EIA expects LNG export capacity to grow through 2021.\textsuperscript{30}

The gap between projections for LNG export capacity (above) and projected gross export amounts (below) suggests that not all of the new capacity under construction is currently committed by supply contracts.

The global LNG market is depressed globally, which has caused EIA to lower projected exports in 2020 somewhat.\textsuperscript{31}

\textsuperscript{30} See Table 5a and https://www.eia.gov/todayinenergy/detail.php?id=37732. \textsuperscript{“Bcf/d”} is billion cubic feet per day.

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.\textsuperscript{32} 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 been growing in the region and that gas-fired generation has a rising “capacity factor” which combine to increase megawatthours generated by natural gas.\textsuperscript{33}

The long-term impact of inexpensive natural gas can be seen easily in PJM wholesale electricity price trends. “Figure 3-26” (below) shows the monthly and annual average load-weighted LMP for January 1999 through June 2020.\textsuperscript{34} 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 3-26: Real-time, monthly and annual, load-weighted, average LMP: January 1999 through June 2020](image)

Natural gas accounted for 36.7 percent of the PJM generation fuel mix during 2019 and is projected to rise to 40.7 percent in 2020.\textsuperscript{35}

Coal

\textsuperscript{33} U.S. EIA; Natural-gas fired plants are being added and used more in PJM Interconnection; October 17, 2018. \url{https://www.eia.gov/todayinenergy/detail.php?id=37293}.
\textsuperscript{34} Independent Market Monitor; 2020 Q2 State of the Market Report for PJM (August 13, 2020); page 154. LMP means “locational marginal price” which refers to the price-setting methodology used in PJM’s wholesale electricity market.
\textsuperscript{35} STEO; Table 7d.
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 705.3 million short tons (MMst) in 2019, it is projected to fall by 28 percent to 51.2 million short tons in 2020 and rebound by 17 percent in 2021 as natural gas prices rebound.  

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 $1.96 per MMBtu in 2020 and $2.04 in 2021.

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. Coal represented 23 percent of the PJM generation fuel mix during 2019, falling to 17 percent in 2020. 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 was 37 percent in 2019 and increase to 40 percent in 2020. Coal’s share of generation will fall to 18 percent in 2020, down from 24 percent in 2019. 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 could rise at the expense of natural gas.

**Renewables**

Nationwide, EIA projects that all nonhydropower renewables accounted for 11 percent of electricity generation in 2019 and may reach 15 percent in 2021. Wind generated more electricity than hydropower for the first time in 2019.

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37 STEO; Table 7a.

38 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.

39 STEO; Table 7d.

40 STEO; Table 7d.

41 STEO; Table 7d.
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 8-13" below.\textsuperscript{42}

\begin{table}[h]
\centering
\caption{Solar renewable standards by percent of electric load for PJM jurisdictions: 2020 to 2030\textsuperscript{45}}
\begin{tabular}{|l|c|c|c|c|c|c|c|c|c|c|c|c|c|c|c|}
\hline
\hline
\hline
Illinois (RECs) & 2,000,000 & 2,000,000 & 2,000,000 & 2,000,000 & 2,000,000 & 2,000,000 & 2,000,000 & 3,000,000 & 3,000,000 & 3,000,000 & 3,000,000 & 3,000,000 & 3,000,000 & 3,000,000 & 3,000,000 & 4,000,000 \\
\hline
Maryland & 6.00% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% & 5.50% \\
\hline
Michigan (No Minimum Solar Requirement) & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% & 1,10% \\
\hline
New Jersey & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% \\
\hline
North Carolina & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% & 0.00% \\
\hline
Ohio & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% \\
\hline
Pennsylvania & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% \\
\hline
Washington, D.C. & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% & 0.20% \\
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Kentucky (No Renewable Portfolio Standard) & & & & & & & & & & & & & & & & & \\
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West Virginia (No Renewable Portfolio Standard) & & & & & & & & & & & & & & & & & \\
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\end{tabular}
\end{table}

Prices for Solar Renewable Energy Credits ("SRECs") are much higher in the District of Columbia than in neighboring jurisdictions, as can be seen in “Figure 8-5” below.\textsuperscript{43}

\textsuperscript{42} Independent Market Monitor; 2020 Q2 State of the Market Report for PJM (August 13, 2020); page 378.
\textsuperscript{43} Independent Market Monitor; 2020 Q2 State of the Market Report for PJM (August 13, 2020); page 378.
**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 share generated from renewables is projected to increase. EIA projects an increase in coal's share in 2021 because EIA is projecting natural gas prices to increase. Hydro and nuclear are not adding capacity so their shares remain relatively stable.

![Electric Generation Fuels, United States](chart.png)

*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](chart)

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 followed by a rebound in 2021 stands out clearly.


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


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

Price of Electricity Futures Contracts for August and September 2020

Twelve Month NYMEX Strip Components

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

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<tr>
<th></th>
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<th>Sep-20</th>
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<tbody>
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<td>Oct-20</td>
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<td>Jan-21</td>
<td>45.50</td>
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<tr>
<td>May-21</td>
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<tr>
<td>Oct-21</td>
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<td>31.15</td>
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</tbody>
</table>

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:

   http://www.cnn.com/Weather/

   http://home.accuweather.com/

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

   http://www.cpc.ncep.noaa.gov/

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