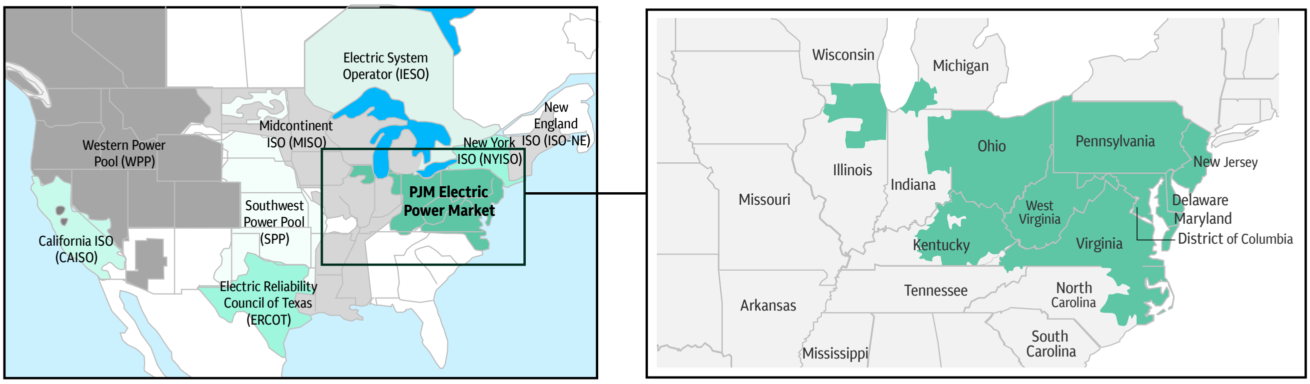
Macquarie Global Listed Infrastructure[1]

Bidding for power…how it affects your utility bill

For many, utility bills are just another line item – something we pay and forget. But lately, in many markets (particularly the US), they've been harder to ignore. In this insight, the Global Listed Infrastructure Team explains how the deregulated electricity markets in the US operate and considers the reasons for the increased bills. They go on to explain what future plans might look like and where the opportunities are for investors.



Source: PJM.

PJM Interconnection is the largest power grid operator in the US, serving 65 million customers. It is a little-known company that coordinates the flow of electricity from generators to local utilities across a web of high-voltage transmission lines. The grid stretches from New Jersey to North Carolina, and from Illinois to the US capital.

Across the 13 populous US states and the District of Columbia that form the PJM grid, electricity prices have already gone up in 2025 and are expected to climb even higher next year.

[1] Macquarie Global Listed Infrastructure is an equity team within Macquarie Asset Management's (MAM) Equity & Multi-Asset business.

Take customers of PECO Energy Company as an example. Their utility bills are expected to jump by roughly 13% year-on-year this year, with rates rising from 18 cents to 20 cents per kilowatt-hour (kWh). For a household using about 12,000 kWh annually, that's an extra $300 a year.

Illustrative utility rates	Units	Dec-24	Nov-25	Change
PECO Class 1 residential rate	cents/kWh	17.65	20.02	13%
Monthly usage	kWh	1,000	1,000	
Monthly utility bill	$	177	200	$23
PJM capacity charge*	$	3	24	$21
Capacity charge % bill	%	1	12	

Source: PECO; figures in table are estimated. *Based on systemwide capacity factor of 47%.

Why the rising costs?

One major factor is the "capacity charge." This isn't just about the electricity you use – it's a cost layered on top of usage charges, property taxes, and other grid fees. The capacity charge reflects the cost of ensuring there's enough power available during peak demand times, and it can be surprisingly volatile.

At PJM, this charge is determined by its annual capacity auctions. These auctions recently made headlines when prices skyrocketed – clearing at 8 to 10 times the previous levels.

As broken down in the PECO customer example above, we estimate the capacity charge's share of the total bill rises from 1% to 12% between December 2024 and November 2025, accounting for the bulk of the overall price increase.

A primer on PJM and its capacity auctions

How did we get here?

Back in the 1990s, electricity markets were deregulated in many parts of the US. Power generation was separated from delivery infrastructure, and utilities were no longer allowed to own generation assets.

The idea was to increase competition among generators, theoretically lowering costs for consumers.

PJM embraced this model. Unlike fully regulated grids in regions like the US's Southeast, PJM relies on market mechanisms to ensure there's enough power supply for both the near and long term. ***The annual capacity auction is a cornerstone of this system.***

Bidding for power

So, what does the annual capacity auction look like?

PJM runs a capacity auction process to help guarantee that electricity providers will have enough generating capacity on standby to meet peak demand. Peak demand includes those scorching summer days when every air-conditioning unit is running at full capacity.

During the capacity auction process, generators bid to secure capacity commitments three years in advance (with incremental auctions addressing short-term needs).

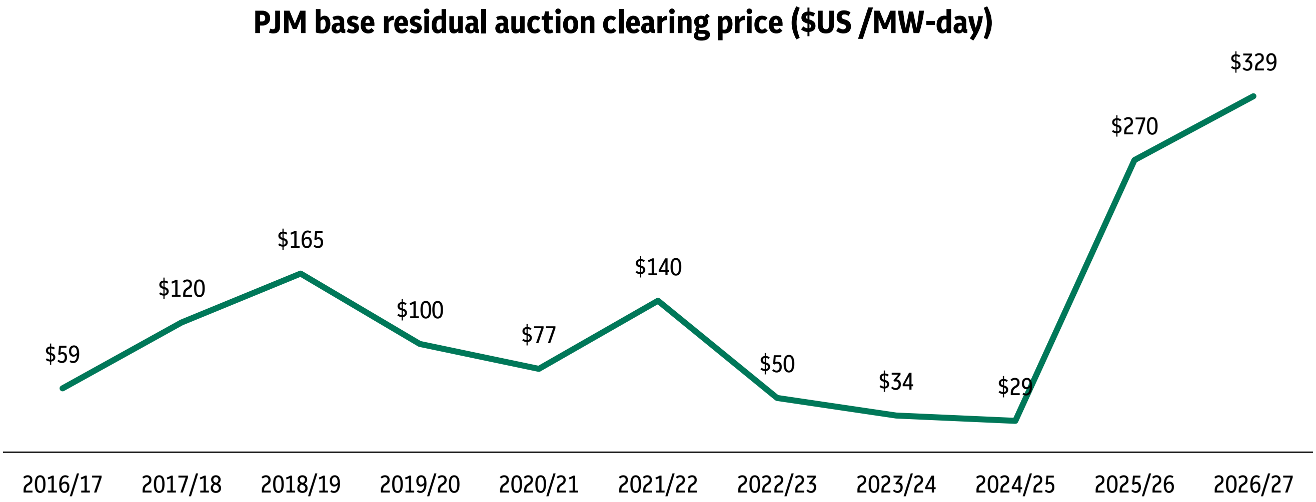
Winning bidders earn "capacity payments," which are ultimately passed on to customers through their utility bills. Typically, these payments incentivise existing power plants to stay online and, ideally, encourage the construction of new plants to meet growing demand.

Back to my utility bill, please

PJM's auction system has done well at incentivising existing power plants to stay online. However, it has struggled to encourage the construction of new plants. Capacity prices have been too inconsistent to give developers the confidence to invest in these large, risky projects.

Now we are seeing power demand surging, driven in part by the rapid growth of data centres.

With the lack of new plants, supply is struggling to meet this unprecedented demand. As a result, auction prices have exploded – from $US29 megawatts (MW)/day for the 2024-2025 delivery year to $US270 MW/day for 2025-2026, and then to $US329 MW/day for 2026-2027. These price jumps inevitably trickle down to the end consumer, driving household utility bills higher.



Source: PJM.

What is the plan?

The political response has been swift. Pennsylvania Governor Josh Shapiro recently enacted legislation to cap capacity prices at $US329 MW/day for the next auction (2027-2028 delivery year). Without this intervention, some predict prices could soar past $US700 MW/day in future auctions.

Though, despite the higher prices, new generation projects have still been slow to materialise. Developers are hesitant, without long-term price certainty or mechanisms, to share risk.

That said, there are signs of progress. PPL Corporation, a utility company, and Blackstone recently announced a partnership to build, own, and operate new gas-fired power plants in the PJM region.

Some utilities are also signalling a willingness to return to regulated generation, but this would require significant legislative changes to re-regulate the industry.

Both regulated and deregulated market models come with their own strengths and weaknesses, making it difficult to predict whether either approach will ultimately provide relief to grid customers.

If no solution emerges, customers may face even more volatility in capacity payments - an outcome that none of us want.

In summary: Viewing through the investor's lens

Setting aside our household concerns about rising utility bills, let’s shift to an investor’s perspective. From the vantage point of listed infrastructure investors, one thing becomes apparent: the utilities sector is poised to benefit from the significant investments needed in distribution and transmission infrastructure.

Setting aside our household opinion on more expensive utility bills, we put on our investor hat. Adopting our lens as listed infrastructure investors, we think one thing is clear: the utilities sector stands to benefit from the significant investment needed in distribution and transmission infrastructure.

It is evident that these investment upgrades are essential to support the growing demand for electricity and that utilities can earn attractive, regulated returns on this capital.

Within the PJM Interconnection, we have an exposure to American Electric Power Company (AEP) and Exelon (EXC), which are utility names we see as well-positioned to capitalise on this opportunity. Beyond the PJM Interconnection, we hold a similar view in other high-growth markets such as Texas and the Southeast, where we hold exposure to names like Dominion Energy (D) and Sempra Energy (SRE).

Contact us

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Have a question? Please contact us and we will respond as soon as possible.

Key risks

The potential for adverse events in the global infrastructure sector to impact the performance of the investments of the Strategy. Investments in securities issued by companies that are principally engaged in the infrastructure business will subject the Strategy to risks associated with direct investment in infrastructure assets. Factors such as the availability of finance, the cost of such finance in general as well as in comparison to prior periods, the level of supply of suitable infrastructure projects and government regulations relating to infrastructure may influence the value of these investments and hence the Strategy.

The risks of investing in the infrastructure sector include those listed here.

New project risk: Where an infrastructure issuer invests in new infrastructure projects, it is likely to retain some residual risk that the project will not be completed within budget, within the agreed time frame and to the agreed specification.

Strategic asset risk: Infrastructure assets may include strategic assets, that is, assets that have a national or regional profile, and may have monopolistic characteristics. The nature of these assets may generate additional risk given the national/regional profile and/or their irreplaceable nature and may constitute a higher risk target for terrorist acts or political actions.

Documentation risk: Infrastructure assets are often governed by a complex series of legal documents and contracts. As a result, the risk of a dispute over interpretation or enforceability of the documentation may be higher than for other issuers.

Operation risk: Should an infrastructure issuer fail to maintain and operate the assets efficiently, the ability to maintain payments of dividends or interest to shareholders may be impaired. Failure by the infrastructure issuer to carry adequate insurance or to operate the asset appropriately could lead to significant losses and damages.

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