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Maryland customers face years of higher electricity rates from regional market problems, new OPC report shows

BALTIMORE – Many Maryland customers face average annual electricity bill increases of hundreds of dollars in the coming years because of problems in the regional market run by PJM Interconnection, LLC, the entity that administers the wholesale power market and is responsible for transmission planning, according to a report released today by the Office of People's Counsel. The initial round of rate hikes is driven in part by PJM's recent auction that saw prices beginning next June for electric generation capacity—a historically small but soon-to-be-large part of customer bills—spike by more than 800 percent.

"Customers are facing massive rate increases from potential retirements of old and uneconomic fossil fuel power plants—potential retirements that were entirely foreseeable and that PJM should have planned for," said Maryland People's Counsel David S. Lapp. "Customers will bear the brunt of PJM's planning failures and other dysfunctional market rules, while generation companies will walk away with record profits."

Aside from increased rates from the auction results, Maryland customers face additional rate increases to pay the owner of old fossil fuel plants, Talen Energy, to delay the retirement of the plants, as well as future costs to pay Exelon—the Illinois-based owner of Baltimore Gas & Electric and other Maryland utilities—for $725 million in capital expenditures for transmission upgrades that serve as PJM's solution for resolving reliability issues associated with the eventual power plant retirements.

Talen is seeking to recover from Maryland customers more than $629 million under what PJM calls a "reliability must run" or "RMR" arrangement to continue operating its Brandon Shores and Wagner power plants near Baltimore beyond their proposed retirement of June 1, 2025. Those costs will be incurred while Exelon completes the transmission projects—which have an estimated completion date of December 2028. The RMR costs could be higher if the transmission projects take longer to complete. PJM could also determine the plants continue to be necessary for other reasons, extending the RMR costs paid by ratepayers.

The report, prepared by Synapse Energy Economics, further reveals how PJM has constructed its market in ways that leave customers highly vulnerable to price swings and the decisions of generation companies. The analysis highlights a scenario under which the removal of the Brandon Shores and Wagner power plants, totaling about 2,000 MW, from the resources bidding into and clearing the auction—the equivalent of less than 1.5 percent of the 135,000 MW that cleared the auction—had a region-wide impact that will benefit generators (and cost customers) over *$5 billion*. It further explains that Talen stands to gain $360 million compared to the scenario in which its Baltimore-area plants participate in the auction.

"The fact that the retirement of such a relatively small amount of generation could cause capacity market price spikes that cost customers across PJM more than $5 billion shows the PJM's market is stacked against the customers that pay the bills," Lapp said.

For the RMR costs, BGE customers can expect to pay an estimated 74 percent—or roughly $159 million per year. As a result of just the RMR costs, OPC's report shows that BGE customers could see their bills increase by approximately 5 percent, resulting in an average residential bill increase of $5 per month due to RMR costs alone. When combined with the incremental impact of the capacity market costs alone, electric customers in the BGE area will see average bill increases of $21 per month, or about $250 per year starting around June 2025, according to OPC's analysis.

Although the largest rate impacts will affect BGE customers, customers of other utilities also face rate hikes caused by the RMR and the recent capacity market auction. Utility bills for the average Potomac Edison customer will increase by $18 per month, while the average bills of Pepco and SMECO customers will increase by $15. Delmarva Power customers are currently bearing the higher costs in their rates of an acknowledged error in PJM's previous auction—a result OPC continues to challenge before FERC. The RMR and auction results lock in those higher

Delmarva Power rates for another year, with an additional increase to the average customer's bill of $4/month.

The auction results released July 30 are for the PJM "capacity" market, which is designed to assure adequate generation is available to meet peak electricity demands and reliability standards. Historically, the auctions occur three years in advance of the year the generation is to be available to deliver energy. PJM is behind schedule, and the July auction is for the delivery year starting June 1, 2025. Across the entire PJM region, the auction will result in a total annual cost to electric customers of $14.7 billion, a substantial increase from the $2.2 billion in capacity costs for the delivery year that started June 1, 2024.

PJM also administers an "energy" market that supplies the power consumed by customers continuously over time, and it is responsible for transmission planning and procurement. According to OPC's report, the costs of the energy and capacity markets and transmission costs are the three main wholesale electric cost components borne by electric customers. In 2023, they comprised 62 percent, 8 percent and 27 percent of wholesale electric costs, respectively, on average across the PJM footprint. With the results of the recent capacity auction, capacity costs beginning June 1, 2025 will increase from 8 percent to nearly 27 percent of total wholesale costs, assuming energy and transmission costs remain near 2023 levels.

The recent capacity auction results will be in place just one year and in theory would incentivize new generation to enter the market and lower the results in the next auction. But because PJM's auctions are behind what historically has been a three-year advance schedule, future auctions will be held in December of this year and June 2025 for the delivery years starting June of 2026 and 2027—long before PJM's transmission solution for the plant retirements will be in place and before significant new generation is likely to be available to mitigate high auction prices. As a result, OPC's report concludes that "high capacity prices could continue escalating costs for Marylanders for years to come."

The Maryland Office of People's Counsel is an independent state agency that represents Maryland's residential consumers of electric, natural gas, telecommunications, private water and certain transportation matters before the Public Service Commission, federal regulatory agencies and the courts.

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