

Utility Bill Inflation is Back: Balancing Growth, Reliability and Affordability in the AI Era

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Introduction

While the AI boom has generally been a positive development for the utility industry, its insatiable appetite for power is not only driving unprecedented capital spending but also putting upward pressure on electricity prices. Rising monthly utility bills have caught the attention of consumers and are increasingly at the forefront of the minds of political leaders and regulators. According to CPI data released by the Bureau of Labor Statistics, the index for electricity prices increased 5.5% over the 12-month period ending in July 2025. This compares to a 2.7% increase for the all-items index. The utility industry has always been a balancing act between the often-competing objectives of growth, reliability, and affordability. The emerging strain on affordability is a trend worth watching.

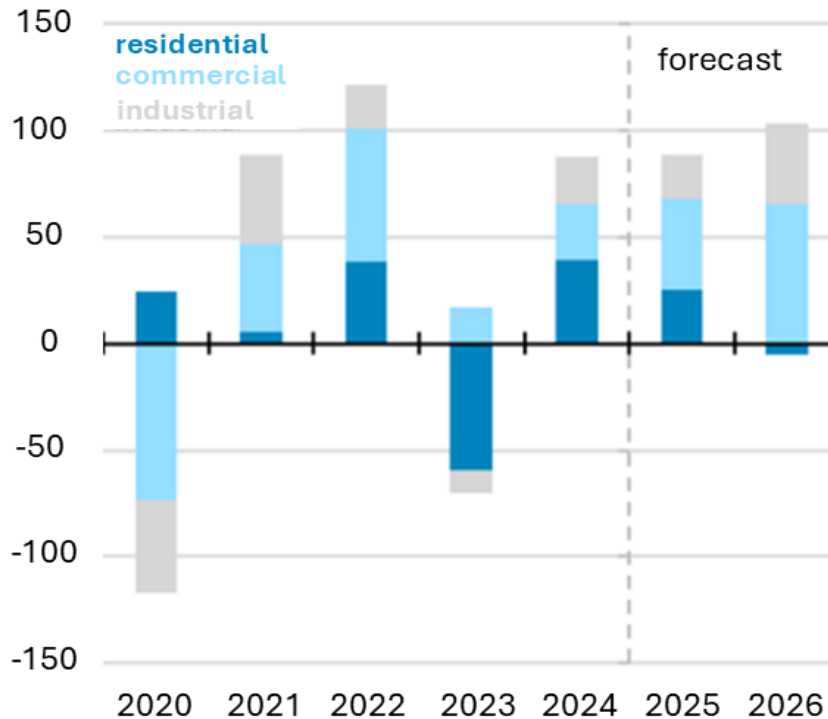
Electricity Demand

The utility industry is witnessing demand growth that hasn't been seen in well over a decade. According to Energy Information Administration (EIA) data¹, total electricity consumption increased 2.3% in 2024 and is projected to increase 2.2% in 2025 and 2.4% in 2026. This compares to relatively flat demand over the 15-year period prior to 2024. The increase is being led primarily by data centers, but also by electrification and reshoring-related manufacturing growth. Electricity sales to commercial customers, which includes data centers, are projected to rise 3.0% in 2025 and a further 4.5% in 2026. Electricity

¹ U.S. Energy Information Administration, *Short-Term Energy Outlook*, August 2025

sales to industrial consumers are forecast to rise by 2.0% in 2025 and 3.5% in 2026. Residential electricity sales are forecast to rise more slowly at 1.7% overall in 2025, primarily because of cold weather at the beginning of the year. Electricity sales to the residential sector are expected to decline by 0.4% in 2026 as weather conditions normalize. The varying growth rates among sectors is expected to result in an interesting historical twist as electricity sales in the commercial sector are expected to surpass those in the residential sector in 2026, a first since the EIA started collecting the data.

Figure 1: Annual Change in U.S. Electricity Sales to Ultimate Customers
Billion kilowatthours (kWh)

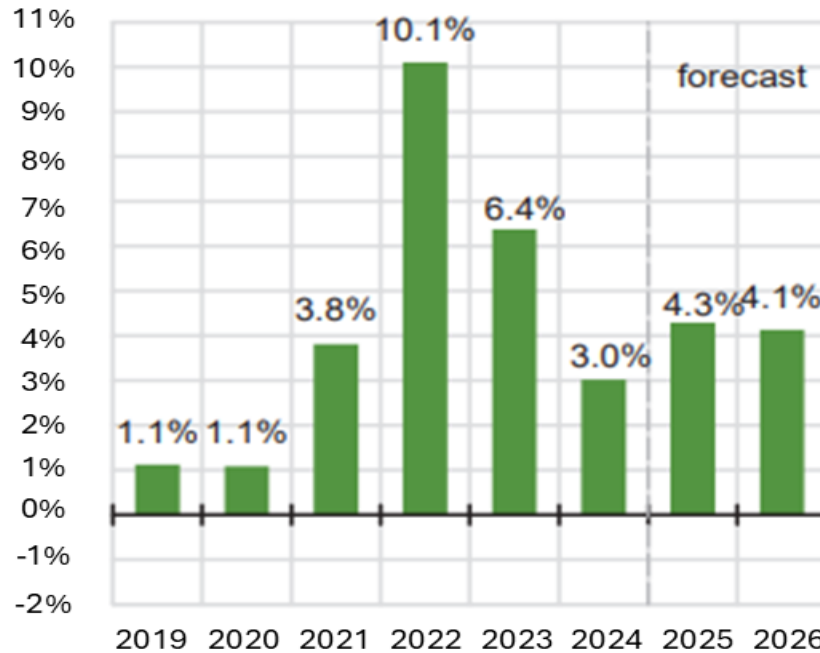


Source: U.S. Energy Information Administration, Short-Term Energy Outlook, August 2025

Electricity Prices

This demand surge is now exerting noticeable pressure on electricity prices. Based on EIA data¹, residential electricity price inflation spiked in 2022 due to the pass-through of high natural gas prices, but then trended lower over the next two years. This declining trend has reversed course, and electricity prices are now expected to increase 4.3% this year. The recent volatility in electricity prices stands in sharp contrast to the years preceding the pandemic, which generally saw electricity price inflation at or below the overall inflation rate. Figure 2 illustrates this post-pandemic volatility in electricity prices.

Figure 2: Annual Growth in Nominal Residential Electricity Prices



Source: U.S. Energy Information Administration, Short-Term Energy Outlook, August 2025

PJM Case Study

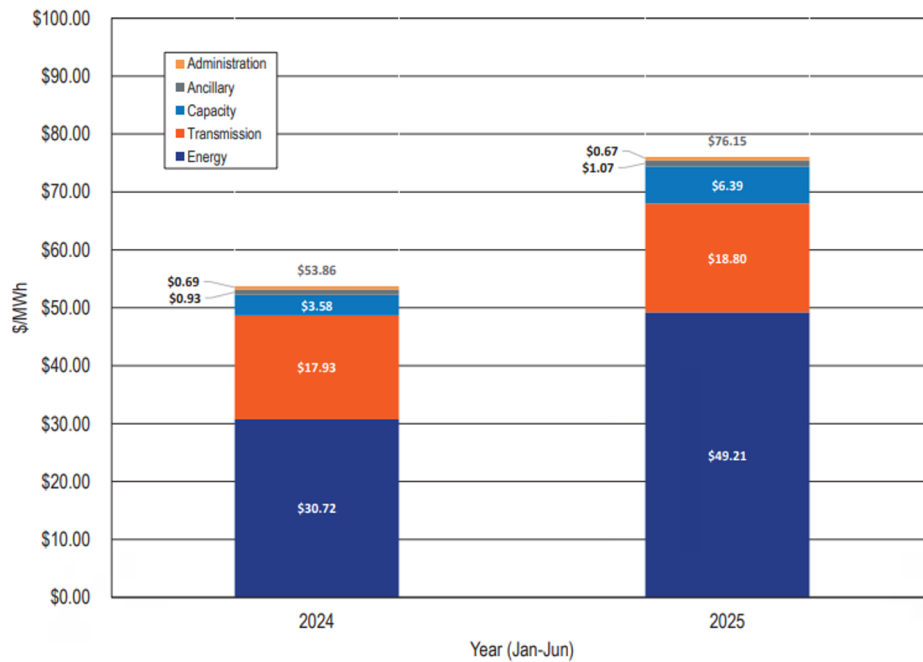
PJM Interconnection (PJM), the largest Regional Transmission Organization (RTO) in the US, provides a valuable case study in the AI-related quest for power. As an RTO, PJM coordinates the movement of wholesale electricity and ensures grid reliability for more than 67 million people. PJM's territory spreads across thirteen states, from Illinois to the East Coast, and includes the world's largest data center cluster in Northern Virginia, as well as data center hotspots in Ohio, New Jersey, and Illinois.

In July, PJM announced the clearing price from its most recent capacity auction. Capacity auctions set payments to owners of generation facilities as an incentive to build new capacity or keep existing capacity in operation. These payments are instrumental in maintaining system reliability and are in addition to the revenue earned from the actual generation of electricity. The most recent auction, for the 2026/2027 planning year, hit the price cap of \$329.17/MW-day. If it weren't for the cap, the price would likely have been closer to \$389/MW-day. The new level compares to \$269.92/MW-day from last year's auction and a low of \$28.92/MW-day two years ago. Under the new auction price, annual capacity payments will total \$16.1billion and result in bill increases of 1.5% to 5%, according to PJM.

Capacity payments are just one component of the overall wholesale cost of electricity in PJM. The larger components are the actual production and transmission of electricity, both of which are also increasing at a rapid rate. Over the first six months of 2025, energy accounted for 64.6% of the overall wholesale cost while transmission accounted for 24.7% and capacity accounted for 8.4%². While capacity payments appear relatively small, it is important to note that the planning year for PJM begins in June and the higher prices from the previous two capacity auctions are just now taking effect.

² Monitoring Analytics, LLC, State of the Market Report for PJM, August 2025

Figure 3: Total Wholesale Cost per MWh by Category



Source: Monitoring Analytics, LLC, State of the Market Report for PJM, August 2025.

Conclusion

The AI boom continues to present both opportunities and challenges for the electric utility industry. After more than a decade of minimal growth, the industry is experiencing a new era of robust demand. While this is an overall positive development, it's not without some drawbacks. Fortunately, the situation has not gone unnoticed by regulatory bodies, and we are seeing the development of proactive laws and regulations in multiple jurisdictions across the country. These jurisdictions are generally welcoming economic development associated with data center growth, while simultaneously seeking ways to put guardrails around this growth to protect the average utility customer. Despite these efforts, the utility capex boom is expected to continue putting upward pressure on monthly residential utility bills. There remains a tricky balancing act between economic development, reliability, and affordability.

Andy Bohlin is a Senior Fixed Income Credit Analyst and Principal at AAM with 25 years of investment experience. He is responsible for the analysis and recommendations of investment grade Basic Industries, Auto and Utility credits. Prior to joining AAM, Andy was a Senior Fixed Income Analyst at Northern Trust Asset Management, specializing in high yield. Andy earned a BA in Economics with a minor in Mathematics from the University of Nebraska and an MBA in Finance, Economics and Accounting from the University of Chicago Booth School of Business.



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