

Power Comment: Heatwave Tightens US Market Further

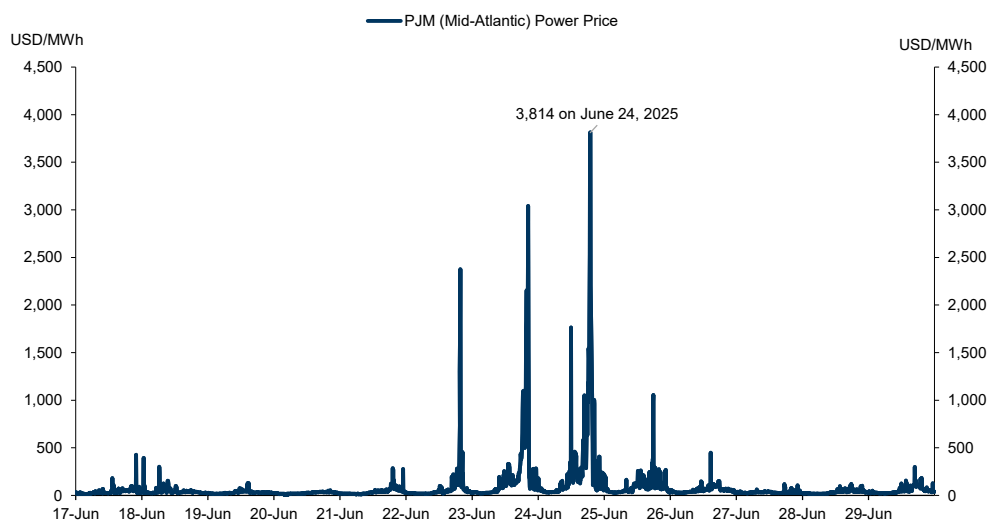
Since we published on US peak summer power market tightening, heat waves in the US East Coast have illustrated this is already playing out to an extent, particularly in the PJM power market in the Mid-Atlantic region. Despite summer just starting, peak power demand in the region surged to 162 GW on June 24, which is 5% higher than PJM's forecasted peak power demand for the entire year. This demand surge significantly tightened the market, which we estimate reduced effective spare capacity to 6%, well below the 12% that we forecasted for peak summer 2025. Consequently, the real-time PJM power price reached 3,814 USD/MWh on June 24 (Exhibit 1), in the top 0.001% of PJM's 5-minute power price data over the past decade, while the year-to-date average power price, at 49 USD/MWh, is already 38% higher than the average in the past decade.

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Exhibit 1: Heat wave-driven surges in power demand triggered significant price spikes in the PJM (Mid-Atlantic) market



Real time power prices in the PJM western hub, which clears the market for immediate delivery under actual market conditions

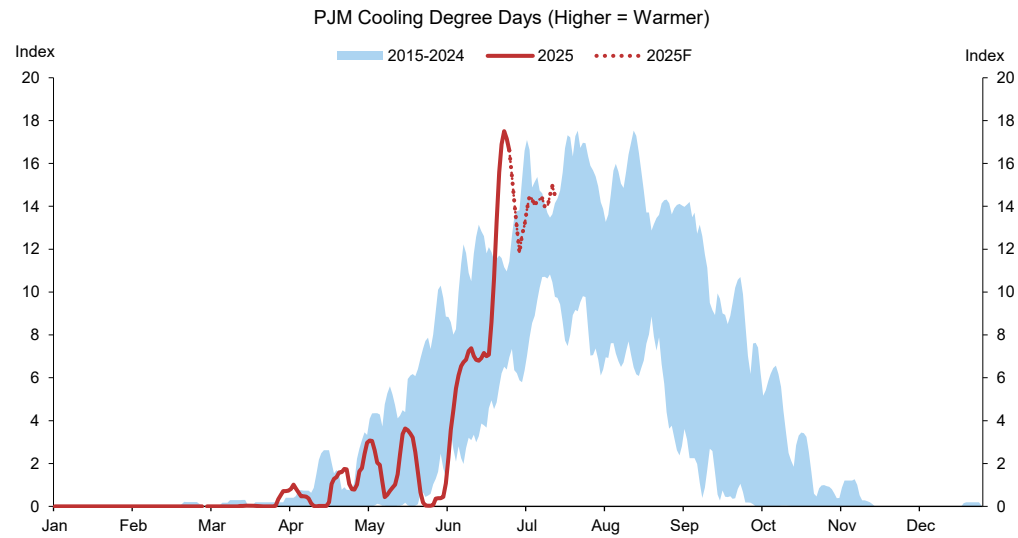
Source: PJM

While heat waves are a catalyst for this increased market tightness and price volatility, we believe the underlying issue is insufficient power generation capacity build-up relative to solid power demand growth, especially considering the lower effective capacity of renewable power. This is exacerbated by limited power storage like batteries, particularly within the PJM region.

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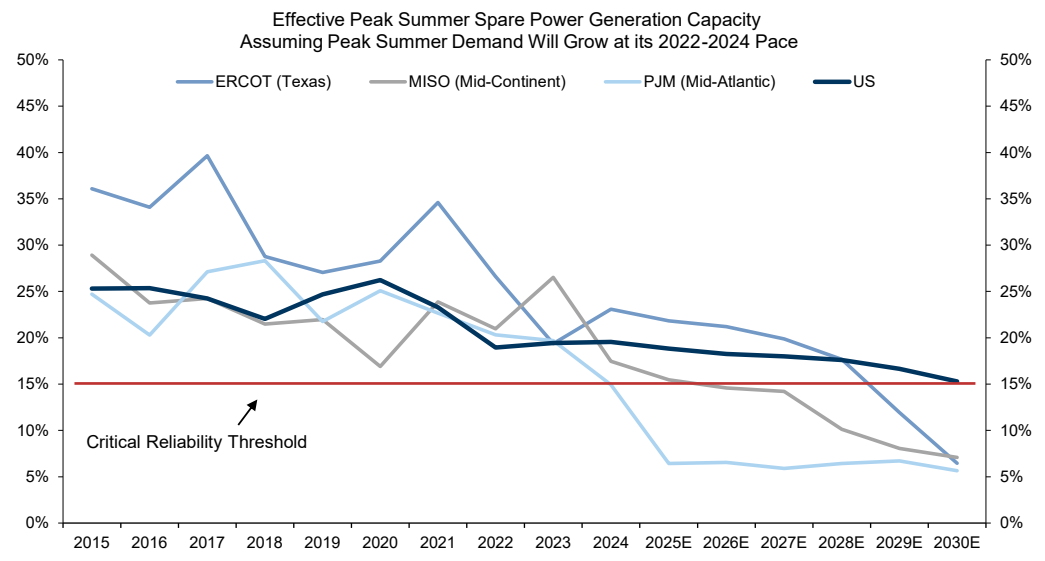
Given current weather forecasts, we expect continued power market tightness across US regional markets. As we highlighted previously, we think MISO (Mid-Continent) and PJM (Mid-Atlantic, [Exhibit 2](#)) are particularly vulnerable already this summer to significant price spikes and outage risks as effective peak summer spare capacity has fallen below critical levels ([Exhibit 3](#)). Specifically, although the intensity of recent heat waves has subsided, short-term temperature forecasts through mid-July remain above historical averages. For the remainder of the summer, the National Weather Services continue to forecast above-normal temperatures across most of the country. We continue to recommend that power customers and investors hedge against these risks.

Exhibit 2: Above-average temperatures are forecasted to remain in the PJM (mid-Atlantic) region after recent heat waves



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 3: Assuming the realized 2022-2024 average annual peak summer power demand growth as forecast, we see a tightening trend across US power markets



Source: Regional power ISOs and RTOs, EIA, Bloomberg, Goldman Sachs Global Investment Research

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Disclosure Appendix

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