



# Energy Costs in Michigan: Drivers and Impacts

Dan Scripps, Chair

Michigan Public Service Commission

April 16, 2026

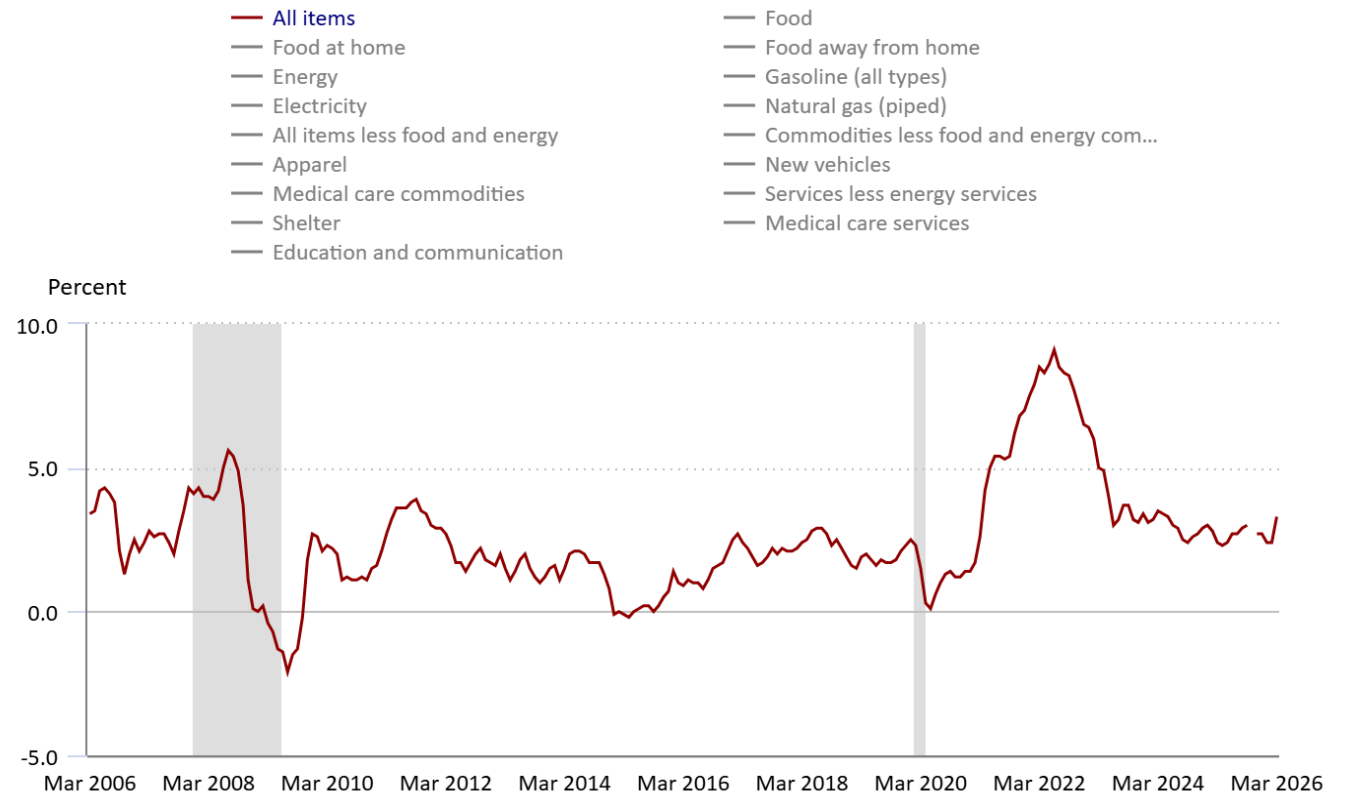
# What is driving energy cost increases in the US?

- ❑ Historically high inflationary pressures
- ❑ Increases in cost in energy and capacity markets
- ❑ Federal policy, including tariffs and tax policy
- ❑ Need to replace grid infrastructure that is at (or past) end of life

# Inflation has abated somewhat, but remains high

- ❑ We have been experiencing annual inflation at much higher rates than in the past
- ❑ While rates have moderated, today's increases are on top of the historically high inflation rates of recent years – resulting in a compounding effect
- ❑ This is not unique to energy costs; costs for everything have gone up (gasoline, groceries, housing, etc.)
- ❑ But when everything gets more expensive, energy costs also get more expensive, as inflationary pressures also contribute to higher costs for poles, wires, transformers, and other utility costs

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.



# Inflation for some key grid components is even higher than overall inflation rates

- ❑ Transformer costs have increased 60-80% since 2020
  - In 2023 alone, distribution transformer costs grew by 14%; substation transformers by 25%
- ❑ Wood poles have also increased much faster than overall inflation
- ❑ Costs for raw materials and supply chain bottlenecks have contributed to cost pressures
  - For example, grain-oriented electrical steel, a key alloy used in wires and transformers, increased 180% in 2020
- ❑ A tight labor market has added to the soft costs associated with utility work, which make up 55% of total costs

☆ Producer Price Index by Industry: Electric Power and Specialty Transformer Manufacturing: Primary Products (PCU38311335311P)



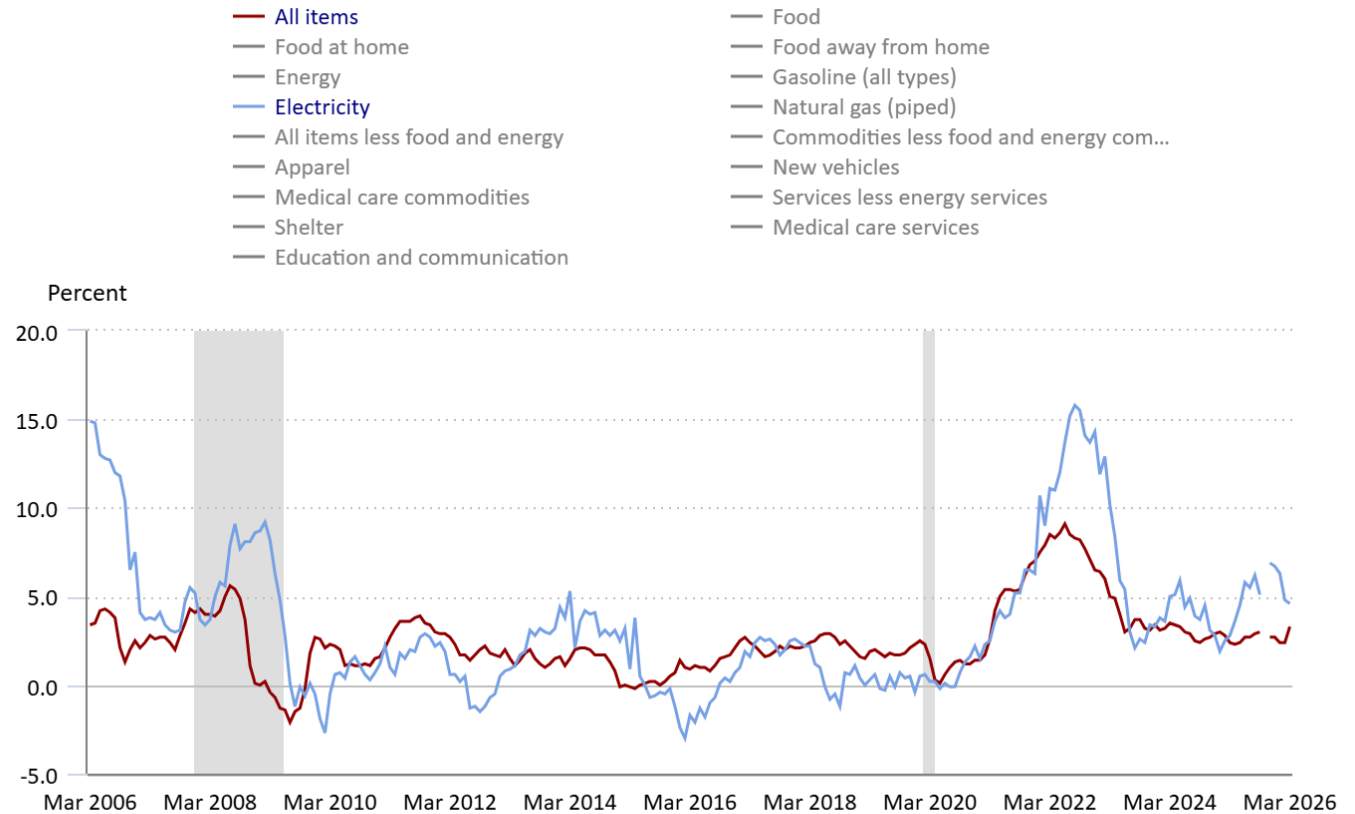
☆ Producer Price Index by Commodity: Lumber and Wood Products: Wood Poles, Piles, and Posts Owned and Treated by the Same Establishment (WPU08710101)



# As a result, inflation in the energy sector has been and remains higher than economy-wide pressures

- ❑ Nationally, inflation for electricity has been – and remains – higher than overall inflation
- ❑ Inflation in the electric sector reached 15.8% in August 2022, compared to the high-point of 9.1% for overall inflation in June 2022
- ❑ National inflation rates for electricity remain higher than economy-wide inflation
  - ➔ Electricity: 4.6% in March 2026
  - ➔ Overall: 3.3% in March 2026
- ❑ Electricity is still relatively stable when compared to energy overall
  - ➔ From -18.9% (05/20) to 41.6% (06/22)
  - ➔ Was 12.5% in March 2026

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted

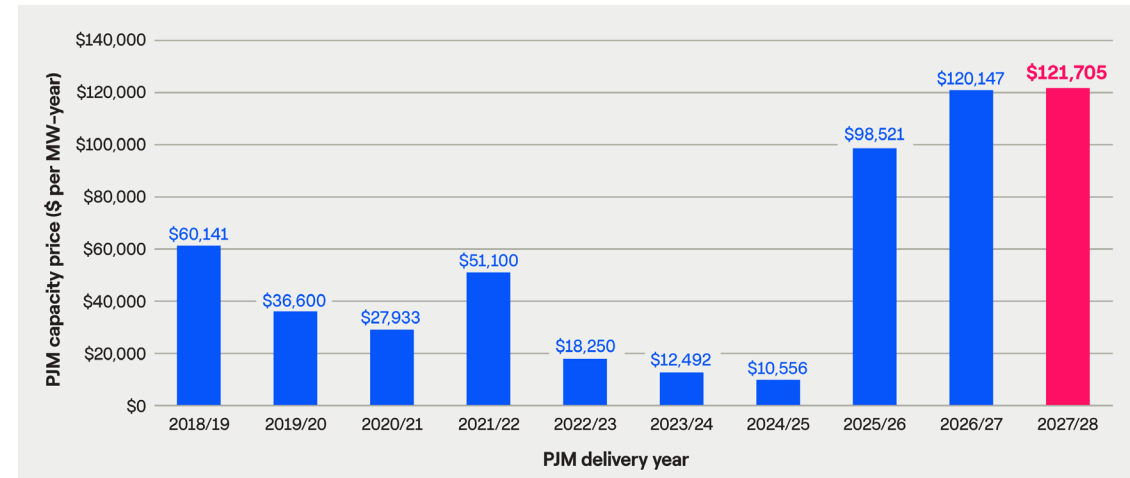
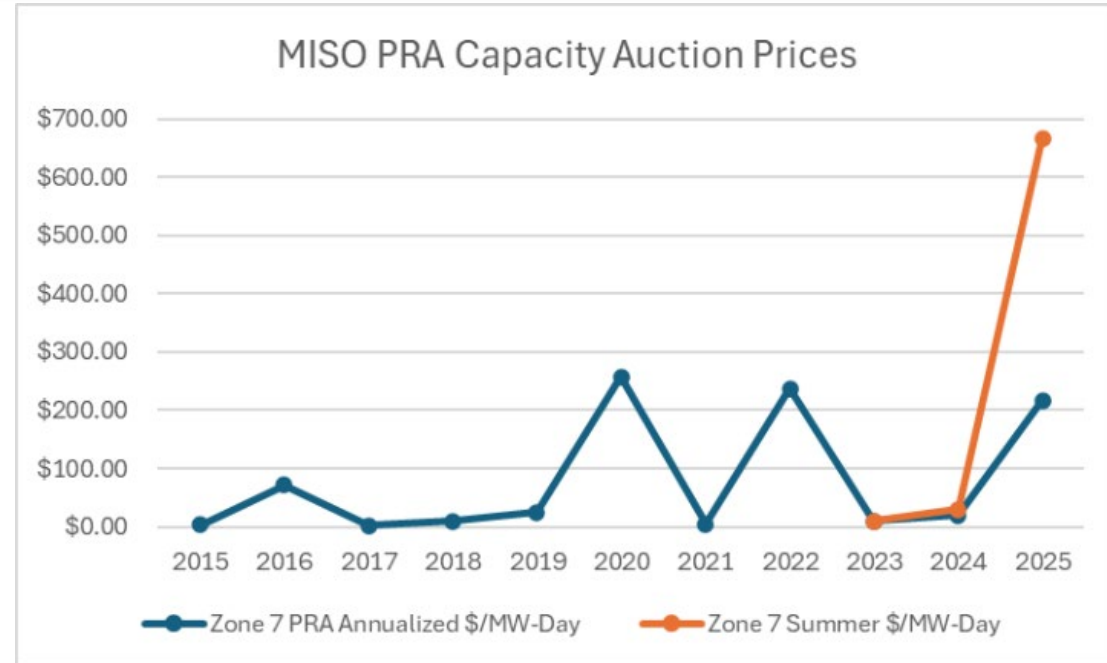


Source: U.S. Bureau of Labor Statistics.



# Higher energy and capacity prices in organized markets are also driving cost pressures nationally

- ❑ For much of the last 20 years, there has been a surplus of available generating capacity, leading to low capacity valuations
- ❑ As a result of retirements, accreditation changes, and other factors, capacity prices have increased dramatically in recent years
  - ➔ For MISO Zone 7 (Lower Michigan), summer capacity prices increased 22x in last year's auction, from \$30/MW-Day to \$666.50/ MW-Day
  - ➔ That represents an annualized capacity price of \$217/MW-Day
- ❑ In PJM, the market was unable to clear enough capacity in its last auction, and so prices cleared at an administratively-set price cap of \$333.34/ MW-Day
  - ➔ Without the price cap, the auction would have cleared at \$529.80/MW-Day



# Higher energy and capacity prices in organized markets are also driving cost pressures nationally

- ❑ In addition to increasing capacity costs, PJM, in particular, has seen significant increases in its energy market costs
- ❑ Between 2024-25, total costs/ MWh in PJM increased from \$55.52 to \$82.67, a 49% total increase
  - ➔ This was largely driven by an increase in energy prices from \$32.59/ MWh to \$49.28/ MWh, a 51% increase
- ❑ While capacity cost increases are larger in percentage terms, energy costs make up approx. 60% of total costs
- ❑ These increases are being driven by a range of factors, including reliance on the market to meet energy and capacity obligations in times of tight market conditions, the addition of new large loads without adequate protections, and other factors

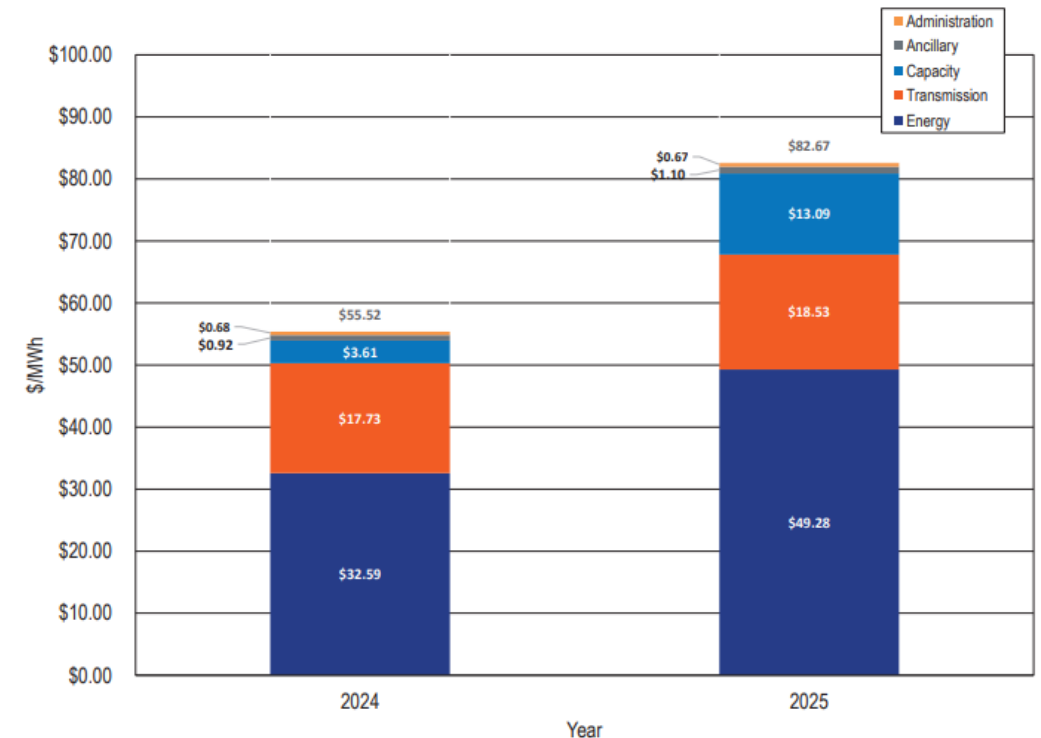


## 'Clear warning signs' as PJM wholesale power costs jump 54% in one year

Also, PJM's last two base capacity auctions show a growing shortfall compared to its reserve margin targets, according to the grid operator's market monitor.

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Figure 3 Total cost per MWh by category: 2024 and 2025



# Tariffs and changes to federal tax policy are also adding to cost pressures

□ Tariff-related increases for common electrical equipment:

- 14.7% for distribution transformers
- 12.5% for wire
- 10.3% for switchgear
- 8.4% for breakers

□ Tariffs are also projected to add cost to electric generation projects:

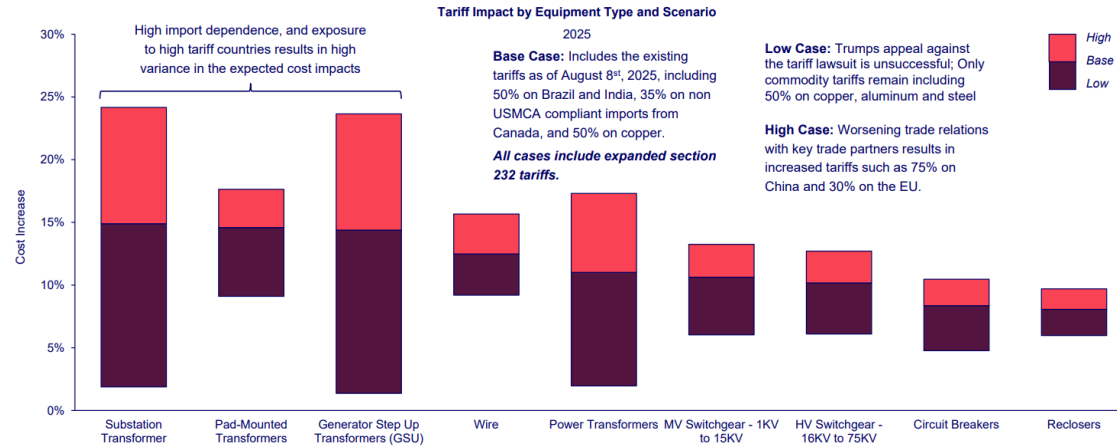
- 5.1%-11.2% for combined cycle gas plants
- 4.2%-12.8% for wind and solar projects
- 4.9%-22.7% for battery storage projects

□ Tax policy changes also are projected to result in higher energy costs

- 25% increase in wholesale energy prices by 2030; 9-18% increase in rates

## Tariff impact remains uncertain amid evolving trade policy

Based on our tariff outlook, equipment cost impacts could range from just 1% to upwards of 20%.

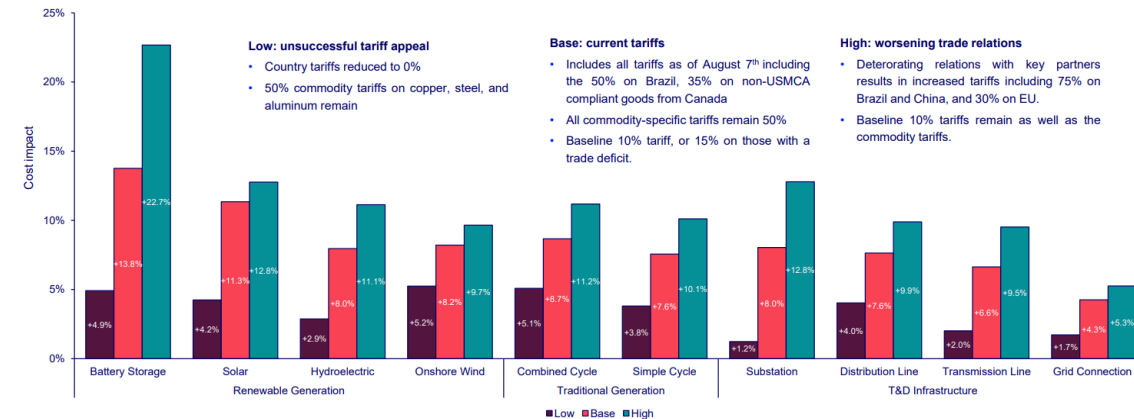


Wood Mackenzie Source: Wood Mackenzie Supply Chain

## New tariffs represent another setback for utility project costs

Increased tariffs on key trade partners like Canada, Brazil and the EU with further inflate equipment costs

### Tariff impacts by asset and scenario



Wood Mackenzie Source: Wood Mackenzie Supply Chain, US Trade Census

# Aging grid infrastructure is driving higher outage rates, spurring increased spending in response

- ❑ A significant portion of the electric grid is near (< 5 years) or beyond its useful life
  - 31% of transmission infrastructure
  - 46% of distribution infrastructure
- ❑ Nearly 70% of power transformers are over 25 years old, making them vulnerable to failure
- ❑ Utility grid spending is increasing, from \$65 billion in 2022 to \$103.6 billion in 2025
  - Distribution system spending increased 47% between 2022-2025, from \$45 billion to \$66 billion
- ❑ 67% of national utility transmission and distribution spending in 2024 was focused on replacements and upgrades, compared to 33% for new lines and substations
  - "This lopsided investment signals a network fighting to keep up"

## FORTUNE

More outages, aging infrastructure, and bicoastal dysfunction: BofA warns America's grid is 30%-46% 'beyond its useful life'

By Nick Lichtenberg  
Business Editor

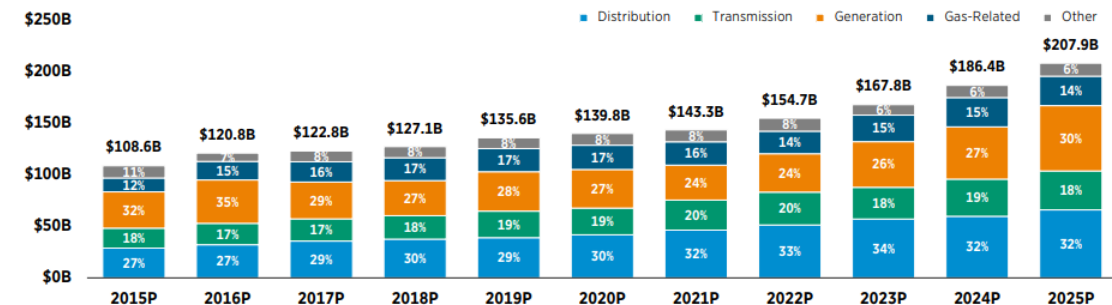
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EEI Projected Functional Capital Expenditures 2015-2025

U.S. Investor-Owned Electric Utilities  
\$ Billions

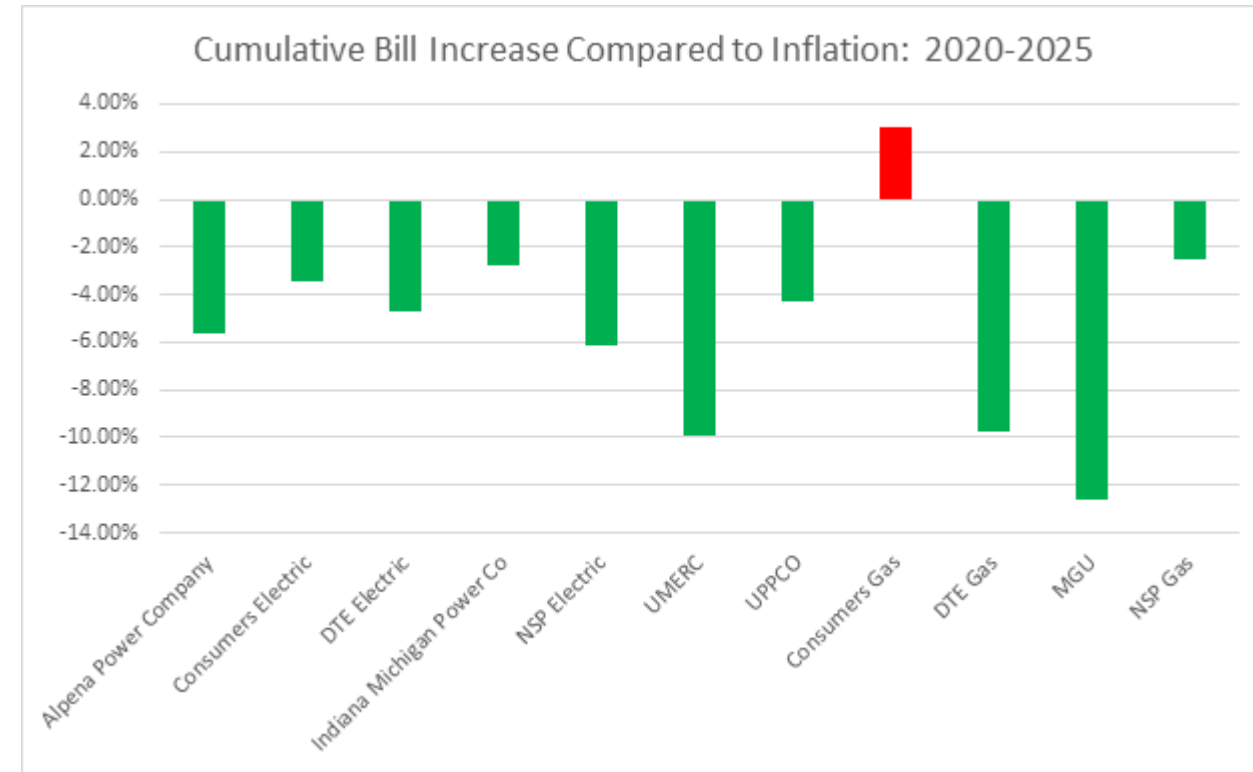


# Michigan-specific considerations

- ❑ Michigan's distribution grid is old, with a significant percentage of utility assets well past typical end of life
- ❑ Tree trim cycles were out of step with industry practice, though that is changing
- ❑ Important differences exist between Michigan's regulatory framework and that which exists in many PJM states, helping to mitigate or avoid those energy and capacity cost increases
- ❑ While cost pressures are real, driven by an aging grid, inflation, and other factors, residential bills in Michigan have been kept below inflation over the last several years, and bills in Michigan compare favorably to bills in other states

# Cost pressures are affecting energy costs in Michigan, but not as much as other states

- ❑ Since 2020, Michigan has held bill increases below the rate of inflation
- ❑ In 2024, Michigan residents paid the 18<sup>th</sup> lowest annual average home energy bills and the 15<sup>th</sup> lowest residential electric bills in the country
  - ➔ Michigan's bill ranking is the best it's been in a decade
- ❑ Average residential electricity bills in Michigan are \$23 below the national average



# Other considerations

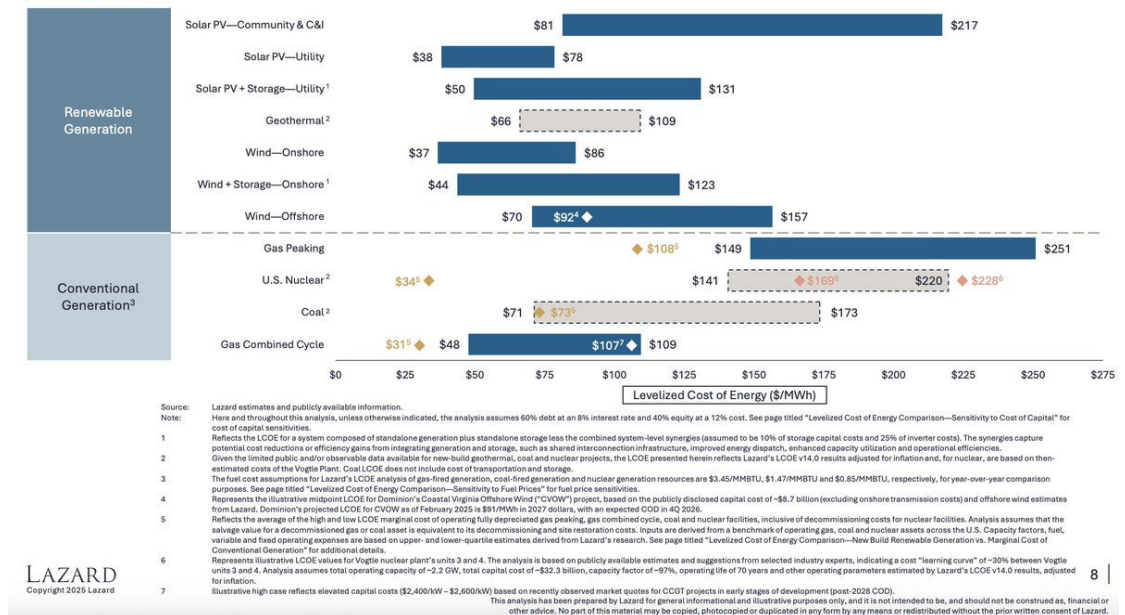
- ❑ As the electric system continues to evolve, Michigan's planning framework provides important tools in evaluating the most cost-effective mix of new generation options
- ❑ The MPSC has recently taken steps to improve the rate case process, as well as adding greater transparency to the impact of rate cases on customer bills
- ❑ Michigan's approach to data centers, including some of the strongest customer protections in the country, is projected to result in significant customer savings, alleviating some pressure on rates in medium term (2027 and beyond)

# Michigan's planning framework is an important tool as generation resources face increasing cost pressure

- ❑ Removal of federal incentives for wind, solar, and batteries is projected to increase costs
  - ➔ "Despite facing macro challenges and headwinds, utility-scale solar and onshore wind remain the most cost-effective forms of new-build energy generation on an unsubsidized basis (i.e., without tax subsidies)."
- ❑ New natural gas generation is also facing significant challenges
  - ➔ Prices for gas turbines are expected to reach \$600/kW by the end of 2027, a 195% increase since 2019
  - ➔ Global orders for gas turbines totaled 110GW at the end of 2025, compared to global manufacturing capacity of 60-70GW, resulting in six-year lead times for projects
  - ➔ Growth in gas projects is also stressing availability of contractors, with order books sold through 2027
- ❑ Michigan's IRP framework is designed to optimize for the most reasonable and prudent combination of resources

## Levelized Cost of Energy Comparison—Version 18.0

Selected renewable energy generation technologies remain cost-competitive with conventional generation technologies under certain circumstances



# Recent rate case process agreements add additional transparency

- ❑ Michigan law includes requirements relating to the timing for rate case filings and review
  - MCL 460.6a(6) allows utilities to file for a rate increase every 12 months
  - MCL 460.6a(5) requires the MPSC to reach a final decision on a rate case application within 10 months of its filing or it is considered approved
- ❑ PA 231 of 2023 directed MPSC to investigate ways to improve the rate case process
- ❑ MPSC had previously taken steps to establish separate proceedings to provide greater review of particular issues
  - Distribution planning cases add important multi-year context that informs review of specific spending proposals. However, these cases are not contested proceedings and do not require Commission approval
  - Have also created separate proceedings for transportation electrification plans and small-scale pilots
- ❑ In December 2025, the Commission added a requirement that utilities communicate the impact of rate case applications on customer bills
  - Communications need to explain how much the increase would cost the average customer
  - Utilities must also establish a dedicated webpage with additional details for each rate case request
- ❑ Commission also updated its rate case filing requirements in 2024 to add consistency and ensure more information is provided at the beginning of the case, allowing for easier review by intervenors and the public

# With strong customer protections, data center load growth can provide significant customer benefit

- ❑ Last year, the MPSC approved a large-load tariff for Consumers Energy, as well as two special contracts between DTE Electric Co. and a subsidiary of Oracle for a data center near Saline
- ❑ Both the tariff and the contracts include additional customer protections
  - Long-term contract commitments, with early termination fees
  - Higher minimum billing demand requirements
  - Up-front credit and collateral requirements and financial risk protections
- ❑ The DTE contract for the Saline data center is projected to provide a \$300 million annual benefit to residential customers
  - Notably, this is even higher than the potential savings found by Synapse Energy Economics in a report issued earlier this week

Jefferies

Equity Research  
April 14, 2026

NORTH AMERICA | Power & Utilities

*"The MPSC's approved large-load tariff, with 15yr minimum contracts and explicit cost-shift protections, is among the stronger frameworks nationally."*



## How Michigan Can Unlock Savings

1. Require data centers—the biggest energy users on the grid— to pay their fair share

Data centers are driving rapid growth in electricity demand, yet without rate structures to reflect this new reality, these costs are effectively passed on to everyday customers. The Synapse analysis estimates that if regulators require data centers to pay for the full cost of the electricity they use, Michigan households could save at least \$99 per year by 2030, or about \$398 total between 2027 and 2030, from just one gigawatt of new data center load, and far more capacity has already been proposed.

# Bottomline

- ❑ Energy costs are increasing as a result of a range of factors, including an aging grid that needs investment, economy-wide and energy-specific inflation, increases in capacity and energy market prices, and tariffs and federal tax changes, among others
- ❑ Michigan is not immune to these factors, but our regulatory framework and a disciplined approach have helped mitigate some of the challenges
- ❑ If done right, load growth from data centers and other sources can provide meaningful customer benefits in the medium term, but uncertainty exists regarding both magnitude and timing
- ❑ Current statutory framework is generally constructive, but perpetuates public frustration over frequency of rate increase filings

# Discussion and Questions

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