Capacity and Transmission Costs are Rising – Here's How to Lower Your Electric Costs

By Brendan Boyle, Director of Market Intelligence, Transparent Energy, May 2026

As has become painfully clear to electricity users across the country, costs are rising sharply, and the upward trajectory is expected to continue. This is not to suggest that fuel input costs are higher. Natural gas and coal prices have been relatively stable outside a few pockets of volatility.

The issue is the cost of **capacity** (fee that pays for the availability of power generation) and **transmission** (charges to maintain and operate the infrastructure that gets electrons to the local distribution network) have exploded since the start of the decade.

The capacity and transmission costs that show up on electric bills are calculated using a simple equation:

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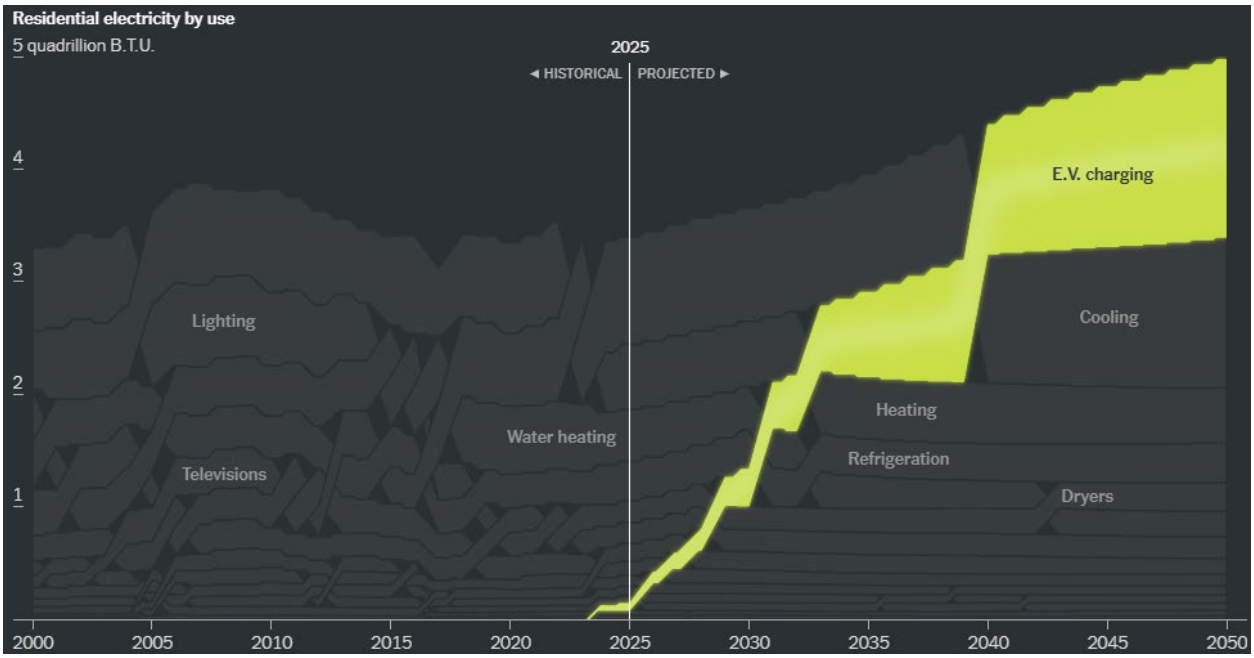
Peak Demand Contribution * Established Grid Rate = Invoiced Line Item

Why Are Capacity and Transmission Costs Higher Now?

There are many reasons why capacity and transmission costs have risen and are continuing to rise. Here are the top three:

1. The U.S. electric grid is incredibly old and in need of constant upgrades.
2. Electric demand continues to rise along with the economy, a growing manufacturing sector, data centers, and the electrification of heating systems and the transportation sector.
3. Older fossil fuel plants are being retired and replaced primarily with renewables that cannot always be counted on to provide reliable supply.

And now, following two decades of stable demand from the residential sector, forecasters are calling for steady upward growth there, particularly from E.V. charging:



Source: NY Times

It's All in the Tag: How Capacity and Transmission Costs Are Calculated

When we talk about the electric grid, it is essentially a series of regional grids which receive electricity from generators (power plants, hydro dams, solar panels, wind farms, etc.) and deliver energy to homes and businesses through a local utility company. Each of these grids has a method to figure out how much power each customer could potentially use and make sure it has more than enough supply to match future demand.

The grids assign a Peak Load Contribution (PLC) or Coincident Peak (CP) tag naming the maximum operating capacity of every electric meter in terms of kilowatt (kW) demand. Here is a breakout of how these grid system operators assign PLCs and CP values:

Grid	Region	Program	# of Peaks	Season	Tag Effective
PJM	Mid-Atlantic	5 CP	5 hours	June-Sept	June 1-May 31
ISO-NE	New England	1 CP	1 hour	Full year	June 1-May 31
NYISO	New York	1 CP	1 hour	July-Aug	May 1-April 30
ERCOT	Texas	4 CP	4 intervals	June-Sept	Calendar year
MISO	Mid-Continent	Varies	Varies	Summer	Annual
CAISO	California	RA*	N/A	Summer	Monthly

**RA – Resource Adequacy is like capacity in that it requires utilities and third-party suppliers to procure enough generating capacity to cover their customer's peak electricity needs, plus a reserve margin. Please contact your TE representative for a deeper understanding or if you have any questions.*

In PJM for example, at the end of September, the grid operator will look back at every electric meter it serves and report how each customer contributed on the 5-highest demand days of the past summer. Each end-user's electric demand (in kW) during the 5 peak hours from June 1st through September 30th will be averaged and assigned as a Peak Load Contribution, or capacity tag.

ERCOT is a non-capacity market but oversees transmission costs in a comparable manner. The Texas grid operator takes the 4 highest demand days (one day each from June, July, August, and September) and pins each meter a Coincident Peak tag that transportation and distribution service providers (TDSPs) use to bill for transmission charges. Whatever you were using during those 4 hours when the grid was under the most stress will be a multiplier in deciding your cost obligation for the following year.

As we have highlighted in the past, from 2024 to 2025 the average cost of capacity in PJM increased by **833%**. In ERCOT, transmission costs increased from $1.5 billion in 2010 to more than $5 billion in 2024, with projections that costs could exceed $12 billion by 2033. These costs are the other part of the multiplication equation that determines "cap and trans" charges. Every forecast and projection that we have researched suggests that **these costs will continue to march higher for the rest of the decade, and likely for several years thereafter.**

How Can I Avoid These Rising Costs?

Nothing can be done to reduce the unit cost assigned by each grid. That is decided at the grid level through a series of wholesale market auctions.

HOWEVER, the other part of the equation – your peak demand contribution – can be managed to dramatically reduce the final billed amount.

This is done by proactively managing electricity consumption to reduce metered demand during the hours when the grid is under the most stress. This coincides with the hours of the year when electricity is most expensive.

Here are a few ways to reduce peak electric consumption:

- **Demand Response programs** – generate revenue by shutting off lighting, equipment, and machinery for when notified by the grid operator.
- **Behind-the-meter generation** – diesel, natural gas, fuel cells, or battery storage.
- **Load shifting** – move energy intensive processes to non-peak hours.
- **Pre-cooling** – run HVAC systems at maximum level prior to forecasted peak hours.
- **Building automation** – pre-program load shedding without manual intervention.

Remember, these adjustments only need to be implemented for mere hours each year to achieve massive energy savings.

A Holistic Approach Towards Energy Procurement

What's happening with capacity and transmission charges around the country highlights how quickly changes in the energy markets can occur and why it is important to work with an energy advisory firm that can keep your organization on top of these changes and, ultimately, implement a strategy to reduce costs.

This all goes much deeper than working to secure the lowest supply rate, which is in itself a key lever to lowering your overall energy costs. Even the most sophisticated energy buyers consistently rely on energy professionals to help them navigate these ever-changing markets.

At Transparent Energy, our most satisfied clients are the ones that combine operational efficiencies (those that reduce capacity charges) with their procurement strategy. Before signing your next energy contract, make sure you understand your company's peak load contribution and how it affects your bottom line. Failure to do so could lead to huge unexpected charges that easily could have been avoided.

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If you are interested in understanding how your supply contract can be impacted by capacity and transmission costs — or if you want help understanding energy markets and building a procurement strategy that controls cost and reduces risk — contact Transparent Energy at **LetsTalk@transparentedge.com**.