

Market Commentary

WEEK ENDING 08.07.26



Short-term power pricing remains **highly weather driven**.



Natural gas prices **remain bearish**.



July finishes as **10th hottest nationally** since 1950.

SUMMARY

July was a month of extremes in **PJM**. An early heat wave drove prices as high as \$1,222.75 per megawatt-hour (**MWh**) before a mid-month cooldown pulled them down to \$21.53/MWh. The prompt August contract followed the same arc, peaking near \$135/MWh before settling at \$81.95/MWh. Short-term pricing remains highly weather driven, and continued swings in pricing — tied to late summer heat risk — are expected to continue through the rest of the season. The 2028/2029 **capacity auction** cleared at the \$325/MW-day (MW/d) price cap for a third straight year, with PJM still 6.8 gigawatts (**GW**) short of its reliability target. Grid reliability remains under pressure — back-to-back capacity shortfalls point to continued policy action from PJM and the Federal Energy Regulatory Commission (**FERC**) in the months ahead. PJM also kicked off its reformed interconnection process, [qualifying 715 projects \(201.5 GW\) into Cycle 1](#). While an encouraging sign of new generation development, PJM's own historical completion rates suggest it will be years before most of this capacity is delivering power to the grid.

The August **NYMEX** natural gas contract held a narrow range for most of the month before sliding to settle at \$2.725 per million British thermal units (**MMBtu**), with the winter strip closing at \$3.52/MMBtu. Geopolitical tensions involving Iran and the Strait of Hormuz pushed global **prices of liquefied natural gas (LNG)** prices to roughly double (near \$20/MMBtu) and added volatility to crude oil (\$70-\$110/barrel), while U.S. gas remains well-supplied with a bearish price lean. That domestic softness is framed as a potential window for customers to consider forward purchases or hedging, given current pricing sits near the low end of the historical range.

July 2026 ranked as the 10th hottest July nationally since 1950, with an early heat wave hitting the Northeast — Philadelphia saw temps of over 100°F for 3 days straight, while Boston hit 101°F — before heat shifted to the upper Midwest and Rockies. August has opened with heat concentrated in the Southwest and parts of the Northeast/Mid-Atlantic, with no clear signal yet of a shift toward sustained eastern heat. Looking further out, **ENSO** readings point toward a strengthening **El Niño** heading into winter.

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SUMMARY

Looking Ahead

Based on the insights in this month's Market Commentary, we recommend customers consider a few key things:

- **Budget for higher capacity costs:** Capacity costs are structurally elevated and likely to stay there; 3 straight years at the auction price ceiling, combined with a persistent reliability shortfall, point to sustained upward pressure on capacity-related charges.
- **Prepare for continued power price volatility through late summer:** Weather remains the dominant swing factor, and an approaching strong El Niño adds uncertainty into winter —

consider risk management strategies to smooth exposure to heat-driven spikes.

- **Consider locking in forward natural gas purchases now:** Domestic prices are sitting near the 10th percentile of the historical range even as global LNG and oil prices stay elevated — a window that has historically favored hedging.

To learn more about how this impacts your business, reach out to your IGS Energy rep or email EnergyAdvisors@igs.com

POWER MARKET

July was a month of extremes across the PJM footprint — a blistering start gave way to a sharp cooldown, capacity auction results reinforced ongoing affordability and reliability concerns, and the interconnection took its first concrete steps toward reforming how new power plants connect to the grid.

Energy prices: a month of two halves

A heat wave in the first 2 weeks of July pushed PJM prices sharply higher. The single highest print of the month at PJM West Hub came at 7 p.m. on July 2, when prices spiked to \$1,222.75/MWh during the earliest and sharpest heat event, pushing that day's full 24-hour average to \$336.65/MWh. At the other extreme, prices dipped to a monthly low of \$21.53/MWh in the early morning hours of July 19, once the mid-month cooldown had taken hold.

The prompt August 2026 contract at PJM West Hub traced a similar arc. Entering July, On-Peak August was trading around \$92/MWh. As the heatwave intensified, it ran up to a year-to-date high of \$135/MWh on July 8 — a roughly \$43/MWh run-up in just five trading sessions. As actual weather eased and that risk premium unwound, the contract steadily retreated

through the rest of the month, settling at \$81.95/MWh by July 31.

Capacity market clears at the price ceiling for third straight year

PJM's 2028/2029 [Base Residual Auction \(BRA\)](#) results, released mid-July, cleared at the FERC-approved price cap of \$325 MW/d — the third consecutive auction to hit that ceiling. Without the price collar in place, PJM estimates the auction would have cleared closer to \$555 MW/d system-wide, and as high as \$777 MW/d in the ComEd zone.

Despite cleared capacity rising 3.7 GW year over year, PJM still came up 6.8 GW short of its reliability target — the second consecutive auction with a system-wide shortfall (last year's shortfall was 6.5 GW). Natural gas remains the dominant resource at 46% of the mix, followed by nuclear (20%) and coal (18%), with gas capacity growing as coal continues to retire.

The consistent theme: Demand growth, particularly from data centers, continues to outpace new supply.

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POWER MARKET

New generation pipeline: first cycle of PJM's reformed interconnection process

On August 3, PJM announced results from the first cycle of its newly reformed interconnection process — a major structural change directly aimed at the supply shortfall driving the aforementioned reliability and pricing pressures.

- 715 new generation projects, representing more than 201.5 GW of [nameplate capacity](#), qualified to move into PJM's study process under Cycle 1 — the first group processed under the reformed "first-ready, first-served" approach.
- The mix is diverse: Storage led with 314 projects (60.0 GW), followed by natural gas (147 projects, 99.8 GW — the largest capacity contributor), solar (117 projects, 11.8 GW), wind (61 projects, 3.9 GW), solar-storage hybrids (37 projects, 7.5 GW), nuclear (24 projects, 17.3 GW), and hydro (5 projects).
- The application window closed April 27 with 811 total proposals submitted; the reformed process requires developers to show real viability up front — meaningful financial commitments and proof of site control — before entering the study cycle, which is designed to run 1 to 2 years per project. There is no backlog remaining from prior interconnection queues.
- PJM is using new tools, including an AI-enabled review tool (HyperQ, developed with Google's Tapestry), to process the volume of applications more efficiently.

PJM continues to project demand could grow by up to 70 GW by 2038, driven largely by data centers and other large loads. Importantly, PJM itself cautions that nameplate capacity figures reflect maximum potential output — historically, only a portion of projects that enter an interconnection queue ultimately sign agreements and reach commercial operation. Since 2020, PJM has processed more than 300 GW of interconnection requests, resulting in just over 100 GW of signed agreements. Only 51 GW is currently under signed agreements without further delay from permitting and supply-chain hurdles.

PJM expects a clearer picture of how many Cycle 1 projects actually reach signed agreements by early 2027 (Transition Cycle 2) and 2028 (Cycle 1 completion). This is the most direct sign yet that new supply is moving through the pipeline, but the historical completion rate is a reason for measured optimism rather than an expectation of near-term price relief.

POWER MARKET COMMODITY CHANGES (¢/kWh)						
ISO & Index Point	PJM AD Hub	PJM NI Hub	MISO Illinois Hub	PJM West Hub	ISONE Mass Hub	ERCOT Houston Hub
Markets Served	OH	IL (ComEd)	IL (Ameren)	PA/MD/NJ	MA	TX
12-Month Strip on 6/30/2026	5.685	4.150	4.884	7.035	8.058	4.395
12-Month Strip on 7/31/2026	5.730	4.225	4.922	6.902	8.375	4.177
Monthly \$ Change	0.045	0.075	0.038	-0.133	0.317	-0.218
Monthly % Change	0.8%	1.8%	0.8%	-1.9%	3.9%	-5.0%

Fig. 3-1

NATURAL GAS MARKET

The August NYMEX natural gas contract traded within a relatively narrow range of \$2.85 to \$3/MMBtu for most of July before coming under increased selling pressure during the final week of the month, ultimately settling at \$2.725/MMBtu. Weakness in the front of the curve also extended into the upcoming winter strip, which closed July at \$3.52/MMBtu. Notably, January 2027 was the only winter-month contract settling above \$4/MMBtu.

Global energy markets experiencing significant disruption

Meanwhile, escalating geopolitical tensions involving Iran and the intermittent closure of the Strait of Hormuz have significantly disrupted global energy markets, contributing to substantially higher international energy

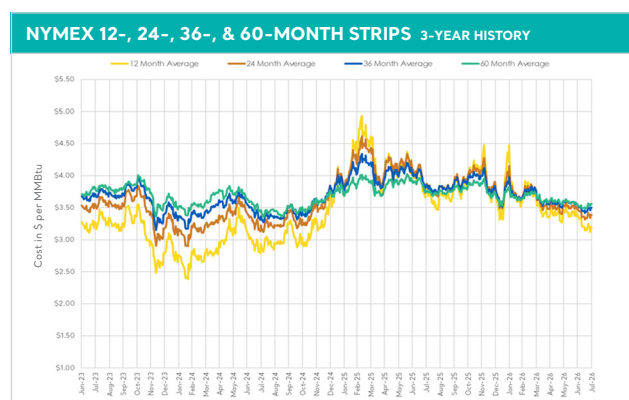


Fig. 3-2

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NATURAL GAS MARKET

prices. LNG prices in both Europe and Asia have doubled from approximately \$10/MMBtu to \$20/MMBtu, slowing the pace of seasonal storage injections across key consuming regions. Elevated global LNG prices, coupled with below-normal inventory levels, support continued robust demand for U.S. LNG exports, with export facilities expected to operate near capacity for the remainder of the year.

Crude oil markets have also experienced heightened volatility. Prices that were trading near \$60 per barrel prior to the war have fluctuated between \$70 and \$110 per barrel as market participants react to evolving geopolitical developments. Higher oil prices improve drilling economics and are likely to encourage additional Permian Basin development along with an increase in associated natural gas production.

Bearish pricing with U.S. gas remaining well supplied

While global energy prices remain elevated, natural gas in the U.S. remains well supplied with prices leaning bearish. The recent decline in domestic natural gas prices may present an attractive opportunity for customers to evaluate forward purchases. Chart 4-1 illustrates pricing for a 1-year natural gas contract beginning January 1, 2027, compared with historical levels dating back to the post-COVID period. Historically, when prices approach the 10th percentile of the observed range — meaning prices have been higher approximately 90% of the time and lower only 10% of the time — the market has offered favorable opportunities to secure a portion of future natural gas requirements.

While there can be no guarantee that prices will not move lower, particularly given ongoing weather uncertainty and broader macroeconomic and geopolitical risks, valuations in the lower decile of the historical distribution have historically provided a constructive signal for customers considering incremental hedging strategies and managing long-term natural gas price exposure.

LAST MONTH ON THE NYMEX				
	Prompt-Month (Sep. '26)	12-Month Strip	36-Month Strip	Winter Strip '26-'27
Settlements on 6/30/2026	3.275	3.393	3.551	3.776
Settlements on 7/31/2026	2.747	3.183	3.496	3.523
Monthly \$ Change	-0.528	-0.210	-0.055	-0.252
Monthly % Change	-16.1%	-6.2%	-1.5%	-6.7%

Fig. 4-2

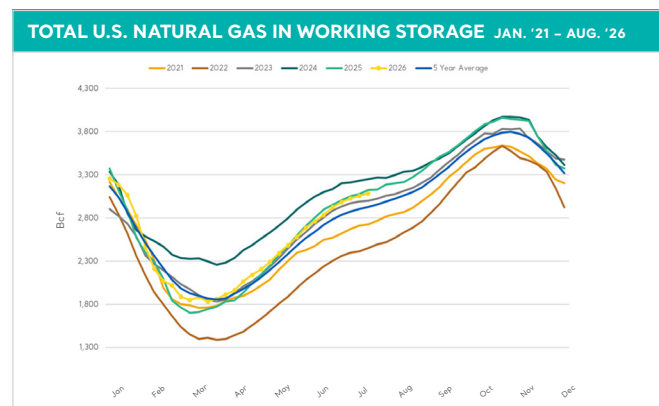


Fig. 4-3



Fig. 4-1

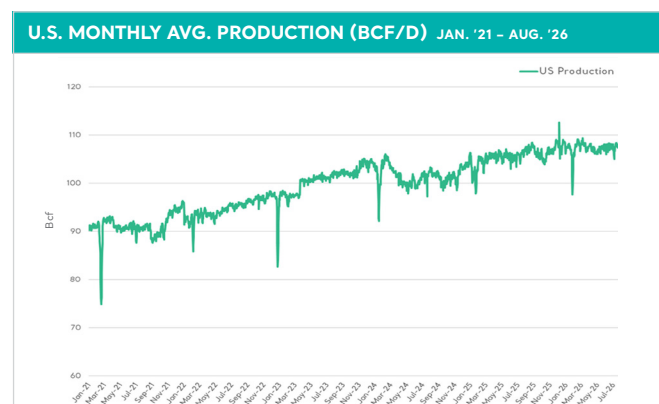


Fig. 4-4

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WEATHER

Extreme heat waves shift around U.S. as likely El Niño looms

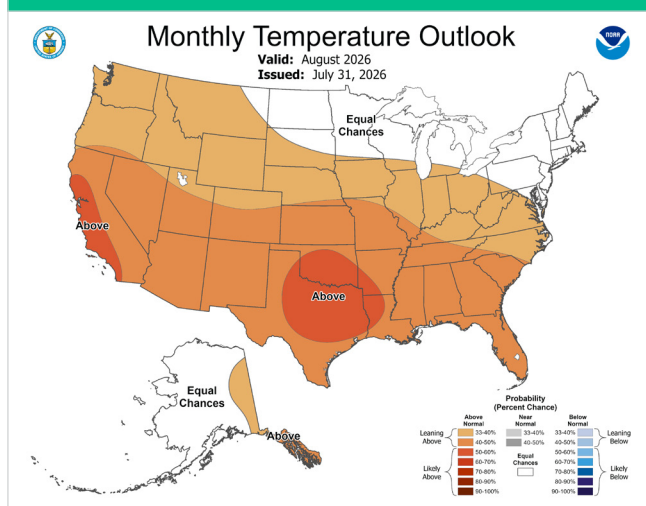
Weather remained the primary driver of the price swings described previously, with an active pattern continuing into the start of August.

- July 2026 finished as the 10th hottest July nationally since 1950 based on power weighted cooling degree days (CDDs). A notable heat wave kicked off the month as soaring temperatures and high humidity affected much of the northeastern quadrant of the country. Philadelphia jumped above 100 degrees 3 days in a row, and Boston hit 101, pushing heat index temperatures above 110 degrees. Above-normal temperatures shifted to the upper Midwest and Rockies for the remainder of the month, as the East retreated to more seasonable temperatures on average.
- Given the month's ranking, 6 of the top 10 hottest Julys have occurred in the 2020s, with all but 1 of the remaining years in the 2010s.
- August has started off with heat from the Southwest through California and across the Northeast and parts of the Mid-Atlantic, while cooler temperatures are noticed in the rest of the country. Overall, the month favors anomalous heat from northern Texas through the Southwest, with near-normal temperatures in the Midwest and Northeast. Models thus far have yet to indicate a shift to a pattern that favors eastern-focused heat this month.

- Temperatures in the ENSO 3.4 region are at 1.5 degrees Celsius above normal, as we currently sit in an El Niño Advisory waiting for the arrival of an official El Niño declaration. Most models have temperature anomalies at least 2 degrees above normal, and in some cases 3, boosting confidence for a particularly strong event this winter.



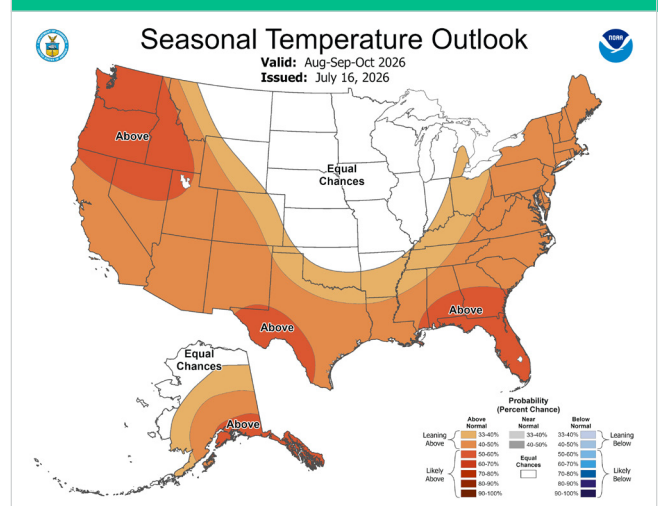
AUGUST 2026 TEMPERATURE OUTLOOK



[Source](#)

Fig. 5-1

3-MONTH TEMPERATURE OUTLOOK AUG. 2026 - OCT. 2026



[Source](#)

Fig. 5-2