



**NRG Proposal for Re-pricing PJM's Capacity Auction  
("Two-tier Pricing")**

**Executive Summary for the CCPSTF**

**October 11, 2017**

NRG Energy, Inc. ("NRG") proposes market rule changes to achieve the dual goals of: 1) ensuring that public policy-sponsored resources are able to access capacity market revenues, and 2) ensuring that capacity market prices always reflect the unsubsidized economics of the marginal unit of capacity. These goals will be supported by the addition of a two-tier pricing model in RPM. In short, the first stage of the capacity auction will reprice affected resources, establishing the competitive clearing price and the set of cleared resources that will be paid the first-stage price. In the second stage, public policy resources would participate at their preferred offer prices (*i.e.*, offers that may reflect subsidies or desire to clear), which would set the price to be paid to public policy resources. Finally, the total capacity obligation of each resource, both those cleared in the first stage and public policy resources cleared in the second stage, will be adjusted such that the total costs paid through the PJM settlement are equal to the costs that would have been paid under the competitive outcome established in the first stage. Each of these elements is explained briefly below.

i) Determination and Application of Repricing

As part of the annual auction process, all resource owners would be required to submit a certification to PJM and the IMM that the resource was not receiving, and did not have any form of agreement to receive, payments from or authorized by a governmental agency, or, in the alternative, to disclose to PJM and the IMM the nature and amount of such payments. The resource's projected revenues would be adjusted, where appropriate, to replace such payments with estimated market-based revenues, if any, in establishing a minimum offer price for the resource.

ii) First-stage Auction

The first-stage auction would be run exactly as it is today, with all public policy-sponsored resources' offers repriced to the offer prices described in (i) above. This stage of the auction would establish the clearing price(s) and identify the resources that would be paid the first-stage price.

iii) Second-stage Auction

In the second-stage auction, any public policy resource that had its first-stage offer price adjusted under the repricing rule may participate with no restrictions to the resource's offer. The clearing price(s) established in the second stage would be paid to each public policy resource that 'cleared' in the second stage but did not clear in the first stage.

iv) Quantity Pro-rating

If not adjusted in some way, paying all cleared resources the clearing price in the first stage and also paying all eligible public policy resources the second-stage price would result in additional cost to consumers through the PJM auction settlement. NRG proposes to address this concern by reducing, pro-rata, the MW capacity obligations of all resources. First, PJM would establish the total cost of the competitive market outcome, equal to the first-stage clearing price (for each LDA) times the cleared quantity in the first stage (in each LDA), which has been referred to in presentations to the CAPPSTF by the short-hand,  $P1 \times Q1$ . PJM would then calculate a scaling factor for the MW capacity obligations for each resource (for each LDA) based on the ratio  $\{(P1 \times Q1) / [(P1 \times Q1) + (P2 \times Qs)]\}$ , where  $P2$  is the clearing price established in the second stage auction (for each LDA) and  $Qs$  is the quantity of subsidized public policy resources that will receive  $P2$ . Each resource's MW obligation would be multiplied by the resulting scaling factor to produce a smaller MW quantity that would have the obligations for market participation and performance associated with RPM. MWs from each resource that are not so obligated would be available to transact bilaterally, offer into Incremental Auctions, or remain unobligated and participate in energy and ancillary service markets.