

You may have heard that the **cost of capacity is increasing in PJM starting June 1, 2025**, and you may be wondering why and what that might mean for your business. Here’s what you need to know, starting with the basics around what capacity is and how it impacts the cost of energy supply to your business.

What are capacity charges?

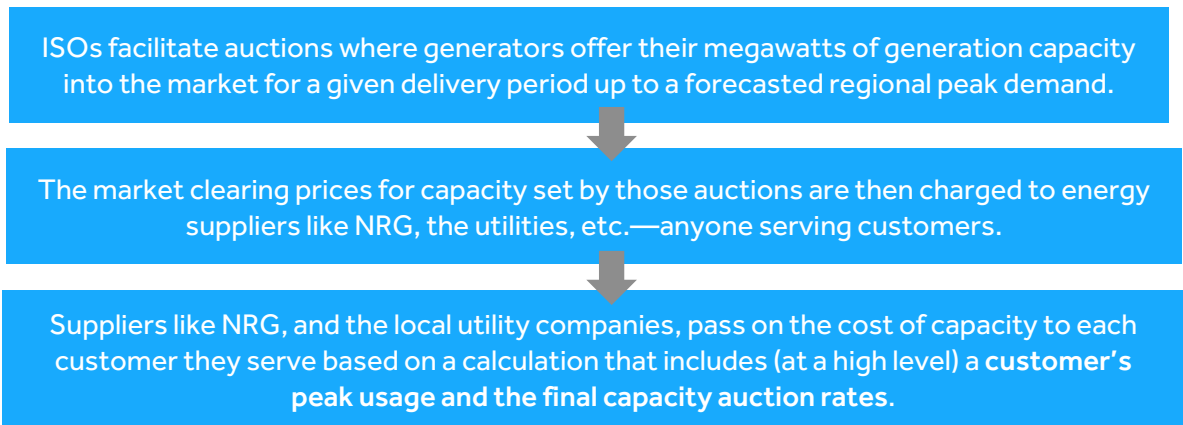
In several electricity markets, independent system operators (ISOs) or regional transmission organizations (RTOs), like PJM, make payments to power generators for their available capacity—independent of the cost of the energy they produce. These payments provide an incentive for generators to locate in a particular market, and they are intended to help **guarantee that there will be sufficient generation to meet the maximum energy requirements of the market at all times**. To fund these capacity payments to generators, the ISOs and RTOs “sell capacity” to load serving entities, like NRG, and NRG is required to procure capacity based on our specific customer load in order to supply power to customers.

What are RTOs and ISOs?

Regional transmission organizations (RTOs) or independent system operators (ISOs) are organizations in their respective regions that ensure adequate resources are available to reliably generate and transmit enough power to meet the demand. They coordinate the movement of wholesale electricity within their geographic footprint. PJM’s footprint includes [13 states and the District of Columbia](#).

Who pays capacity charges?

Ultimately, **all energy consumers pay capacity charges** as part of their energy supply charges. At a high level, the chain of purchase and cost application looks like this:



The type of product/price plan you have with us will determine whether capacity charges are bundled or unbundled and passed through as an individual charge/line item. **Your product type and contract language will determine whether changes in capacity costs during your contract term will be passed through to you.**

What is going on with capacity prices in PJM?

PJM conducted a capacity auction on July 17, 2024 to procure capacity resources for the 2025/26 capacity delivery year (DY), which is June 1, 2025–May 31, 2026. The [published results](#), which were later approved by FERC, show that capacity rates settled more than 9x higher than rates for the 2024/25 DY (June 1, 2024–May 31, 2025) for most of the PJM footprint. This amounts to a ~900% increase. PJM [attributed this cost increase to new market rules](#) that went into effect for this auction and that ultimately tightened the supply/demand balance.

What does this mean for my electricity costs?

Rising capacity costs may impact you now or in the future, **depending on your price plan, contract terms, and the length of your current contract**. Keep in mind the following:

Capacity costs are calculated as:  
**capacity rate x your peak load contribution**

If you have a product structure that locks in capacity costs:

- You could be impacted by the capacity rate increase for the 2025/26 capacity DY. Because the rates increased due to regulatory actions that [specifically changed the market construct and resulted in higher prices](#), this rate increase qualifies for a change in law. [Learn more about changes in law and what qualifies as one](#).
- You could also be impacted by changes in your peak load contribution (PLC) throughout your term. Your PLC is a unique value that is used to calculate your specific capacity costs. Your PLC is determined by your peak demand on the days that PJM designates as coincidental peaks across the ISO. If your PLC increases, we may pass through the costs associated with that increase. *Check your contract terms*.

If you have a product structure that passes through capacity costs:

- You may be used to yearly fluctuations in your capacity rate/costs because when rates change on June 1 each year, and/or if your PLC changes, those are itemized on your invoice and very transparent. However, this year’s rate increase is quite significant therefore it’s important to be prepared.

**If you are renewing your contract for a period that covers June 1, 2025, forward:** price quotes to lock in your costs for that contract term may be higher than previous terms since the higher capacity rates will be factored in.

What happens after May 31, 2026?

PJM is getting set to conduct a base residual auction (BRA) in July (2025) that will secure capacity resources for the June 1, 2026–May 31, 2027 timeframe. Since the July 2024 BRA resulted in higher rates for this year, additional regulatory actions have occurred that have changed, yet again, the capacity market rules. For more information on those changes and the potential impact to the auction and prices for 2026, please [access our informational update](#).

Questions?

Please reach out to your NRG Account Executive or your energy broker.