October 28, 2014
VIA E-MAIL TO capacityperformance@pjm.com

The PJM Board of Managers
c/o Howard Schneider, Chairman
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19403

Dear PJM Board of Managers:

On behalf of EquiPower Resource Corp., its affiliates and subsidiaries, and in addition to the comments submitted by the Gas Generator Coalition to which we signed on, I am writing to urge the Board to extend by one year the implementation date for the “PJM Capacity Performance Updated Proposal”, dated October 7, 2014 (the “CP Proposal”). While we applaud PJM’s sense of urgency in dealing with reliability issues following the polar vortex winter of 2013/14, we believe the manner in which the reforms are being proposed seems rushed and, as a result, could produce unintended consequences which are damaging to the market. We believe a more measured approach is called for to allow adequate time to assess the market impacts of the CP Proposal which could be combined with short term measures to bolster reliability in the meantime, if necessary.

EquiPower Resource Corp. (EquiPower) owns and/or operates a generation fleet of approximately 8,500 MWs located primarily in the three Northeastern RTOs. More than 3,600 MWs of our fleet, consisting of coal, oil, and gas generation, is located in the PJM footprint1. Therefore, we have a considerable interest in the CP Proposal being implemented in a manner that increases its likelihood of achieving its objectives.

EquiPower believes that PJM’s timeline which seeks to have these changes in place by the 2015 Base Residual Auction (BRA) is overly aggressive. It is expected that tariff language, needed to implement the CP Proposal, which has many undefined elements, won’t be filed with FERC until late November or early December. This timing will not provide sufficient time for FERC to receive and evaluate stakeholder comments, approve and/or modify the PJM proposal, nor will it provide generators with adequate time to evaluate and develop project improvements, conduct necessary technical, environmental, and economic analyses, which must be completed in order for generators to prepare and submit offers that appropriately reflect the risks and rewards associated with this drastic modification to RPM in early January 2015 for the May 2015 BRA. In addition, allowing more time will provide the market time to respond to the issues experienced during the winter of 2013/14 and

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1 EquiPower Resources Corp. owns and operates Liberty Electric Power LLC, which is the PJM Voting Member, Kincaid Generation LLC, 50% of Elwood Energy LLC, and Richland-Stryker Generation LLC.
provide PJM a better measure of the true underlying causes of the reliability issue. Most of the outages experienced during this period were the result of the impact of very cold weather on generation equipment and require minimal investment (much of which was made real time during the winter 2013/14) in the normal course of business as opposed to being caused by chronic and widespread reliability issues in PJM.

If PJM is interested in increasing the level of operational availability of its fleet of generators, it must provide generator owners adequate time to engineer and implement the necessary improvements. Generators need time to evaluate the wide range of potential alternatives (e.g. install freeze protection, purchase products to provide more secure gas delivery where available\(^2\), install dual fuel capability, etc.) and the associated economic returns. Some of these projects will require extensive engineering, technical, environmental, legal and economic analyses. Generators cannot be expected to complete the requisite analyses prior to the submittal of offers to the Independent Market Monitor (IMM) by January 11, 2015, the date offers into the 2015 BRA are due, even if this effort had started in August when PJM first discussed the CP Proposal. This timing is simply unworkable.

Failure to provide adequate time for the fleet to adapt could have significant negative implications. Without adequate time to adapt, clean and efficient gas-only peaking units, which are critical to system reliability and very dependent on RPM revenues, could be forced into premature retirement, which could lead to operational issues for PJM, particularly given increasing amounts of intermittent renewable resources and the country’s environmental objectives. A well thought out approach that provides sufficient time for evaluation and implementation is much more likely to be successful in achieving objectives than a rushed change of this magnitude.

By way of example, in ISO-NE it took a number of years and interim measures (as they have been dealing with gas-electric issues well before PJM during the winter of 2013/14) before the current Pay For Performance capacity market design could be established. It is also highly noteworthy that the ISO-NE Pay For Performance capacity market design will not go into effect until FCA-9 (June 2018-May 2019 capacity period). The measured approach taken by ISO-NE does not reflect a lack of urgency on the reliability issue but rather demonstrates recognition that considerable and meaningful stakeholder involvement, and extensive study of a number of approaches is needed to ensure that the market design implemented will produce the desired outcome and also reduce the risk of unintended consequences to the market that can readily occur with a well intentioned but hurried approach. It also allows all market participants to prepare for the new design. This is very critical to PJM’s CP approach as the actions many generators will need to take in order to participate without undue risk in the premium product involves further investment which takes planning, time and money.

\(^2\) The availability of these products is particularly concerning given PJM’s apparent reliance on a single consultant whose advice seems to be contrary in most cases as to how the market actually transacts.

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EquiPower may well benefit from the current CP Proposal but we believe it is far better to have well

designed and thoughtfully implemented market reforms that lead to better functioning markets

rather than simply advocating positions that may benefit us in the short term. Therefore,

EquiPower urges the PJM Board to postpone action on the CP Proposal and direct PJM management

and staff to take an additional year to thoroughly evaluate the implications of the CP Proposal and

to provide generators with adequate time to adapt to the requirements of the CP Proposal.

Please feel free to contact me to answer any questions or to discuss these comments.

Sincerely,

[Signature]

Curtis A. Morgan
President & Chief Executive Officer
EquiPower Resources Corp. on behalf of
Liberty Electric Power, LLC and affiliates

cc:    Terry Boston - CEO and President PJM
       Dave Anders - Director, Stakeholder Affairs, Market Services