The LS Power Group ("LS Power") is pleased to present the following comments in response to the PJM Staff Proposal for Capacity Performance (the "Proposal") dated August 20, 2014. LS Power views the Proposal as a complete redesign of the PJM capacity market, threatening to undo the regulatory and market certainty that has led to significant generation investment in the PJM footprint. The Proposal presents a significant risk to the successful operation of the PJM market and creates considerable risk of other unintended consequences, threatening the success of winter reliability mitigation measures and concerns and potentially exacerbating summer reliability as well. In these comments, LS Power urges PJM to reconsider a major restructuring of the capacity market on a shortened time frame and instead to address the immediate winter reliability needs with a more targeted and less disruptive alternative.

I.

IDENTITY OF LS POWER

LS Power is a power generation and transmission group that owns and operates over 4,000 MW of power generation in PJM consisting of single-fueled and dual-fueled combustion turbines and combined cycle, pumped storage, run-of-river hydro and solar facilities. LS Power has invested billions of dollars in PJM over the past several years through the construction of new power generation and the acquisition of existing generation. LS Power has also made the

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1 LS Power is also actively developing over 2,000 MW of combined cycle power generation in PJM.
long-term decision to bring certain power generation from neighboring markets into PJM. LS Power’s power generation in PJM is predominately, if not wholly, supported by revenues from PJM’s key markets including capacity, energy and ancillary services.

II.

BACKGROUND

LS Power’s decisions to invest in PJM have been based upon the regulatory certainty and consistency of the market structure designed to support PJM reliability by providing appropriate market signals to incent fundamental supply and demand balance. While there have been, and continue to be, regulatory changes, these changes have generally decreased in scope as the market structure has matured and been “around the edges”. LS Power recognizes the need for regulatory changes to respond to unforeseen events and market developments and further understands that maintaining reliability is of utmost importance. While reliability must be protected and modification of market rules will be necessary, the Proposal dramatically alters the existing capacity market structure. The legitimate desire to address this past winter’s polar vortex events should not negate years of market design and regulatory certainty, the same regulatory certainty that has created enough capital market confidence to support nearly 16,000 megawatts of new combined cycle capacity investment in the past three years.² Rather, all changes in market design should be developed in a way that is tailored to meet the reliability goals while impacting the marketplace as little as necessary and without dramatically altering a market structure upon which billions of dollars have been and are currently being invested.

Historically, PJM’s long-standing Reliability Pricing Model (“RPM”) auction has been held out as a successful capacity market model for annually procuring adequate supplies of

² PJM 2017/2018 RPM Base Residual Auction Results
capacity resources to meet the forecasted load plus the reserve margin to ensure the reliability of the system. The fact that new merchant generation is actively being built and financed despite only receiving a one year capacity award three years ahead speaks to the investment community’s view of the capacity market’s strength, stability and consistency. While all markets tend to evolve over time, drastic market redesigns such as the Proposal often bring about unintended consequences and can shake market confidence.

In response to a concern about generation performance during last winter, PJM has proposed the single most substantial restructuring of the capacity market since FERC first approved the RPM in 2006. The Proposal centers on the bifurcation of the current generator capacity product into two products: (i) Capacity Performance product (“CP Product”) and (ii) Base Capacity product (“Base Product”). For the first time in PJM, the Proposal would differentiate capacity payments to generation resources based on certain proposed qualification and performance criteria which would differentiate resources based on facility capabilities.³ Again, while LS Power supports PJM taking steps to insure greater reliability of generation resources, the overreach of the Proposal impacts the economics of generation resources by picking winners and losers based on inappropriate bright-line, and in some cases apparently arbitrary, criteria; which may end up increasing the value of certain resources while decreasing the value of others without sufficient reason. Furthermore, the Proposal’s reliance on penalties to drive additional investment is a significant deviation from the FERC-approved performance incentive approach taken by ISONE.

³ Rather than simplifying the RPM by reducing the number of products offered into the market, PJM unnecessarily further complicates RPM by creating four different capacity products – CP Product, Base Product, Extended Summer Product, and Limited DR Product.
III.

GENERAL OBSERVATIONS

The drastic revamping of RPM appears to be based on some faulty assumptions of actual market behavior and fails to consider generator response already taking place under the current market design.

Underpinning the construct of the Proposal is the concept that the new CP Product will yield a sufficiently higher clearing price to entice existing generators to make investments to meet the new CP Product qualification criteria. This concept is fundamentally flawed given the dynamics of existing generation in RPM. The Proposal is, instead, de-valuing the current Base Product and forcing natural gas-fired generation to make an investment for essentially no return of or on capital. The Proposal fails to consider the fact that over 70% of capacity resources offer into the RPM auction as a price taker – or a $0.00/MW-Day offer. These resources have a “sunk” investment and their bidding behavior demonstrates the need simply to clear the RPM auction regardless of price. The vast majority of existing natural gas-fired generation, which characteristically has low fixed costs, is in this category. The marginal, or price-setting resources, have high fixed costs or require significant capital expenditures (e.g. nuclear and coal-fired generation). The CP Product qualification criteria appear to be structured in a manner that will require dramatically more investment from natural gas-fired generation related to fuel firming as compared to coal-fired or nuclear generation. While a natural gas-fired generator will be able to reflect the cost of this investment in its offer, its offer price should, in most cases, be below the recent market clearing price of $120/MW-Day, will not have an impact on clearing prices, and, as a result, will not be able to recoup the extensive capital investment needed to

qualify as a CP Product. Forcing generators to spend more, while increasing risk and providing no upside for over-performance (e.g. ISONE), will have a chilling effect on future investment in PJM for both new and existing generation.

In addition, the Proposal fails to account for the fact that market forces are already at work responding to the winter event. These forces are created under the existing market construct, and generators are taking action based on their specific experiences. LS Power, like PJM and a number of generator owners, was disappointed with performance during the last winter’s extreme events. This was one of the coldest and most extreme winters that PJM asset owners have experienced in twenty years and certainly the coldest and most extreme winter since PJM eliminated the mandatory winter capability test several years ago. Many of the PJM capacity resources have never experienced such extreme cold temperatures and operating conditions. In response to this past winter’s experience, LS Power has already made investments at many of its plants related to weatherization to improve performance during these types of events. These actions were taken under the current market structure where a generator is penalized through significant lost energy revenue and reduced capacity revenue for lack of performance.

The Proposal gives pause to LS Power and other generators at the same time investment decisions are being made regarding ways to better respond to cold winter events seen this past year. The breadth of the changes proposed, with an overlay of uncertainty as to what may or

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5 For example, the Independent Market Monitor has estimated the cost of fuel oil conversion for GE Frame 7fA to be $52.01 per MW-day; Monitoring Analytics Capacity Performance Product Assumptions; http://www.monitoringanalytics.com/reports/Market_Messages/Messages/IMM_ELC_Capacity_Performance_Product_Assumptions_20140915.pdf

6 http://www.pjm.com/~media/committees-groups/committees/elc/postings/capacity-performance-action-item-presentation.ashx (citing wind adjusted temperature of -4.1 degrees Fahrenheit on 1/7/2014 and http://www.pjm.com/~media/committees-groups.committees.elc_postings/capacity-performance-winter-weather-parameter.ashx (citing last time wind adjusted temperature was that low was 1994 at -11.7 degrees Farenheit).
may not be accepted through the regulatory process, creates a poor investment environment that may result in delay or cancelation of investments.

LS Power fully appreciates the need for PJM to explore ways to address the reliability concerns exposed by last winter’s experience. However, such goals can be accomplished with a more temperate approach and without the drastic market overhaul and resultant disruption brought about under the Proposal.

IV.

CHANGES SHOULD HAVE LIMITED IMPACTS TO THE CURRENT MARKETS

LS Power urges PJM to implement changes to protect reliability in a manner that will be least impactful to the current markets already in place. The broad sweeping Proposal lacks many details as evidenced by the hundreds of questions from stakeholders and the numerous acknowledgements by PJM that finer points are still being worked out. PJM’s first-time use of an accelerated review under the Enhanced Liaison Committee raises further challenges for stakeholders to adequately analyze the magnitude of the Proposal and provide meaningful input. Effectuating a dramatic and unprecedented overhaul to the capacity market in such a shortened timeframe is a tall order and may create unintended consequences such as: 1) failure to achieve desired reliability investment; 2) dramatic cost increases; and even 3) loss of summer capacity resources.7

7 By comparison, it took years, not weeks, for PJM and the stakeholders to develop and implement RPM. As stated in the December 2006 FERC Order (ER05-1410) approving RPM (the “2006 Order”) – “PJM has been working with its stakeholders for several years to develop a comprehensive approach to both retaining existing generation and establishing prices that will encourage the entry of resources to resolve reliability problems” (paragraph 8 of the 2006 Order). The 2006 Order itself was the result of PJM filing the initial RPM Section 205/206 filing in August 2005 (the “2005 Filing”) after almost a year-long stakeholder process and some 16 months before the 2006 Order.
Instead of re-writing RPM, LS Power supports a more measured approach. The capacity market is designed and structured to meet the peak capacity needs (plus a reserve margin), which occur in the summer for PJM given that it is a summer-peaking market. The Proposal re-focuses the capacity market to winter reliability. One of the unintended consequences of the Proposal is that this shift may come at the expense of summer reliability. To the extent there is a shortfall in meeting winter reliability, the Proposal would unnecessarily result in a corresponding shortfall in summer reliability. This would occur given the Proposal caps the amount of “non-winter” resources whereby a shortfall in CP Product, which is targeted to meet the winter peak, would result in a shortfall in resources to meet the summer peak. PJM has provided no analyses or support to justify that sufficient capacity resources will be able to qualify as CP Product. Given the lack of certainty generators face in recovering investments necessary to meet the required criteria, there is a significant risk that the market will be short on CP Product resulting in a shortfall position for the winter. However, such winter shortfall will also result in PJM being similarly short with respect to meeting its even higher summer peak. Clearly, any proposal that gambles on meeting rare winter conditions, such as those experienced during the polar vortex, at the risk of increasing summer reliability exposure requires some assurances that adequate generation will exist. However, PJM has failed to conduct any evaluation of this at all as evidenced by the following posting on the PJM FAQ website where it conceded that the amount of CP Product cleared could “conceivably be less than the target amount”\(^8\).

Question –

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RPM Must-Offer Requirement

How many MW of resources does PJM estimate will offer in as the Capacity Performance product? If an insufficient amount of resources offer in as the Capacity Performance product, what actions does PJM propose to remedy this issue?

PJM Answer –

PJM has not evaluated how many MW would offer as Capacity Performance. The amount cleared could conceivably be less than the target amount resulting in capacity prices above the Net CONE.

This potential shortfall highlights a fundamental flaw with the Proposal’s approach. Specifically, PJM should avoid shoe-horning an entirely new capacity product designed to address winter reliability issues within a structure predicated on meeting PJM’s peak capacity needs in the summer. Instead, the winter reliability issues can be best addressed through combining a few targeted enhancements to the current capacity construct included in the Proposal along with establishing a new targeted winter reliability program. This approach would redress certain market flaws that have been identified, and at the same time creating incentives for generators to qualify for a separate winter-focused product. Most importantly, this approach would work to achieve the identified reliability goals without unraveling the current RPM structure. This approach also complements the other related stakeholder proceedings to ensure winter operation including reinstituting the winter capability test and developing a winter preparedness checklist.

A. Implement performance incentives and fix clear flaws in the capacity market design

The Proposal does identify certain flaws within the current capacity market which were highlighted by the events of the past winter. LS Power suggests PJM move forward to
implement those portions of the Proposal that focus on incentives to perform during peak periods and correct clear flaws in the current capacity market. Specifically, LS Power suggests PJM implement the following sections of the Proposal in accordance with the comments contained herein:

- Section IV – Unforced Capacity Calculations and Reserve Margin
  - LS Power supports removal of Out of Management Control (“OMC”) exclusions from the calculations for the purposes of RPM UCAP
  - LS Power supports the removal of the DR Factor and FPR Multiplier in calculating UCAP value of DR and EE

- Section VII – Peak Period Performance
  - LS Power supports implementing the Non-Performance Penalty
  - LS Power supports changing the Deficiency Penalty to be the greater of the Capacity Deficiency Penalty or the Non-Performance Penalty
  - LS Power supports applying the Non-Performance Penalty to both Annual DR and EE
  - LS Power supports imposing the penalties on all resources for Maximum Generation emergency or any more severe emergency procedure during the months of May through October

- Section VIII – Product Offer Requirements
  LS Power supports the changes (i) to the offer requirement to allow generators to reflect in their capacity market offers, specifically with the Market Seller Offer Caps for Generation Capacity Resources, the costs of ensuring performance during system peaks, and (ii) allowing resource
owners to reflect performance risk, up to some threshold level, during peak periods in their offers, but the performance penalty should be aligned with the risk premium so that there is some symmetry between risk and reward. Such changes will work to improve reliability across the board and in all seasons.

B. Implement a targeted winter reliability program

To address winter reliability concerns, LS Power suggests PJM implement a targeted program similar to Schedule 6A (Black Start Service) of its Tariff, which will not require a major restructuring of the capacity market as contemplated by the Proposal. A targeted program would allow PJM to compensate generators that can provide winter reliability and directly incent any necessary investment for generators that currently cannot without impacting the RPM auction clearing mechanisms. This type of program: (i) will provide PJM the certainty it needs to safeguard reliability; (ii) will provide generators the certainty they need for appropriate cost recovery to make necessary investment; and (iii) will not introduce any unnecessary inefficiencies, costs or risks associated with the Proposal. It will also create a higher probability of achieving the desired outcome than the Proposal, where a one-year-at-a-time CP Product clearing price doesn’t provide a strong, longer-term transparent signal.

V. SPECIFIC COMMENTS TO THE PROPOSAL

To the extent PJM continues forward with the Proposal predominately in the form presented, LS Power provides the following specific comments to the Proposal. In general, the Proposal contains a number of elements that would appear discriminatory to certain resource types.
A. Officer Certification for Capacity Performance Criteria

There is considerable confusion and ambiguity around the Proposal’s requirement for generation resources to provide an “officer’s certificate” in connection with qualifying a resource as a CP Product. The Proposal states “an officer of the generation resource’s owner would have to certify that four specific requirements have been met.”\(^9\) The Proposal then enumerates the four specific criteria that must be satisfied. The two criteria applicable to generating facilities are: (1) on-site fuel (or fuel backup) for at least 16 hours of continuous operation per day for three consecutive days; and (2) firm transport or storage for gas only generators. However, since the release of the Proposal, representatives of PJM have stated that in no way is PJM dictating how a generator meets the proposed 16 hours/day, 3-day criteria. The language of the Proposal, including certain “expectations” or “assumptions” related to fuel supply, O&M, weatherization, and staffing\(^10\) are difficult to harmonize. No form of the proposed officer certification has been included in the Proposal for stakeholders to review and comment on.

PJM’s stated approach (outside of the Proposal) which establishes performance criteria and then places the risk on the generator to meet such criteria in the face of a defined penalty structure is appropriate. As such, it is questionable whether there is a need for any officer certification at all. The market construct of capacity revenues and enhanced penalty mechanisms, if balanced and properly structured, should be sufficient by themselves to provide the needed incentive for investment and performance.

PJM may be concerned that, without some kind of certification, some generators may be tempted to simply “roll the dice” on whether the conditions during a particular winter will be as

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9 Proposal at p.5

10 Sections II and V, Pages 8-9 and 22
severe as those experienced during the polar vortex, and may permit a plant to participate as a CP Product in bad faith – i.e., without having taken appropriate steps to address the winter reliability issues experienced by the plant and without a reasonable, good faith basis to expect that the plant would be able to meet the CP Product criteria. LS Power questions whether there is any basis to conclude that generators would in fact be inclined to make these kinds of risk assessments in such a reckless fashion. However, to the extent some form of certification is required to address this concern, LS Power contends that the certification needs to provide the utmost flexibility to generators. In other words, generators must be able to make decisions for themselves to determine whether the resource is capable of achieving the required performance standard. As such, PJM should not dictate any requirement that a specific action need be taken. Instead, generators should be permitted to analyze their plant’s specific factors, including the plant’s fuel supply and operating experience during this past winter’s polar vortex, to determine what actions may be needed at a particular facility in order to meet the CP Product criteria. In order to balance (a) PJM’s interest in knowing that a generator is not simply gambling that a not-ready-for-winter plant will somehow manage to avoid incurring substantial penalties with (b) generators’ need to have the flexibility to manage and address all relevant winter reliability issues (not just fuel supply) in a prudent and economic manner, LS Power suggests that, if a certification does end up being required, it be limited to statements to the effect that the generator has:

- made a good faith determination of the actions (including winterization measures and/or procurement of firm or dual-fuel supply arrangements), if any, that are required to ensure that the generating unit would reasonably be expected to be
capable of meeting the CP Product criteria, including during Extreme Winter Weather Conditions \textsuperscript{11}, in each case consistent with prudent utility practices, and
\begin{itemize}
\item taken appropriate steps to ensure that each such action will be taken or implemented prior to commencement of the relevant delivery year in the event the generating unit clears as a CP Product resource.
\end{itemize}

If, on the other hand, the new officer certification requirement ends up requiring generators only to certify that they have or will take particular actions (or one of several specified actions) to ensure adequate fuel supply, the CP Product requirements would be both over- and under-inclusive – that is, the certification requirement would necessarily lead to some highly reliable, winter-ready generating units potentially being barred from participation as a CP Product and some other, not-ready-for-winter resources being permitted to participate. In this regard, LS Power notes that roughly 25\% of the outages experienced during the past winter’s events were the result of lack of fuel. Consequently, about 75\% of the remaining outages can be attributed to other causes. Some units without “firm” fuel supply arrangements or dual-fuel capability have historically had no fuel supply issues and were able to operate reliably without fuel supply issues even during the extreme weather (and related fuel market disruptions) experienced during last winter’s polar vortex events. An officer certification requirement that would have the effect of forcing the owner of such a facility to choose between (a) procuring a “firm” fuel transportation arrangement or dual-fuel capability (with no guarantee of full cost recovery) or (b) not being able to participate in the CP Product market at all would be discriminatory and could lead to generators making unnecessary or even imprudent capital

\textsuperscript{11} It is anticipated that the final tariff language will define such conditions.
investments associated with fuel supply (which could in turn result in unwarranted inflation of the CP Product clearing price). At the same time, if a facility experienced numerous operational difficulties during the polar vortex events totally unassociated with fuel availability (e.g., lack of adequate winterization), an officer’s certificate focused on specific fuel-related actions would not provide PJM with any assurances that the actual operational issues experienced by the facility have actually been evaluated and addressed.

In short, LS Power urges PJM to reconsider whether officer certificate is needed at all. If PJM determines that some kind of certification is warranted, it is essential that the certificate be worded in such a manner that the owner of a generating facility will be required to address the winter operational and fuel-related issues that have actually been experienced by the generating facility – no more and no less – and that the owner have flexibility to address such issues in any manner consistent with prudent utility practices. Any form of officer’s certificate will serve as a gate – and potentially an arbitrary and discriminatory one – to entry into an important part of the redesigned PJM market contemplated by the Proposal. The addition of such a “gate” could have unintended and far-reaching impact and LS Power urges PJM to make its evaluation of the officer’s certificate – and, if one will be required, publication of a proposed form of the actual certificate – a high priority item.

B. 16-hour, 3-day Criteria

PJM states a resource must be able to operate at its ICAP value for at least 16 hours per day for three consecutive days to qualify for the CP Product.  

This requirement would appear to be arbitrary and is excessive for facilities that are capable of intraday cycling (e.g. combustion turbines, pumped storage). A unit capable of

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12 Section II, Page 8
multiple starts per day and quick cycling should only be required to be able to operate at its rated output during the peaks, which PJM has typically stated to be approximately 10 hours. Units with these operational characteristics should be encouraged by PJM as they provide operational flexibility that is necessary for PJM to efficiently and cost-effectively manage its system and better assist PJM in meeting the very reliability demands it is trying to address. LS Power urges PJM to reduce the required minimum operating period for CP Product resources to the historical 10 hour peak period or, if PJM will continue to propose a minimum 16 hour operating period, provide a detailed explanation of why highly-reliable and flexible types of generating facilities (such as combustion turbines and pumped storage units) that are capable of operating for the full duration of historical peak periods should be barred from participating in the CP Product market to the full extent of their rated capacity.

C. 24-hour Penalty For Forced Outage

PJM states the non-performance penalty would apply during days with a Hot Weather Alert, Cold Weather Alert, or Maximum Emergency Generation Alert for each hour when energy is scheduled and not delivered with few exceptions.\textsuperscript{13} For units that would have been scheduled to operate by PJM but were forced out for the operating day, PJM proposes to apply the penalty for the entire 24-hour period of the day.\textsuperscript{14}

PJM should apply the same penalty for non-performance regardless of whether the unit was scheduled or forced out for the operating day. Consistent with the current application of EFORp, LS Power would suggest applying the penalty in the hours where the unit would have otherwise been economic to operate and was unavailable. Applying the penalty for the entire 24-hour period, where the unit may have only been scheduled for a few hours, is excessive.

\textsuperscript{13} Section VII, Page 26
\textsuperscript{14} Section VII, Page 27
Furthermore, the proposed structure provides perverse incentives to reward units for offering day-ahead and not delivering in real time as opposed to declaring a forced outage ahead of time thereby jeopardizing the reliable operation in real time when the operator suddenly discovers there are not as many resources available as believed or cleared in the day ahead.

D. Flexibility Criteria

PJM provides different qualification standards for different “asset classes” (Base Load, Interday Cycling, Intraday Cycling) with no distinction in price between such asset classes. There appears to be no benefit – only more stringent operational requirements – to qualifying as a more flexible asset class. In other words, PJM is proposing to require more stringent criteria for certain types of resources with no additional compensation. This would appear to be discriminatory.

PJM should apply the same flexibility criteria for all resources regardless of “asset class”. PJM should structure the criteria to optimize the ability to dispatch efficiently in the day-ahead and real-time markets – it should not be structured based on particular resources types. LS Power would suggest the following as standard criteria for all CP Product, which would provide flexibility to optimize the day-ahead dispatch. If a unit is unable to meet the standard criteria, the unit should be allowed to participate as a CP Product, but would not be reimbursed for any energy costs incurred for operating in timeframes outside of the criteria due to physical limitation of the unit.

1. Notification Time Less Than or Equal to 12 Hours

To the extent a unit requires a longer than 12 hour notification for startup, it should incur any costs necessary to begin startup to meet a schedule dictated by PJM within the 12 hour

\[15\text{ Section V, Pages 23-24}\]
timeframe or, in the alternative, incur a forced outage for the hours in which it could not operate to the PJM directed schedule.

2. Minimum Run Time Less Than or Equal to 16 Hours

If a unit has a minimum run time longer than 16 hours, PJM may elect to economically dispatch the unit for only 16 hours and the unit would be at risk for energy revenues during any longer period of time in which it is physically required to operate outside of PJM dispatch orders.

3. Minimum Down Time Less Than or Equal to 8 Hours

If a unit has a minimum down time longer than 8 hours, PJM may elect to economically cycle the unit off-line during the overnight period (e.g. 8 hours) and dispatch the unit the next day. If the unit would be physically unable to turn off, the unit would be required to stay online during the overnight period and incur any costs, if necessary, to do so to be available for the next day.

To the extent PJM distinguishes flexibility criteria by asset class, it needs to recognize natural gas assets may potentially require a 24-hour minimum run time during extreme winter conditions in order to match a ratable take requirement from pipeline operators as well as being able to make intraday energy offers to accommodate the pipeline products.

E. EFORd less than 50 percent

PJM states a requirement common to all CP Product resources would be an EFORd less than 50 percent. Presumably, this is a requirement to prevent normally underperforming units from qualifying as a CP Product resource. PJM should base the EFORd limit for qualification on its 5-Year average EFORd in order to avoid penalizing a unit for a one-time event.

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16 Section V, Page 22
F. Installed Capacity (ICAP)

The installed capacity (ICAP) of a unit is based on its summer net dependable rating. PJM, in its response to data requests, states that, on average, PJM unit winter ratings are about 1% higher than summer ratings. The excess MW available in the winter are predominately from natural gas-fired generation, which are capable of generating substantially more MW in the winter than the summer. Given the CP Product is based off a need for capacity during the winter, PJM should base the ICAP for CP Product on a winter net dependable rating. Otherwise, PJM is not appropriately compensating generators for their deliverability in the winter.

VI. CONCLUSION

For the reasons set forth above, LS Power suggests PJM implement changes to protect reliability in a manner that will be least impactful to the current markets already in place. This may consist of certain aspects of the Proposal in regards to performance incentives and clear flaws in the existing capacity market design. In order to address winter reliability, PJM should implement a targeted winter reliability program to most effectively incent desired new reliability and fuel supply resource investment.

While LS Power believes the drastic overhaul of RPM as proposed by PJM is unnecessary to meet the reliability investment PJM is attempting to incent, were it to proceed, the Proposal needs to be changed (i) to delete the proposed officer certification and rely instead on the proposed performance criteria and defined penalty structure, which place the risk on the generator to meet such criteria and defined penalty structure; (ii) such that a unit capable of multiple starts per day and quick cycling would only be required to be able to operate at its rated output during the peaks, which PJM has typically stated to be approximately 10 hours, (iii) to
apply the Non-Performance Penalty only in the hours where the unit would have otherwise been economic to operate and was unavailable; (iv) to apply the same flexibility criteria for all resources regardless of “asset class” – it should not be structured based on particular resources types; (v) to base the EFORd limit for qualification on its 5-Year average EFORd in order to avoid penalizing a unit for a one-time event; and (vi) given the CP Product is intended to ensure the reliability of capacity during the winter, to base the ICAP for Capacity Performance on a winter net dependable rating.

LS Power appreciates the opportunity to comment on the Proposal and looks forward to continuing to work with PJM to improve reliability while creating the proper incentives to generation owners to make the necessary investments.

Respectfully submitted,

LS POWER GROUP

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