

Robert P. Frank
Direct Phone: 215.851.8234
Email: rpfrank@reedsmith.com

Reed Smith LLP
2500 One Liberty Place
1650 Market Street
Philadelphia, PA 19103-7301
+1 215 851 8100
Fax +1 215 851 1420
reedsmith.com

November 17, 2008

Mr. James J. McNulty
Secretary
Pennsylvania Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17195-3265

Re: Pennsylvania Public Utility Commission (“PUC”) Docket No. M-2008-2066901
Reply Comment to November 6, 2008 Wholesale Energy Markets En Banc Hearing

Dear Mr. McNulty:

This firm represents LS Power Associates, L.P. (“LS Power”). On behalf of LS Power, we submit the following comment in reply to the *en banc* public hearings held to date by the PUC on current and future wholesale energy markets. LS Power appreciates the opportunity to comment on the testimony received by the PUC in its *en banc* hearings on wholesale energy markets.

LS Power is an independent power producer and independent transmission developer whose purpose is to develop, own, operate and manage utility-scale electric generation and transmission projects in the United States. LS Power and its predecessors and affiliates have developed eleven individual electric generation facilities in the United States that total approximately 7,200 megawatts of generation capacity over the last 18 years. LS Power currently has a number of natural gas, coal, renewable, and transmission projects under various stages of development throughout the United States, including in Pennsylvania.

LS Power is financially sound and is highly respected in the financial community. Since 2005, LS Power has raised in excess of \$11 billion in debt and equity. LS Power has been recognized by the financial press with awards presented to the 665 MW Plum Point Energy Station financing and the 898 MW Sandy Creek Energy Station financing, both transactions sponsored by LS Power.

LS Power has used project financing for each of its development projects and acquisitions which has resulted in lower overall financing costs and an overall reduction of cost overrun and operating performance risk for its numerous customers. The project financing business model, while providing benefits such as those listed above, also requires counterparties to enter into contracts to lock in costs of construction and maintenance, for example, as well as to lock in a revenue stream that will ensure compensation by the buyer for the sale of the power generated by the subject plant. It is through this

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“promise to buy” that the counterparties are able to secure the necessary long term debt from banks to construct the plant.

While these asset development concepts may be well-known, it isn't clear that they are easily reconcilable with the market model as it has evolved in PJM. LS Power did not oppose the original settlement that resulted in PJM's Reliability Pricing Model, and in fact was hopeful that a 3 year capacity price trend coupled with longer term financial transactions could eventually result in new power plants being built in the region. LS Power began significant development efforts in the region with that expectation but has been disappointed in: 1) the development of the administrative Cost of New Entrant (“CONE”) pricing which has significantly lagged real construction and commodity costs based on LS Power's real time negotiations with contractors; and 2) financial counterparties, who have been slow to develop a commercial perspective on longer term prices, severely limiting the options for demonstrating to bankers a secure, transparent long term revenue stream for new plants in the region. As a result LS Power's projects in development remain dependent upon customers with the ability and inclination to enter into longer term contracts to protect the revenue stream and secure the debt to be incurred.

Historically the use of fair, transparent Requests for Proposal processes has greatly increased the number of parties that would consider participating (and constructing capacity) in a given market – examples abound in both baseload as well as renewable capacity solicitations. Increasing the number of competitors will help ensure best available prices being proposed by those participants. If the outcome of the process results in long term contracts that balance risks and rewards between the counterparties, new generation capacity will surely be built that serves Pennsylvania ratepayers.

In conclusion, LS Power looks forward to participating in the PUC's implementation of the procurement provisions of recently passed HB 2200 and will be pleased share further information on one independent power producer's perspective as the process unfolds. Thank you again for the opportunity to comment on this topic.

Sincerely,



Robert P. Frank

RPF:ml

cc: Robert F. Young, Deputy Chief Counsel, PUC
Lynne Mackey, VP Legislative and Regulatory Policy, LS Power