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NYSE CPN

A GENERATION AHEAD, *today*

New Entry Pricing Adjustment
Possible Alternative

October 14, 2011

How Current PJM New Entry Pricing Adjustment Works

1. Availability: Only Planned Generation Capacity Resources (i.e. "new") can lock in for 3 years,

2. Trigger: "Acceptance of such Sell Offer in such BRA increases the total Unforced Capacity in the LDA in which such Resource will be located from a megawatt quantity below the LDA Reliability Requirement to a megawatt quantity corresponding to a point on the VRR Curve where prices is no greater than .4 times the applicable Net CONE divided by (one minus the pool-wide average EFORd);"

3. "Offer Price" During Years 2 and 3: Lesser of: 1) "Sell offer" in the first year the unit cleared, or 2) .9*CONE,

4. If the resource "clears" in years 2 or 3, it receives the clearing price for that year,

5. If the resource does not clear, PJM will "resubmit" the unit's offer at lower and lower prices until it does clear, unit will receive its first year offer price as payment,

6. The difference between market clearing price, and the higher price paid to the "locked in" unit is treated as a "Resource Make Whole Payment", and spread to LSE's in that LDA.

Two Key Concerns With Current Approach

- First Concern:
  - Trigger is difficult to interpret,
  - Only works for small LDAs, whereas larger LDAs (i.e. EMAAC) could also be need capacity longer term, and the units would need to be extremely large to qualify.
- Second Concern: Even if triggered, at this time, 3 year price lock may not be long enough:
  - Unlike energy market, no forward capacity price because of:
    - Regulatory risk,
    - Rules uncertainty,
    - Fluctuating planning period parameters (especially CETL's),
- When RPM stabilizes and some uncertainties are removed, enough liquidity will hopefully be created in the forward market to allow entities to "lock in" on a purely market basis.
- Until that time, an "interim" approach is needed.

Calpine Proposal: Interim "NEPA Plus"

Existing NEPA	Proposed NEPA
Availability: Only Planned Generation Capacity Resources (i.e. "new") can lock in for 3 years,	Status Quo, except extend "lock in" to 5 or 7 years,
Trigger: "Acceptance of such Sell Offer in such BRA increases the total Unforced Capacity in the LDA in which such Resource will be located from a megawatt quantity below the LDA Reliability Requirement to a megawatt quantity corresponding to a point on the VRR Curve where prices is no greater than .4 times the applicable Net CONE divided by (one minus the pool-wide average EFORd);	Eliminate
"Offer Price" During Years 2 and 3: Lesser of: 1) "Sell offer" in the first year the unit cleared, or 2) .9*CONE,	"Offer Price" During Years 2- (5 or 7) equals "Offer Price" in the first year the unit cleared
If the resource "clears" in years 2 or 3, it receives the clearing price for that year,	If the resource "clears" in years 2- (5 or 7), it receives the clearing price from the first year it cleared
If the resource does not clear, PJM will "resubmit" the unit's offer at lower and lower prices until it does clear, unit will receive its first year offer price as payment,	Status Quo
The difference between market clearing price, and the higher price paid to the "locked in" unit is treated as a "Resource Make Whole Payment", and spread to LSE's in that LDA.	Status Quo
Offers subject to Minimum Offer Price Rule (MOPR)	Status Quo