

**ITEM 1 – COVER PAGE**

**LS POWER EQUITY ADVISORS, LLC**



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**PART 2A OF FORM ADV  
(THE “BROCHURE”)**

March 2014

This Brochure provides information about the qualifications and business practices of LS Power Equity Advisors, LLC. If you have any questions about the contents of this Brochure, please contact us at (212) 615-3456. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about LS Power Equity Advisors, LLC is available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2 – MATERIAL CHANGES**

There have been no material changes since LS Power Equity Advisors, LLC’s last Brochure filing, dated March 2013.

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## **ITEM 4 – ADVISORY BUSINESS**

LS Power Equity Advisors, LLC (the “Management Company”) manages assets on a discretionary basis on behalf of private pooled investment vehicles. The Management Company and its affiliated general partners, LS Power Partners, L.P., LS Power Partners II, L.P. and LS Power Partners III, L.P. (each, a “General Partner” and together with the Management Company and their affiliated entities, “LPSE” or the “Company”), are also registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) pursuant to the Management Company’s registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, which operate as a single advisory business together with the Management Company.

LSPE is also affiliated with LSP Credit Advisers I, LLC (“LSPC”), which is registered under the Advisers Act pursuant to LSPE’s registration in accordance with SEC guidance. LSPE and LSPC together operate as a single advisory business. Please see LSPC’s brochure for a description of its business practices, ownership and control.

As of December 31, 2013, LSPE's regulatory assets under management were approximately \$4.93 billion. LSPE presently provides investment advisory services to LS Power Equity Partners, L.P., LS Power Equity Partners PIE, L.P., LSP Gen Investors, L.P., LS Power Equity Partners II, L.P., LS Power Equity Partners II PIE, L.P., LS Power Equity Partners II PIE A, L.P., LS Power Equity Partners II PIE B, L.P., LS Power Equity Partners III, L.P., LS Power Fund III Feeder 1, L.P., LS Power Fund III Feeder 2, L.P., LS Power Fund III Feeder 2A, L.P., LS Power Fund III Feeder 3, L.P., and LSP Members Fund III Feeder, L.P., (together, the "Funds"). LSPE was formed in 2004 and is principally owned and controlled by LSP Generation IV, LLC ("LSP IV"). LSP IV is owned and controlled by LS Power Associates, L.P. ("Associates"). LS Power Capital, L.P. ("Capital") indirectly owns and controls the majority of Associates' economic interests in LSP IV. Capital is owned and controlled by Segal Capital IV, L.P., which is owned and controlled by the Granite 2012 PS Trust. Theodore Segal and Jenna Segal are the trustees of the Granite 2012 PS Trust.

Please refer to the Funds' governing documents for more detailed information regarding the topics discussed in this Brochure.

## **ITEM 5 – FEES AND COMPENSATION**

The Funds pay LSPE a management fee semi-annually in advance, equal to 2% of the aggregate commitment of each investor. Management fees are generally directly deducted from the Funds' assets. Upon termination of any advisory agreement or mandatory withdrawal, management fees that have been paid in advance are returned on a prorated basis. The governing documents of each Fund include a more detailed explanation of the amount and manner of calculation of the management fees for each such Fund. LSPE has the discretion to waive or reduce management fees.

LSPE or an affiliate of LSPE is also entitled to receive a distribution from each Fund typically equal to 20% of all realized profits subject to an 8% compound preferred return, as more fully described in the Funds' respective governing documents ("Carried Interest"). Any distributed Carried Interest is subject to a potential giveback at the end of life of the relevant Fund if LSPE or its affiliate has received excess cumulative distributions.

The Funds are responsible for their initial and ongoing costs and expenses associated with their operations including, without limitation, organizational expenses, brokerage commissions, research expenses, quotation and valuation expenses, general legal expenses including legal fees associated with the negotiation of specific investor terms, accounting and auditing expenses, and investment-related consultants and other service provider expenses, investment related travel costs, insurance, expenses incurred with respect to the preparation, duplication and distribution of offering documents, annual reports and other financial information, other offering expenses, other operational expenses and extraordinary expenses. The Funds also are responsible for all transaction related expenses, whether or not the transaction is consummated, including fees and expenses of attorneys, accountants and consultants, as well as lenders, investment banks and other financing sources in connection with the arranging of financing for transactions, and any down-payments which are forfeited in connection with unconsummated transactions.

LSPE is responsible for all of its overhead costs and expenses, including office expenses and compensation of employees.

## **ITEM 6 – PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under “Fees and Compensation,” LSPE or an affiliate of LSPE receives a Carried Interest from the Funds. Such arrangements may create an incentive for LSPE to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation.

The Carried Interest and all other fees charged by LSPE will be in compliance with Rule 205-3 of the Advisers Act. Economic arrangements may vary and are subject to the terms of the Fund. Additional information regarding fees and other expenses attributable to the Funds are addressed in their respective governing documents.

The payment of Carried Interest by some but not all Funds or the payment of Carried Interest at varying rates may create an incentive for LSPE to disproportionately allocate time, services or functions to Funds paying Carried Interest or Funds paying Carried Interest at a higher rate. This conflict is generally mitigated by investment terms restricting LSPE from establishing a new fund with substantially similar investment objectives to those of the existing Funds until the earlier of (1) the expiration of the Fund’s commitment period, or (2) such time as at least 75% of the aggregate commitments of such Fund have been invested, committed to be invested or reserved. Any subsequently formed fund may have the right to co-invest with existing Funds. Nonetheless, LSPE’s affiliates, including LSPC, LS Power Development, LLC, Tiber Capital Corp., Edge Principal Advisors, LLC, Aterian Investment Advisors, LLC and Luminus Management, LLC, are not restricted from engaging in or managing projects in connection with ongoing development and asset management activities.

When the Funds are investing in publicly traded securities, LSPE may aggregate orders of its affiliates and/or related parties with those of the Funds if, in LSPE’s opinion, aggregation is not expected to materially impact the price or availability of the security. Subsequent orders for the same security may be aggregated with any previously unfilled orders. Filled orders may be allocated separately from subsequent orders or, in instances where the market price of the security has not materially changed, subsequent orders may be aggregated with filled orders. Funds participating in an aggregated order shall receive the average price and pay a pro rata portion of commissions subject to any applicable broker dealer minimum ticket charges.

## **ITEM 7 – TYPES OF CLIENTS**

LSPE’s clients are unregistered pooled investment vehicles. The Funds are structured as limited partnerships or similar legal entities which LSPE and its related parties control. The Funds rely on rules promulgated under the United States federal securities laws that exempt privately offered partnerships from registering as investment companies.

Generally, investors in the Funds must be (i) “accredited investors” within the meaning of Regulation D under the Securities Act of 1933, as amended, and (ii) “qualified purchasers” within the meaning of the Investment Company Act of 1940, as amended (or qualified knowledgeable LSPE personnel). Prospective investors may be required to meet additional suitability requirements. Investors considering investment in the Funds should consult with their own investment, tax and/or legal consultants prior to investing.

The minimum commitment that will be accepted from a new investor in the Funds is \$10,000,000. The general partner of each Fund, in its sole discretion, may waive or reduce these minimums.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Strategy**

LSPE’s investment strategies generally focus on control-oriented private equity investments in the North American power industry, with a specific focus on acquiring power generation and related assets in the United States. The Funds’ investments generally take the form of direct asset acquisitions, investments in the securities of power assets or companies that own power assets, and joint ventures or partnerships. The Funds have and may continue to acquire individual power plants, portfolios of power plants, independent power companies, power related assets or unregulated utility subsidiaries.

### **Risk Factors**

#### *Nature of Investment*

An investment in the Funds requires a long-term commitment, with no certainty of return. Portfolio investments may not generate current income. Therefore, the return of capital and the realization of gains, if any, from a portfolio investment generally will occur upon the partial or complete realization or disposition of such portfolio investment. While a portfolio investment may be realized or disposed of at any time, it is generally expected that the ultimate realization or disposition of most of the Funds’ portfolio investments will not occur for a number of years after such portfolio investments are made. The Funds generally will not be able to sell portfolio company securities publicly unless the issuer has gone public and such sale is registered under applicable securities laws or unless an exemption from such registration requirements is available. In addition, in some cases, the Funds may be prohibited or limited by contract from selling certain portfolio company securities for a period of time, and as a result, may not be permitted to sell a portfolio investment at a time it might otherwise desire to do so. As with any investment, an investment in the Funds has the possibility of loss, including the loss of principal.

### *Restrictions on Transfer and Withdrawal; Lack of Liquidity*

Investors' interests have not been registered under the Securities Act or any other applicable securities laws. There will be no public or private market for the interests and none is expected to develop. In addition, the interests are not transferable except with the consent of the Funds' general partners, which may be withheld by the general partner in its sole discretion, and subject to the terms and conditions of the partnership agreement. Investors may not withdraw capital from the Funds. Consequently, investors may not be able to liquidate their investments prior to the end of the Fund's term.

### *Dependence on Key Personnel*

The success of the Funds depends in substantial part upon the skill and expertise of the members of the investment team and the other individuals employed to assist them. There can be no assurance that the members of the investment team will continue to be partners of or employed by LSPE. The loss of service to the Fund of one or more members of the investment team could have a material adverse effect.

### *Concentration – Limited Number of Investments and Nature of Investments in the Power Industry*

The Funds will participate in a limited number of investments and intends to make most of their investments in one industry or one industry segment (i.e. the power and energy infrastructure industries and related assets). As a result, the Funds' investment portfolios will become highly concentrated, and the performance of a few holdings or of a particular industry may substantially affect aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Funds may invest in fewer portfolio companies and thus be less diversified. These types of investments may be subject to a variety of risks, not all of which can be foreseen or quantified, including operating, economic, environmental, commercial, regulatory, political and financial risks, and may be more susceptible to risks resulting from changes imposed by regulatory initiatives than investments of a more broadly diversified fund.

### *Valuation*

The Funds expect to hold securities and financial instruments that may not have readily available market quotes. In such instances, LSPE generally will value such securities and financial instruments in good faith at fair value based on various factors, including, without limitation, external pricing sources (if any), recent trading activity (if any), or other information aimed at a relative value assessment process that incorporates, among other factors in LSPE's sole discretion, current market conditions, position size, trends, and prices. Such valuations may vary from similar valuations performed by independent third parties for similar types of securities and financial instruments. Additionally, such valuations may impact the compensation paid or allocated by the Funds to LSPE and the General Partners and may, therefore, create conflicts of interest.

### *Leverage*

The Funds may utilize leverage to attempt to enhance returns. The use of leverage may also magnify the possibility of loss and may cause LSPE to sell positions collateralizing leveraged positions that it would not otherwise exit.

The Funds' investments are expected to include companies whose capital structures may have significant leverage. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. The leveraged capital structure of such investments will increase the exposure of the Funds' portfolio companies to adverse economic factors such as downturns in the economy or deterioration in the condition of the portfolio companies or their industries. Additionally, the securities acquired by the Funds will generally be the most junior in what may be a complex capital structure and thus subject to the greatest risk of loss.

### *Commitment-Based Credit Facility*

The Funds may make borrowings in anticipation of the calling and receipt of capital contributions or to provide credit support for certain investments. In this regard, the Funds may enter into one or more credit facilities. Such credit facilities may be secured by the Fund's assets or by the obligation of investors to make capital contributions. In order to establish a commitment-based credit facility, the general partner may assign to the lenders certain of the Funds' rights with respect to the investors, including the right to make capital calls and to enforce the funding obligations of investors. To the extent permitted by applicable law, certain investors may also be obligated to make capital contributions at the demand of the lenders, waive rights or defenses with respect to their obligation to make capital contributions, provide, from time to time, upon the request of the Fund or its lenders, confirmation of their uncalled capital commitments and financial or other information about themselves or execute other documents necessary in respect of such commitment-based credit facility.

### *Legal, Tax and Regulatory Risks*

The regulatory considerations affecting the ability of the Funds to achieve their investment objectives are complicated and subject to change.

### *Commodity Risk*

The investments of the Funds will be subject to commodity price risk, including, without limitation, the price of electricity and the price of fuel. The operation and cash flows of the Funds' investments will depend, in substantial part, upon prevailing market prices for electricity and fuel. These market prices may fluctuate materially depending upon a wide variety of factors, including, without limitation, weather conditions, market supply and demand, force majeure, and changes in law.

### *Catastrophic and Force Majeure Events*

The Funds' investments may be subject to catastrophic events and other *force majeure* events, such as fires, earthquakes, and adverse weather conditions, changes in law, eminent domain, war, riots, terrorist attacks and similar risks. These events could result in the partial or total loss of an investment or significant down time resulting in lost revenues, among other potentially detrimental effects.

### *Legal and Regulatory Matters*

The power industry is extensively regulated; statutory and regulatory requirements may include those imposed by energy, zoning, environmental, safety, labor and other regulatory or political authorities. Failure to obtain or a delay in the receipt of relevant governmental permits or approvals, including regulatory approvals, could hinder operation of an investment and result in fines or additional costs. Permits and approvals may be costly and/or time-consuming to obtain. Moreover, the adoption of new laws or regulations, or changes in the interpretation of existing laws or regulations or changes in the persons charged with political oversight of such laws or regulations, could have a material adverse effect upon a portfolio company of the Funds and could necessitate the creation of new business models and the restructuring of investments in order to meet regulatory requirements, which may be costly and/or time-consuming.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Funds. Prospective investors should read the Funds' governing documents in their entirety and consult their own counsel and advisors before deciding to invest in the Funds.

## **ITEM 9 – DISCIPLINARY INFORMATION**

LSPE and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

LSPE is affiliated with LSPC, Luminus Management, LLC, Edge Principal Advisors, LLC ("Edge"), and Aterian Investment Advisors, LLC ("Aterian") (collectively, "Affiliated Advisers"). In addition, LSPE is affiliated with LS Power Development, LLC ("LS Power Development"), which is engaged in the development and management of power generation and transmission infrastructure, and Tiber Capital Corp. ("Tiber Capital"), which owns investment related entities, including Edge and Aterian. LSPE and its personnel periodically provide support to and receive support from LSPE's affiliates in connection with certain investment-related activities.

The Affiliated Advisers are presently registered as investment advisers with the SEC in accordance with SEC guidance. Additional information about the Affiliated Advisers is or will be available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

### **Conflicts of Interest**

LSPE's affiliates and their respective officers and employees directly or indirectly manage the assets of other funds and have other clients and business activities that may in some respects compete with the Funds for certain investments. In addition, the Funds' investment flexibility may be constrained (e.g., the Funds may be forced to forgo certain potentially profitable investment opportunities or may be unable to dispose of an investment at an opportune time) as a result of certain material non-public information held by LSPE or its affiliates or other reasons, including reasons arising from LSPE's affiliates' management of other funds.

The Affiliated Advisers, LS Power Development, Tiber Capital and other affiliates of LSPE engage in a broad spectrum of activities, including financial advisory activities. The Affiliated Advisers and other affiliates engage in investment activities for their own accounts or the accounts of others that are independent from and that can potentially conflict with those of the Funds. LSPE's affiliates may provide services to, invest in, advise, sponsor and/or act as investment manager to investment vehicles and other persons or entities, including prospective investors in the Funds, which may have similar structures and investment objectives and policies to those of the Funds. These other entities may compete with the Funds for investment opportunities or, in certain cases, may invest alongside the Funds in certain transactions.

LSPE's affiliates are not obligated to share investment ideas or opportunities with LSPE or the Funds, regardless of whether such opportunities are of the same nature as investments generally recommended to the Funds. LSPE's affiliates are not obligated to consider or include the Funds or any investor in the Funds in any profits or benefits earned or derived from any investment in which the Funds did not participate. LSPE has implemented policies and procedures and a compliance oversight program to address these conflicts. LSPE's senior management is responsible for ensuring that these policies and procedures are properly implemented and that all Funds are treated in a fair and equitable manner.

LSPE or certain affiliates may also enter into side letters or other agreements with specific investors in the Funds. These agreements or side letters often establish, alter, or supplement the terms of the Funds' governing agreements with respect to only the investor to whom such side letter or agreement is addressed. Any rights established, or any terms altered or supplemented will govern only the investment of the specific investor and not the terms of a Fund as a whole. Such side letters provide benefits to certain investors in a Fund not provided to other investors in such Fund. Side letters or other agreements may include adjustments to fees or expenses, additional rights to access certain information, additional rights on the transfer of Fund interests or additional reporting to comply with specified laws or regulations. Neither LSPE nor its affiliates will enter into a particular side letter or agreement if LSPE determines that the provisions contained in such side letter or agreement would be disruptive to the applicable Fund or its investment program.

From time to time, LSPE may be presented with conflicts of interest relating to the Funds. Where necessary, LSPE consults and receives consent to such conflicts from an advisory committee consisting of certain limited partners of the Funds.

The private placement memoranda of the Funds contain more detailed descriptions of the applicable and respective potential conflicts of interests.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

LSPE has developed and implemented a Code of Ethics (the “Code”) which sets forth standards of conduct that are expected of LSPE principals and employees and addresses conflicts that arise from personal trading. The Code requires that LSPE and its personnel comply with their regulatory requirements, meet the fiduciary obligations to the Funds and adhere to certain business ethics and principles. LSPE personnel must acknowledge their receipt of the Code, their understanding of the provisions contained in the Code, and their agreement to abide by the principles, policies and procedures set forth in the Code.

LSPE’s Code addresses, among other things:

- Identification and handling of material non-public information;
- Prevention of insider trading; and
- Reporting and pre-clearance of:
  - personal securities transactions and holdings;
  - gifts and entertainment;
  - political contributions; and
  - outside business activities

LSPE has adopted employee personal trade reporting and monitoring procedures. LSPE’s Code and personal trading policies require employees to pre-clear personal trades of securities within the power, energy, utilities and related sectors. From time to time, LSPE, its affiliates and employees may be restricted from trading certain securities within the power, energy, utilities and related sectors. If any such securities are restricted, employee pre-clearance requests will be denied.

In addition, LSPE’s Code requires, among other things, that employees:

- Act within an ethical manner with the public, investors, prospective clients and investors;
- Place the interests of the Funds above their own personal interests;
- Not take inappropriate advantage of their position;
- Attempt to avoid actual or potential material conflicts of interest;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities; and

- Comply with applicable provisions of the federal securities laws.

LSPE personnel are required to disclose all outside business activities. In the event an outside business activity presents a material conflict of interest with the Funds, LSPE reserves the right to restrict these outside business activities.

A copy of LSPE's Code of Ethics is available upon request by contacting LSPE's Chief Compliance Officer, Jeff Wade; (212) 615-3456; [jwade@lspower.com](mailto:jwade@lspower.com).

## **ITEM 12 – BROKERAGE PRACTICES**

### **General Brokerage Practices**

LSPE does not generally utilize the services of broker-dealers for transaction related services. In the event an investment requires LSPE to utilize a broker-dealer, LSPE shall seek to obtain best execution. LSPE has instituted policies and procedures to ensure that it will place Fund transactions with appropriate care and diligence, seek best execution and address any material conflicts of interest in accordance with the Company's applicable fiduciary responsibilities.

### **Research and Soft Dollar Arrangements**

LSPE currently does not have any formal soft dollar arrangements or other arrangements that would commit the Company or the Funds to any specific or implied level of trading. As an institutional money manager, LSPE may receive access to research made available through brokerage counterparties. LSPE believes this research is available to all institutional money managers of similar size.

### **Trade Aggregation**

Refer to Item 6 – Performance Based Fees and Side by Side Management for a description of the process by which LSPE aggregates and allocates orders.

### **Trade Errors**

It is LSPE's policy to correct errors occurring in the management or trading of the Funds' accounts as soon as practicable. The Fund's private placement memoranda shall govern the treatment of trade errors committed by LSPE. Absent any specific trade error policies and procedures in a Fund's offering documents, limited partnership agreement or subscription agreement, it shall be LSPE's policy to reimburse the Funds for any trade errors that are committed by LSPE as a result of gross negligence.

### **Item 13. Review of Accounts**

LSPE's investment professionals review all Fund portfolio investments on a regular basis. In addition, LSPE's investment professionals closely monitor and review the valuations of all Fund portfolio investments. LSPE furnishes audited financial statements for the Funds to all investors on an annual basis. The Funds' financial statements are audited annually by independent certified public accountants registered with the Public Company Accounting Oversight Board.

### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

The general partner of each Fund may retain affiliated and non-affiliated marketing consultants and agents. As part of these agreements, and in accordance with applicable regulation, the consultants and/or agents may be paid a fee related to the amount of capital raised for each Fund. Fees paid by the Funds for marketing or fund raising are offset by a reduction of management fees due to LSPE.

### **ITEM 15 – CUSTODY**

To the extent possible, Fund assets are held in custody by unaffiliated broker/dealers or banks. LSPE is deemed to have custody of the Funds' assets because the Company is affiliated with the general partner of each Fund which has authority over the Funds' assets. Fund investors will not receive statements from the custodian. Instead, the Funds are subject to an annual audit by independent certified public accountants and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and distributed to Fund investors within 120 days of the Funds' fiscal year end.

### **ITEM 16 – INVESTMENT DISCRETION**

LSPE does not provide investment advice to individual investors in the Funds. Rather, LSPE provides investment advice to the Funds. The Funds' advisory agreements provide LSPE with discretionary investment authority.

As a general policy, LSPE does not allow its discretionary advisory clients to place limitations on its authority. Consistently with the terms of the Funds' partnership agreements, however, LSPE may enter into side letter or similar arrangements with certain limited partners whereby the terms applicable to such limited partners' investments in the Funds may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

## **ITEM 17 – VOTING CLIENT SECURITIES**

LSPE has the authority to vote the proxies received on securities held by the Funds as well as other votes solicited for corporate actions affecting portfolio holdings. LSPE's objective is to vote proxies in the best interests of the Funds as mandated by the Funds' objectives described in the private placement memoranda.

LSPE's investment professionals monitor and opine on proxy proposals. In consultation with senior management, investment professionals will consider whether LSPE is subject to any material conflict of interest in connection with each proxy vote. Investment professionals must notify LSPE's Chief Compliance Officer if they are aware of any material conflict of interest associated with a proxy vote. Potential conflicts will be assessed on a case-by-case basis.

LSPE may abstain from voting if the Company deems that abstinence is in the Funds' best interests.

Current investors may request a copy of the Company's full proxy voting policies and procedures and the voting records as provided by Rule 206(4)-6. Please contact LSPE's Chief Compliance Officer, Jeff Wade; (212) 615-3456; [jwade@lspower.com](mailto:jwade@lspower.com).

## **ITEM 18 – FINANCIAL INFORMATION**

LSPE does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.