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Arizona Corporation Commission

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February 25, 2002

Chairman William A. Mundell  
Commissioner Jim Irvin  
Commissioner Marc Spitzer  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Dear Commissioners:

This letter is in response to the questions each of you submitted to representatives of the power industry earlier this year regarding a broad range of matters that will influence Arizona power markets and electricity consumers in the coming years. Although Calpine is a member of both the Electric Power Supply Association (EPSA) and the Arizona Competitive Power Alliance (ACPA), which are submitting more detailed responses to your various questions, Calpine believes it is important to submit this letter separately because of the importance of the issues raised in your questions.

Calpine Corporation is headquartered in San Jose, California and is the largest independent power provider in the United States. Calpine sells power to its customers from 62 operational plants currently producing a total of 11,100 Megawatts (MWs) of energy, and has another 15 plants under construction that will be able to produce an additional 15,200 MWs.

Last June, Calpine commissioned its first Arizona facility, the 540-megawatt South Point Energy Center located in Mohave County. The \$300 million plant provides energy for 540,000 households in Arizona, Nevada and California. Calpine undertook construction of this Energy Center in 1999 based on a projected energy deficit in the region. Arizona's ratepayers can now benefit from Calpine's market-based decision to pursue development of the Energy Center by purchasing the clean and low cost energy it is now producing.

Calpine believes that the competitive procurement process currently adopted by the Arizona Corporation Commission (ACC) is appropriate, and provides Arizona's electric consumers the best opportunity to obtain the benefits of the competitive marketplace. Long-term firm capacity contracts are a cost-effective method for ensuring that consumers are receiving the lowest cost, most reliable generation in the market. For example, in 1999, Calpine was a successful participant in two bidding processes undertaken by Xcel Energy (formerly Public Service Of Colorado). As a result of this process, will now be investing over \$500 million to develop 900 MWs of new generation in the Denver area pursuant to long-term, firm capacity contracts.

Many of your questions specifically discussed environmental concerns. The South Point Energy Center is a state-of-the art combined cycle natural gas-fired power plant that provides several

environmental benefits compared to more traditional fossil fuel based power. Unlike burning coal or oil, gas combustion releases almost no sulfur which, in the form of airborne sulfur dioxide (SO<sub>2</sub>) contributes to acid rain. Coal and oil plants beget masses of solid wastes, while gas plants create none. Natural gas plants also release less waste heat, due to their higher efficiency. Finally, advanced gas combustion technologies like those used in the South Point Plant, emit far lower amounts of nitrogen oxides (Nox) and carbon dioxide (CO<sub>2</sub>) compared to older gas plants or coal and oil plants in general.

Calpine is at the forefront of our nation's efforts to produce more renewable energy. As the world's largest producer of geothermal energy, Calpine is a strong advocate of state and federal policies that encourage our nation to strengthen its portfolio of renewable energy sources like geothermal. In fact, Calpine was very active in recent efforts by Congress and NARUC to extend the renewable production tax credit to renewable resources other than just wind.

Finally, Calpine is proud of our work with the communities surrounding the South Point project, and of the economic benefits that the South Point Energy Center is bringing to the Mojave tribe. This plant plays a critical role in insuring that the western United States is prepared to meet its growing energy needs in the coming years.

I look forward to working with the Commission as it continues to review these important issues regarding electricity policy in Arizona. In the meantime, please let me know if you have any further questions.

Sincerely,

A handwritten signature in cursive script that reads "Steven Schleimer".

Steven Schleimer  
Director, Market and Regulatory Affairs  
Calpine Corporation, Western Region