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ORIGINAL

February 25, 2002

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

Arizona Corporation Commission

DOCKETED

FEB 25 2002



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