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CALPINE CORPORATION

NYSE CPN

April 15, 2014

Via Electronic Submission

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. NW
Washington, DC 20551

Re: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities (RIN Number 7100 AE-10)

Dear Mr. deV. Frierson:

Calpine Corporation ("Calpine") appreciates the opportunity to provide the Board of Governors of the Federal Reserve System ("Federal Reserve") with comments in response to the Federal Reserve's Advance Notice of Proposed Rulemaking ("ANOPR") regarding the engagement of financial holding companies in physical commodity activities.

Calpine is one of the largest independent wholesale power companies in the United States measured by power produced – in 2013 Calpine produced 104 billion kilowatt hours of electricity. We own and operate one of the largest fleets of natural gas-fired power plants in the U.S., which includes the largest fleet of natural gas-fired cogeneration plants that provide steam and power to our industrial and agricultural customers. Our portfolio consists of 94 power plants with an aggregate generation capacity of 29,104 megawatts ("MW") in operation and 699 MW under construction.[1] Our fleet includes 76 natural gas-fired combustion turbine-based plants.[2] We have facilities located in 20 states and Canada, and maintain a significant presence in major competitive wholesale power markets in California, Texas, and the Mid-Atlantic region.

Since Calpine's inception in 1984, we have invested in clean power generation to become a recognized leader in sustainability by developing, constructing, owning, and operating a portfolio of power plants that is environmentally responsible. Our business thesis has long centered on natural gas-fired generation as one of the cleanest forms of reliable, flexible and affordable power generation. The shale gas revolution has further strengthened our commitment to this fuel selection. Our plants also provide the critical services needed to help integrate intermittent renewable generation resources, such as wind and solar into the grid.

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[1] This includes three plants under construction and a pending plant acquisition expected to close this quarter, as well as two plants located in Canada

[2] Two oil-fired steam-based plants, 15 geothermal steam turbine-based plants, and one photovoltaic solar plant round out our fleet.

We sell wholesale power, steam, capacity, renewable energy credits, and ancillary services to our customers, who include utilities, independent electric system operators, industrial and agricultural companies, retail power providers, municipalities, power marketers, and others. We enter into natural gas transportation and storage arrangements to assure fuel delivery to our plants and we purchase electric transmission rights to enable us to deliver power to our customers.

Most relevant to the ANOPR and this filing, we purchase natural gas and fuel-oil as fuel for our power plants (*e.g.*, in 2013 we consumed 782 billion cubic feet or approximately 10% of the total estimated natural gas consumed for power generation in the U.S.). The magnitude of our exposure to natural gas and power prices and the volatility of spot gas and power prices creates substantial risk, which we manage by entering into natural gas and power contracts, both physical and financial, to hedge our commercial risk and optimize the performance of our portfolio of power plants. These risk-management tools mitigate our exposure to the volatile cash markets, particularly in the spot gas and power markets, which in turn reduces the volatility of power prices for our consumers.

The ANOPR sets forth a number of specific questions. Calpine will respond to the following two questions, which are of the most relevance to our business:

- *Question 13. In what ways are non-BHC participants in the physical commodities markets combining financial and nonfinancial products or services in such markets?*

- *Question 18. In what ways would FHCs be disadvantaged if they did not have authority to engage in Complementary Commodities Activities? How might elimination of the authority affect FHC customers and the relevant markets?*

When Calpine enters into physical and financial contracts to hedge its commercial risk, as described above, we rely on the commodities markets to help provide access to appropriate, varied, credit-worthy counterparties on whom we can reasonably depend. Frequently, we transact with bank holding companies (BHC), financial holding companies (FHC), and other financial institutions because of the liquidity and transparency they provide. Without the ability of these counterparties to offer flexible and financially secure risk management products, the market would be dominated by hedge funds and other smaller market participants who are not subject to comparable regulations, oversight, or standards as the BHCs and FHCs, and who are unable to offer a comparable range of risk management products to end users. This gap would make it more difficult for companies like Calpine to manage their risk effectively, and could result in higher costs to our customers.

BHCs and FHCs are particularly important counterparties because they are transparent, well-capitalized, stable, and versatile enough to be able to provide a wide range of products and services to counterparties like Calpine. These entities are overseen by a number of government agencies, including not just the Federal Reserve, but also the Commodity Futures Trading Commission and the Securities and Exchange Commission, among others. This oversight increases transparency and helps to ensure that important market participants remain financially sound and reliable counterparties.

Calpine is concerned that any attempt to limit or deter these entities from participating in the physical commodities markets could have unintended consequences on Calpine and other energy end-users. Among other things, such action could diminish the liquidity of the market, thereby limiting our ability to manage our risk effectively, which ultimately could reduce our ability to finance and develop complex, and capital-intensive new projects. The recent departure of several BHCs and FHCs from the

California physical energy markets has noticeably reduced liquidity at several key delivery points, demonstrating that this concern is not hypothetical.

We appreciate the opportunity to comment in response to some of the questions posed in the ANOPR and request that the Federal Reserve consider the possible impact on end-users and the overall markets in which end-users transact, in evaluating any further action on this issue.

Calpine welcomes the opportunity to further discuss these comments with the Board of Governors. If we can provide any further information, please do not hesitate to contact us.

Respectfully submitted,

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