



CALPINE

ERCOT Safety Health and Environment
4100 Underwood
Pasadena, Texas 77057

December 8, 2005

Ms. Karen Hill
Texas Commission on Environmental Quality
KHILL@tceq.state.tx.us
P. O. Box 13087 (MC - 206)
Austin, Texas 78711

Re: Preliminary comments of Calpine relating to the proposed control strategy presented to the East Texas Electric Generating Facilities Stakeholder Group

Dear Ms. Hill:

Calpine submits the following comments concerning the control strategy the Texas Commission on Environmental Quality (TCEQ) is considering for the electric generating industry in East Texas. Calpine understands that the goal of measures being considered are for the purpose of aiding areas in East Texas in achieving or maintaining attainment with the standard for ozone. Calpine appreciates TCEQ initiating a dialogue on this matter and specifically the opportunity to comment on the issues presented at the November 18 meeting.

Calpine owns and operates eleven natural gas fired combined cycle power plants in Texas having a net generation capacity of approximately 7,500 MW. Nine Calpine facilities are located in the East Texas region defined by the TCEQ, seven of which are located in the Houston/Galveston non-attainment area.

Calpine understands that while the TCEQ has not developed a specific control proposal, the agency has modeled a sensitivity for the DFW non-attainment area using forecasted emissions from the power generation sector equivalent to those that are currently required of similar facilities in the Houston-Galveston non-attainment area. Having 20 power generation units in the Houston-Galveston area, we offer the following comments:

Implementation of NO_x controls similar to those required in the Houston area in time for a 2009 attainment demonstration for the DFW area is a very aggressive target. Our experience with our facilities in the Houston area is that there is not sufficient time for impacted sources to achieve the reductions in a cost effective manner. A key element of the Houston area plan is a cap and trade program that is phasing in reductions over a seven-year period. This strategy allows participants to make the most cost effective reductions through equipment modifications, facility replacements, or funding the same for third party reductions through the cap and trade program. The compressed timeline presented at the November 18th stakeholder meeting eliminates the options of facility replacement as well as funding third party reductions which are more economic than internal alternatives.

The compressed timing presents an additional challenge for sources needing to utilize technologies potentially resulting in collateral emissions increases associated with a control project. Should these increases exceed federal permitting thresholds, the use of a Standard Permit to authorize the installation of these controls would be precluded and a New Source Review permit would be required. A permitting process taking a year or more to complete would further diminish the likelihood of sources meeting the compliance demonstration date.

Should the TCEQ establish that emissions from electric generation in East Texas have a significant impact on the attainment goals of the DFW area, Calpine advocates the inclusion

Ms. Karen Hill
December 8, 2005
Page 2 of 2

of an output based cap and trade program as an element of any control strategy. The current Houston area trading rules allocate allowances to power generators based on historical heat input. This rewards plants that require relatively more fuel to generate electricity and ultimately discourages improvement in generation efficiency. Allocation of allowances to the power generation industry should be based on electric and thermal (in the case of cogeneration) output. Allocations proportional to electric and thermal output rather than heat input encourage gains in efficiency of electric generation and the minimization of all emissions from the power generation industry.

Calpine appreciates the opportunity to provide comments concerning the control strategy the Texas Commission on Environmental Quality (TCEQ) is considering for the electric generating industry in East Texas. If we can provide any additional information, please contact me at 832/476-4464 or by email at patrickb@calpine.com.

Sincerely,

Patrick Blanchard
Director, SH&E – ERCOT Power Region
Calpine Corporation