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September 7, 2004

Ms. Suzanne Bielstein
Director – Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File Reference No. 1201-100

Dear Ms. Bielstein:

On behalf of Calpine Corporation (Calpine), I am writing to comment on the Financial Accounting Standards Board's (FASB or the Board) Exposure Draft (ED) of proposed Statement of Financial Accounting Standards, "Fair Value Measurements."

Calpine is primarily an electric generation company engaged in the development, construction, ownership and operation of power generation facilities and the sale of electricity, predominantly in the United States.

Valuation Techniques

Issue 2: This proposed Statement would clarify and incorporate the guidance in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, for using present value techniques to estimate fair value. Is that guidance sufficient? If not, what additional guidance is needed?

Appendix A of the ED discusses present value techniques. Paragraphs A2(f) and A23 through A27 seem to require that an entity include the effects of its own creditworthiness when calculating the value of its liabilities. To us this requirement does not seem consistent with the definition of a liability in FASB Concepts Statement No. 6 because the creditworthiness of an enterprise does not effect its obligation to transfer assets or provide services to other entities in the future. Additionally, considering an entity's credit worthiness in valuing its own liabilities would produce anomalous results by creating gains when an entity receives a credit downgrade and losses when it receives a credit upgrade. Further, recognizing gains based on credit downgrades seems inconsistent with the revenue and gain recognition criteria in FASB Concepts Statement No. 5 because changes in an entity's credit worthiness does not relieve it of its obligations under the liability and, as a result, the earnings process has not been culminated.

Finally, an entity's creditworthiness is based on the probability of default, the consideration of which in financial statement valuations seems to be inconsistent with the going concern assumption embodied in an entity's financial statements.

We do believe, however, that entities should consider the risk of counter party credit default when calculating the fair values of assets.

If the FASB does adopt the ED with the requirement that entities consider their creditworthiness in valuing their liabilities the final standard should provide that the initial effect of incorporating an entity's creditworthiness be reported as the cumulative effect of a change in accounting principle because entities may not be applying such a factor currently.

Active Markets

Issue 3: This proposed Statement would clarify that valuation techniques used to estimate fair value should emphasize market inputs, including those derived from active markets. In this proposed Statement, active markets are those in which quoted prices are readily and regularly available; readily available means that pricing information is currently accessible and regularly available means that transactions occur with sufficient frequency to provide pricing information on an ongoing basis. Is that guidance sufficient? If not, what additional guidance is needed?

The ED defines active markets in paragraph 10. It is unclear to us how to interpret the criterion "regularly available" used in the definition of active markets. The definition could be made clearer by providing quantitative examples illustrating how to apply the terms "sufficient frequency" and "ongoing basis" used to define "regularly available."

In addition, the purpose of the examples used in paragraph 11 is unclear. Are the examples used in paragraph 11 intended to illustrate active markets? Clarification of the purpose of the examples in paragraph 11 would be helpful.

Fair Value Hierarchy

Issue 5: This proposed Statement would establish a hierarchy for selecting the inputs that should be used in valuation techniques used to estimate fair value. Those inputs differ depending on whether assets and liabilities are identical, similar, or otherwise comparable. Appendix B provides general guidance for making those assessments (Example 4). Is that guidance sufficient? If not, what additional guidance is needed?

In industries where non-financial commodity contracts must be classified as derivatives, entities may have to use multiple elements of the valuation hierarchy to determine fair value for a single contract. For example, a ten-year contract might be valued using exchange-quoted prices for the first two years, over-the-counter quotes for the next two years and management extrapolation for the last years. To avoid confusion, the standard should explicitly state that this is appropriate.

Pricing in Active Dealer Markets

Issue 7: This proposed Statement would require that the fair value of financial instruments traded in active dealer markets where bid and asked prices are more readily and regularly available than closing prices be estimated using bid prices for long positions (assets) and asked prices for short positions (liabilities), except as otherwise specified for offsetting positions. Do you agree? If not, what alternative approaches should the Board consider?

We believe that the requirement for entities to utilize bid prices for long positions and asked prices for short positions would, in some cases, create artificial balance sheet reserves. In our case, we often cover deliveries of electricity under our forward power sales agreements through our own generation. The result would be the deferral of recognition of earnings until the settlement of the contracts at which time the reserve would be reversed into earnings. We would propose the final standard include provisions that would allow an entity to value its forward derivatives based on the mid-market pricing where the entity intends to fulfill forward commodity contracts with production from its own facilities.

Level 3 Estimates

Issue 9: **This proposed Statement would require that in the absence of quoted prices for identical or similar assets or liabilities in active markets, fair value be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort (Level 3 estimates). Appendix B provides general guidance for applying multiple valuation techniques (Examples 6-8). Is that guidance sufficient? If not, what additional guidance is needed?**

In our view, the requirement of paragraph 21 of the ED that entities use multiple valuation techniques to determine Level 3 estimates of fair value place the burden of demonstrating "undue cost and effort" on the financial statement preparer and that it is possible that some could interpret this provision to require a quantitative analysis. We believe that the use of multiple valuation techniques should not be required when one technique is common, generally accepted, or most representative of the methods used by market participants. As a result, we believe that the standard as written could create unnecessarily burdensome documentation requirements. We believe that the application of the standard could be made more efficient by clarifying that qualitative judgment may be applied in satisfying the Level 3 valuation provisions.

Fair Value Disclosures

Issue 11: This proposed Statement would require expanded disclosures about the

use of fair value to remeasure assets and liabilities recognized in the statement of financial position. Appendix B illustrates those disclosures. This proposed Statement also would encourage disclosures about other similar remeasurements that, like fair value, represent current amounts. The Board concluded that those disclosures would improve the quality of information provided to users of financial statements. Do you agree? If not, why not?

The disclosures required by the ED are similar to disclosures required by SEC release FR-61. It is not clear to us whether or not the three categories of valuation methodology required under the FR-61 disclosures are consistent with the fair value hierarchy contained in the ED and there is potential for conflict between the two similar sets of disclosures. We request that the FASB coordinate any potentially overlapping disclosure requirements such as this with the SEC.

We also believe that the requirement to disclose unrealized gains and losses separately on the basis of whether they relate to assets or liabilities would have limited meaningfulness and would be administratively difficult to apply. An entity's derivative values can change from an asset to a liability position from period to period thus reducing the meaningfulness of disclosing unrealized gains and losses on the basis of whether they are associated with assets or liabilities. A more meaningful and practicable presentation would be to disclose the entire unrealized change in fair value of all such assets and liabilities and the associated effect on income and other comprehensive income.

Other Issues

Issue 13: This proposed Statement represents the completion of the initial phase of this project. In subsequent phases, the Board expects to address other issues, including issues relating to the relevance and reliability of fair value measurements and the unit of account that should be used for those measurements. What, if any, other issues should the Board address? How should the Board prioritize those issues?

The use of fair value measures in financial reporting has been an increasing trend over the years. We understand the relevance of this type of information to financial statement users. However, we ask that in subsequent phases of the project the Board consider the balance between the relevance and the reliability of information contained in financial statements. Because of the complexity and subjectivity of some fair value measures, especially on complex, long-term contracts in illiquid markets, the reliability of the fair value measure becomes so low that the relevance of the information is diminished. When this is the case, the benefit to financial statement users is not worth the burden imposed on entities to produce the information.

We appreciate the opportunity to express our views on this matter and would welcome the opportunity to discuss these matters in greater detail. Calpine is interested in sending a representative to participate in the September 21, 2004 public roundtable meeting regarding the ED. If you have any further questions or require any additional information, please feel free to contact me at (408) 792-1202

Sincerely,
Charles B. Clark, Jr.
Senior Vice President and Chief Accounting Officer

CC:
Robert Kelly, Executive Vice President and Chief Financial Officer
Randy Kruger, Jr., Vice President Accounting Calpine Energy Services