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CORPORATION
OHIO ENERGY MANDATES STUDY COMMITTEE
JUNE 1, 2015**

Good morning Co-Chairs Balderson and Roegner and members of the Energy Mandates Study Committee, thank you for allowing me the opportunity to provide testimony before you here this morning. My name is Joe Kereccman and I am Director of Government and Regulatory Affairs for Calpine Corporation. Calpine Corporation is America's largest generator of electricity from natural gas and geothermal resources. Our fleet of 87 power plants in operation or under construction represents nearly 27,000 megawatts of generation capacity. Serving customers in 18 states and Canada, we specialize in developing, constructing, owning and operating natural gas-fired and renewable geothermal power plants that use advanced technologies to generate power in a low-carbon and environmentally responsible manner.

We sell our power into competitive wholesale electricity markets, including the PJM market which also serves Ohio. We are not a regulated utility receiving a guaranteed return. Rather, we compete against other generators to sell wholesale power into markets where the purchasers are generally utilities and competitive suppliers who then deliver the power to their retail customers. So the economics of supply and demand are fundamental to our business. About 95% of the electricity generated by Calpine's fleet is from natural gas-fired power plants. Overall, Calpine burns more than 10% of all natural gas consumed by the power industry, making us one of the largest consumers of natural gas in the U.S., and the largest among all power generators. Despite our size, Calpine's fleet is the cleanest among the major players in America's independent power generation sector.

In the PJM market, Calpine owns approximately 5,000 MW of operating capacity and virtually all of our plants run on natural gas. It's also important to note that nearly 90% of this capacity has the capability to burn oil as a primary or back-up fuel, with onsite oil tankage. This dual fuel capability was specifically designed into the system to allow Calpine's assets to continue generating even under extreme conditions.

We are a member of the PJM Power Providers Group, and we generally support the comments offered here today by Glen Thomas as a member of the P3 Organization. My comments represent the position of Calpine, and are offered from the perspective of a competitive natural gas fuel generator.

My key message here today is that the competitive electric sector – and in particular in PJM, which covers much of the mid-Atlantic and the Midwest is working well, and is in solid shape to transition over the next several years from one supported by older, less efficient and more costly coal plants to one supported by newer, more efficient, less expensive and cleaner natural gas plants. At Calpine, we believe that competition yields the best results – that relying on entrepreneurialism and the free market creates more value than central planning or government picking winners and losers. There is significant new investment occurring throughout PJM and here in Ohio in both the power and gas sectors. We are bringing into service our own brand new 310 MW natural gas fired power plant in Dover, Delaware that commences commercial operations today, and we are getting ready to begin construction on the second phase of our York Energy Center which consists of 760 MW addition to the existing 565 MW power plant located in Pennsylvania. The York 2 Energy Center will begin commercial operations in 2017. These

investments are being made due to the game-changing discovery of the vast resources of Marcellus shale gas, and the Utica shale gas found right here in Ohio, the existence of a competitive markets with non-discriminatory rules, and a commitment by the PJM stakeholders to maintaining well-functioning markets.

The Power Market is working well, and the market signals are broadly working to incentivize investment in new electric and gas market infrastructure. However, markets are not perfect and some level of ongoing optimization is required. The good news is that many of the tweaks needed to remove market distortion and ensure efficient deployment of capital is well underway. Of particular note are the changes proposed, and pending at the FERC to restructure the Capacity Market to one based on well-defined performance requirements, with enhanced economic incentives. These market optimization changes will ensure that the PJM Market will continue to provide reliable energy for the entire PJM market area at the lowest cost possible.

Here in Ohio, there is a growing list of projects on the horizon, including the 869 MW CCGT plant in Oregon that will begin commercial operations in 2017, and a growing list of projects going through the development cycle, from developers such as NTE Energy with its proposed 518 MW facility in Middletown and Advanced Power's 700 MW project in Carroll County, just to name a few. We at Calpine continue to look at various sites within the state for possible development of new facilities in the state.

We can't deny that we are in an era of tremendous change within the electric power industry, including a major shift in resources, and Calpine commends the Legislature and this Committee

for taking the time to thoroughly evaluate the various impacts that subsidies and mandates can have on Ohio customers. At Calpine, we believe that ratepayers and the state in general are better served when there are little to no state mandates or subsidies. The absence of subsidies and letting each electric power producer compete on a level playing field will produce the greatest efficiencies, competitive outcomes, and accordingly the lowest prices for ratepayers.

To be clear, despite this changing resource mix, coal is by no means going away. In fact, by 2017, we expect coal generation in PJM to represent approximately one-third of PJM capacity. This isn't a war on coal. It is a market-driven move towards newer, more efficient, cleaner generation.

It is also important to note, that along with the expansion of natural gas fired generating capacity, there is also a significant expansion of the pipeline infrastructure occurring in the Northeast and Midwest to move these new found and developing gas supplies to market.

One issue policymakers must deal with sooner rather later is with non-market intervention and mandates. For example, at the federal level, the Wind Production Tax Credit (PTC) may be leading to premature retirements of certain base load resources, potentially impacting the reliability of the future resource mix. The current structure of the PTC subsidizes wind resources in the energy market to the point where wind generators will pay others to take power that is otherwise unneeded, in order to maximize their benefit from the PTC. So, while the wind resources cannot generally be counted on to provide energy during extreme winter or peak

summer conditions, the effect of the PTC is to take revenues from resources that can supply the market. The PTC interferes with market forces and is no longer necessary.

In summary, there are three key points I'd like to leave you with: First, the bulk power electric system in Ohio and throughout PJM – while undergoing a transition - is in great shape from a reliability stand point. PJM is well equipped to manage the transition. While its role may be diminished, coal will continue to play a critical role in meeting the region's reliability needs. But cheap American gas and its associated expanding infrastructure is poised to play a much larger role than before – not only in power generation but more broadly in our country's industrial efforts. Second, the power market is working well – it is incenting new investment – and in the case of older, less efficient generation, it is sending the appropriate retirement signals. And finally, we do not think that state regulatory or governmental interference in functioning markets can lead to better outcomes – we must continue to rely on the free market. While some changes in market rules over time will certainly be required, PJM has the necessary tools and capabilities to enact these changes.