CALPINE

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Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Comment on Proposed FSP FAS 13-b, "Accounting for Rental Costs Incurred during a Construction Period."

On behalf of Calpine Corporation (Calpine), I am writing to comment on the Financial Accounting Standards Board's (FASB or the Board) proposed Statement of Position (FSP) on Statement of Financial Accounting Standards (FAS) 13-b, "Accounting for Rental Costs Incurred during a Construction Period."

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. We have acquired or constructed over 90 power plant projects since 1984.

We frequently incur rental costs associated with numerous activities necessary to construct and prepare the long-lived asset for its intended use. Typical rental costs include equipment necessary for construction, temporary buildings from which to administer construction activities, adjacent property (land) to be used temporarily as a construction staging area and occasionally, the underlying land on which the facility is being constructed under a long-term lease that extends beyond the useful life of the facility. These costs are incurred to construct an asset that will be legally owned and operated by Calpine. The underlying land's fair value is typically immaterial compared to the fair value of the power plant facility.

We believe these types of rental costs are part of the direct historical costs of readying the long-lived asset for its intended use and are no different from other capitalized construction cost such as engineering, permitting, licensing, architectural, environmental, insurance, property taxes, etc. We also believe the rental costs related to the underlying land is an avoidable cost similar to the arguments in Paragraph 51 of FAS No. 34, *Capitalization of Interest Cost*, as this cost could have been avoided if we had selected an alternative location to build the power plant or elected to purchase the underlying land. Finally, we believe FSP FAS 13-b violates the fundamental matching concept of accrual accounting as it forces a timing difference between expense recognition during the construction phase and revenue generation once commercial operations commence.

In summary, we believe that capitalizing rental costs associated with a ground lease incurred during the construction phase of an asset is appropriate given the overarching principles of FAS No. 34 and FAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, paragraphs 6 and 7, and the differentiating characteristics of costs related to long-lived assets as identified in paragraph 8 of Statement of Position (SOP) 98-5, *Reporting on the Costs of Start-Up Activities*, which specifically excludes "costs of acquiring or constructing long-lived assets and getting them ready for their intended uses" from the expense as incurred approach required by the SOP.

We appreciate the opportunity to express our views on this matter and would welcome the opportunity to discuss these matters in greater detail. If you have any further questions or require any additional information, please feel free to contact me at (408) 792-1256.

Sincerely,

Anthony Hughes,
Director, Transaction Accounting and Accounting Research

CC:

Robert Kelly, Executive Vice President and Chief Financial Officer
Charles B. Clark, Jr., Senior Vice President and Chief Accounting Officer
Kelley Newton, Controller, Business Development and Construction