

Calpine Protocol Summary Auction Methodology

Note:

This summary is based on the auction methodology in the 2006 Calpine CDS Index Protocol, as published by ISDA on January 9, 2006 (the "Protocol"), and is for information purposes only. It is not a summary of the entire Protocol and is subject to the Protocol in all respects. Market participants should examine the text of the Protocol itself before deciding whether to adhere to the Protocol or take any other action with respect thereto. Neither ISDA nor any of the CDX Members (as defined in the Protocol) make any representation or warranty as to the accuracy or completeness of any information contained in this summary and neither ISDA nor any of the CDX Members accepts any liability for the accuracy or completeness of such information. All times of day herein refer to such times in New York City.

Important Dates:

- January 9 → Protocol Published
- January 12 → Cut-Off Date for Adherence and Submission Date for Bidding Agreement Letters
- January 17 → Auction Date
- January 20 → Notice for Bond Settlement
- January 25 → Bond Settlement Date for trades matched under the Protocol
- January 31 → Expected Cash Settlement Date for Covered Index Transactions between Adhering Parties

Coverage of Index and Index Tranche Trades:

- Dow Jones CDX.NA.HY Series 5 (and the HB sub-index), Dow Jones CDX.NA.HY Series 4 (and the HB sub-index), Dow Jones CDX.NA.HY Series 3 (and the HB sub-index), Dow Jones CDX.NA.HY Series 2 and iBoxx CDX.NA.HY (which is also known as Dow Jones CDX.NA.HY).
- Dow Jones TRAC-X NA High Yield Series 2 March 2009 Index (and the B and HB sub-indices) and the TRAC-X NA High Yield Series 1 June 20, 2008 Index (and the B and HB sub-indices).
- JPMorgan HYDIsm May 15, 2007 Index (and the B sub-index) and the JPMorgan HYDIsm November 15, 2007 Index (and the B sub-index).

Auction Timing:

January 12, 2006

Before 5:00 p.m.: Participating Bidders submit Bidding Agreement Letters.

January 13, 2006

The Administrators publish a list of the Participating Bidders.

January 17, 2006

Between 9:45 a.m. and 10:00 a.m.: Participating Bidders submit Inside Market Orders, Limit Orders (if any) and Market Orders to the Administrators. The remainder of this Timeline assumes that the Administrators have received Valid Inside Market Submissions from at least 10 Participating Bidders. If this is not the case, the timeline will be adjusted according to the Auction Methodology.

Between 10:00 a.m. and 10:55 a.m.: the Administrators will calculate and verify the results of the First Auction.

At 10:55 a.m.: the Administrators publish on www.creditfixings.com:

- either the Final Price or their determination that a Subsequent Auction is necessary (along with the reason for such determination);
- the size and direction of the Unfilled Open Interest, if any;
- the names of the Participating Bidders, together with the details of each such bidder's Inside Market Orders and Limit Orders (unless a Subsequent Auction is necessary, in which case only the details of Inside Market Orders will be published);
- the details of any Adjustment Amounts; and
- if a Final Price is simultaneously to be published, the total size of all Market Order Trades and Matched Limit Order Trades, along with the names of the Participating Bidders associated with each Market Order.

The remaining activities on the Auction Date will occur only if a Subsequent Auction is necessary.

Between 12:45 p.m. and 1:00 p.m.: Participating Bidders submit Subsequent Market Orders, Subsequent Limit Orders (if any) and Replacement Limit Orders (if any).

Between 1:00 p.m. and 1:55 p.m.: the Administrators will calculate and verify the results of the Subsequent Auction.

At 1:55 p.m.: the Administrators publish on www.creditfixings.com:

- the Final Price;
- the size and direction of the Subsequent Open Interest, if any;
- the names of the Participating Bidders, together with the details of each such bidder's Limit Orders, Inside Market Orders, Subsequent Limit Orders and Replacement Limit Orders
- the details of any Adjustment Amounts; and
- the total size of all Subsequent Market Order Trades and Matched Limit Order Trades, along with the names of the Participating Bidders associated with each Subsequent Market Order.

January 20, 2006

Each Participating Bidder who is to sell Deliverable Obligations pursuant to the Auction (a **Bond Seller**) delivers to the relevant Bond Buyer thereof a notice (a **Notice of Bond Settlement**) indicating the Deliverable Obligations that will be delivered (although such notice may be changed up to the Bond Settlement Date).

January 23, 2006

If a Bond Buyer has not yet received a Notice of Bond Settlement, such Bond Buyer may deliver to the relevant Bond Seller a Notice of Bond Settlement.

January 25, 2006

Each Bond Seller delivers the Deliverable Obligations to the Bond Buyer and Adjustment Amounts are paid.

February 1, 2006

If a Bond Seller has yet to deliver the relevant bonds, the right to close out the trade pursuant to the Buy-in procedures in Section 11 of the Protocol becomes available to the Bond Buyer.

Auction Methodology:

1. Determination of "Inside Market Midpoint"

- Participating Bidders submit \$10 million by \$10 million markets with maximum spread of two percent of par on any bond from the list of Deliverable Obligations between 9:45am and 10:00am on the Auction Date.
- The best half (based on tightness of spreads) of the non-tradeable markets are averaged to determine the Inside Market Midpoint.
- The Deliverable Obligations are:

Issuer	Coupon	Maturity	CUSIP	ISIN
Calpine Corporation	7.625%	2006	131347AL0	US131347AL00
Calpine Corporation	10.50%	2006	131347AD8	US131347AD83
Calpine Corporation	8.75%	2007	131347AF3	US1313473AF32
Calpine Corporation	Senior Secured Floating Rate	2007	131347BB1	US131347BB19
Calpine Corporation	7.875%	2008	131347AJ5	US131347AJ53
Calpine Corporation	7.75%	2009	131347AM8	US131347AM82
Calpine Corporation	8.50%	2010	131347BC9	US131347BC91
Calpine Corporation	8.625%	2010	131347AV8	US131347AV81
Calpine Corporation	8.50%	2011	131347AW6	US131347AW64
Calpine Corporation	9.875%	2011	131347BK1	US131347BK18
Calpine Corporation	8.75%	2013	131347BD7	US131347BD74
Calpine Corporation	6.00%	2014	131347BM7	US131347BM73
Calpine Corporation	9.625%	2014	131347BL9	US131347BL90
Calpine Corporation	4.75%	2023	131347BJ4	US131347BJ45

2. First Auction

- Participating Bidders submit “Limit Orders” and “Market Orders.”
 - Limit Orders = competitive Firm Bids and Firm Offers in \$1 million increments that touch or fall outside the inside market submitted by that Participating Bidder. These include (1) the inside markets and (2) additional bids and/or offers submitted on behalf of clients.
 - Market Orders = non-competitive Firm Bids and Firm Offers in \$1 million increments to buy/sell Deliverable Obligations at the Final Price.
 - Market Orders of Participating Bidders must represent, at the time of submission, to the best of their knowledge and belief, (i) the aggregate amount of Deliverable Obligations such Participating Bidders and their relevant affiliates would have to buy or sell in order to obtain a net neutral result with respect to all Covered Index Transactions to be settled pursuant to the Protocol both before and after settlement under the Protocol (*i.e.*, such amount as is necessary to maintain an identical risk profile under all Covered Index Transactions both before and after settlement under the Protocol) plus or minus, as the case may be, (ii) each market order such Participating Bidders receive from clients who have adhered to the Protocol and who have outstanding Covered Index Transactions to be settled pursuant to the Protocol with them, or one of their affiliates, representing a risk profile that approximately corresponds to such market order.

- Market Orders are aggregated and netted to find the Open Interest, and the smaller side of the Market Orders is matched with the larger side. The netted trades are “**Market Order Trades**”.
- If there is no Open Interest → **Final Price** is the Inside Market Midpoint.
- The Open Interest is then matched to the Limit Orders, starting with the lowest offer or highest bid, depending on the direction of the Open Interest (the “**Matched Limit Order Trades**”) until either (i) the full Open Interest is matched, (ii) all Limit Orders are matched or (iii) the last Limit Order that is matched is 15 percent of par from the Inside Market Midpoint.
 - Scenario 1: All Open Interest filled → **Final Price** is the last Limit Bid/Offer matched to Open Interest, except that, (i) if the Open Interest is on the offer side and the price of the last matched Limit Bid is higher than the Inside Market Midpoint, then the Final Price will be the Inside Market Midpoint and (ii) if the Open Interest is on the bid side and the price of the last matched Limit Offer is lower than the Inside Market Midpoint, then the Final Price will be the Inside Market Midpoint.
 - Scenario 2: (i) All Limit Orders filled or the next Limit Order that would be filled is more than 15 percent of par from the Inside Market Midpoint and (ii) the sum of Market Orders Trades plus Matched Limit Order Trades is 90% or more of the aggregate of the larger side of Market Orders → **Final Price** is the last Limit Bid/Offer matched to Open Interest.
 - Scenario 3: After the last Limit Order that is 15 percent or less of par from the Inside Market Midpoint is filled, the sum of Market Orders Trades plus Matched Limit Order Trades is less than 90% → there will be a Second Auction.

3. Second Auction

- The Second Auction occurs between 2 and 3 hours following the announcement by the Administrators that a Second Auction is required.
- Market Order Trades and Matched Limit Order Trades from the First Auction are discarded.
- Each Participating Bidder *must* submit Subsequent Market Orders, which (1) if the original Market Order was on the larger side of Market Orders, can be reduced from the original Market Order by up to 50% of the original Market Order and (2) if the original Market Order was on the smaller side of Market Orders, can be increased from the original Market Order by up to 50% of the original Market Order.
- Each Participating Bidder *may* submit (1) Replacement Limit Orders if the Replacement Limit Orders (a) are in the same direction, (b) are for the same or a larger notional than the originals and (c) state a price which is closer to the Inside Market Midpoint than, or equal to, the original Limit Orders and/or (2) Subsequent Limit Orders that would potentially be matched with the Subsequent Open Interest.
- Subsequent Market Orders are aggregated and netted to find the Subsequent Open Interest, and the smaller side of the Subsequent Market Orders is matched with the larger side. The netted trades are “**Subsequent Market Order Trades**”.

- The Replacement and Subsequent Limit Orders will be compiled with the unreplaced Limit Orders and, starting with the lowest offer or highest bid, depending on the direction of the Subsequent Open Interest, will be matched with the Subsequent Open Interest (such matches forming “**Matched Limit Order Trades**”), until either: (a) the Subsequent Open Interest is filled; (b) all Replacement Limit Orders, Subsequent Limit Orders and Limit Orders are filled; or (c) all such Limit Orders 15 percent or less of par from the Inside Market Midpoint are filled.
- The **Final Price** is the last Limit Bid/Offer matched to Subsequent Open Interest, except that, (i) if the Subsequent Open Interest is on the offer side and the price of the last matched Limit Bid is higher than the Inside Market Midpoint, then the Final Price will be the Inside Market Midpoint and (ii) if the Subsequent Open Interest is on the bid side and the price of the last matched Limit Offer is lower than the Inside Market Midpoint, then the Final Price will be the Inside Market Midpoint.

Where do trades occur and at what price?

- The Calpine Portions of all index and index tranche trades covered by the Protocol are cash settled at the **Final Price**.
- **Market Order Trades, Subsequent Market Order Trades and Matched Limit Order Trades** (each of which are bond trades) trade at the **Final Price**.
- Touching and crossing Inside Market Bids and Inside Market Offers from the first step of the auction methodology (Section (1) above) are paired highest-to-lowest (each, an "**Adjustment Pair**") and an **Adjustment Price** is calculated at the midpoint. If the Adjustment Price is greater than the Final Price, the Participating Bidder whose Inside Market Bid formed part of such Adjustment Pair will pay to the other Participating Bidder in such Adjustment Pair an **Adjustment Amount** equal to US\$10 million times the difference between the Adjustment Price and the Final Price. If the Adjustment Price is less than the Final Price, the Participating Bidder whose Inside Market Offer formed part of such Adjustment Pair will pay the Adjustment Amount to the other Participating Bidder in such Adjustment Pair.