

WATERSHED

Form of Adherence Letter

01/12/06

International Swaps and Derivatives Association, Inc.

Send to: calpineprotocol@isda.org

Dear Sirs,

2006 Calpine CDS Protocol - Adherence

The purpose of this letter is to confirm our adherence to the 2006 Calpine CDS Protocol, as published by the International Swaps and Derivatives Association, Inc. on January 9, 2006 (the "**Protocol**"). This letter constitutes an "Adherence Letter" as referred to in the Protocol.

The definitions and provisions contained in the Protocol are incorporated into this Adherence Letter, which will supplement and form part of each Covered Transaction (now or in the future) between us and each other Adhering Party.

1. Specified Terms

(a) In respect of each Covered Non-Index Transaction:

(i) the Obligations of Calpine with CUSIP 131347BM7 and ISIN US131347BM73, known as the 6% Contingent Convertible Notes due 2014, will be deemed to be Deliverable Obligations; and

(ii) the Obligations of Calpine with CUSIP 131347BN5 and ISIN US131347BN56, known as the 7.75% Contingent Convertible Notes due 2015, will be deemed not to be Deliverable Obligations.

(b) The terms of Schedule 1, Covered Index Transactions, shall apply to Covered Index Transactions.

2. Appointment as Agent and Release

We hereby appoint ISDA as our agent for the limited purposes of the Protocol and accordingly we waive, and hereby release ISDA from, any rights, claims, actions or causes of action whatsoever (whether in contract, tort or otherwise) arising out of, or in any way relating to, this Adherence Letter or our adherence to the Protocol or any actions contemplated as being required by ISDA.

3. DTCC Account Number

For purposes of electronic matching and counterparty recognition, our DTCC Account Number is as follows, but you understand and agree that our failure to provide any such details pursuant to this letter will not affect the legal validity and binding nature of the Protocol with respect to us:

DTCC Account Number: 0005

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Watershed* Capital Partners (Offshore), Ltd.
One Maritime Plaza Suite 1525 San Francisco California 94111
415 391 8900 Fax 415 391 3919

4. Contact Details

Our contact details for purposes of this Adherence Letter are:

Name: Meridee Moore
Address: 1 Maritime Plaza, Suite 1525
Telephone: 415-391-8900
Fax: 415-391-3919
E-mail: mmoore@wcap.com

We consent to the publication of the conformed copy of this letter by ISDA and to the disclosure by ISDA of the contents of this letter.

Yours faithfully,

Watershed Capital Partners (Offshore), Ltd.¹

By: WATERSHED ASSET MANAGEMENT,
L.L.C., its Investment Manager

By:

| |
|--------------------------------|
| Name: Meridee Moore |
| Title: Senior Managing Partner |
| Signature: Meridee Moore |

¹ Specify legal name of Adhering Party. If you are an investment or asset manager and act on behalf of multiple funds, you must indicate in the signature block, "Investment/Asset Manager, acting on behalf of the funds and accounts listed in the relevant Master Agreement between it and another Adhering Party". A separate Adherence Letter for each fund does *not* need to be submitted to ISDA. Further, no specific names of clients of the investment/asset manager will be publicly disclosed on the ISDA website in connection with the Protocol. However, in order for Market Orders to be calculated by Participating Bidders, each such investment/asset manager is required to provide a list of all funds and accounts that it acts on behalf of to each Participating Bidder that has (or whose affiliate has) entered into an ISDA Master Agreement with any of those funds. As provided in paragraph (1) of the Auction Methodology set out in Exhibit 3 of the Protocol, on the Business Day prior to the Auction Date, the Administrators will publish a list of the Participating Bidders.