



Ignore Depletion At Your Peril

Posted by [Stuart Staniford](#) on November 30, 2005 - 12:55am

Topic: [Economics/Finance](#)

Tags: [calpine](#), [depletion](#), [electricity](#), [hubbert peak](#), [natural gas](#) [[list all tags](#)]

News today to add to the "Business Consequences of Ignoring Depletion" file. AP [reports that](#)

Power merchant Calpine Corp. said Tuesday that it has replaced its longtime chief executive as well as its chief financial officer in an abrupt shake up that sent the company's stock price below \$1 as investors fretted about a possible bankruptcy.

This led to a rapid series of further unpleasantness. [TheStreet.com](#) adds:

Calpine learned that it's getting taken out of the S&P 500 just hours after Peter Cartwright, the company's founder and chief executive, and Robert D. Kelly, its chief financial officer, were taken off the payroll.

The company's removal from the index likely means its battered stock will face even more selling pressure as money managers whose holdings mimic the S&P 500 move to unload the shares.

[Reuters adds:](#)

Credit investors on Tuesday braced for a possible imminent bankruptcy of Calpine Corp. by sending the cost to insure the ailing power producer's debt in the next month up fourfold after news of a management shake-up.

The cost of insuring Calpine's debt with credit-default swap contracts that mature on Dec. 20 leaped to 50 percent the amount insured as an upfront payment on Tuesday, from 12 percent before the company announced the departure of its chief executive and chief financial officer, according to a trader.

The end is nigh, one fears... The cause of the trouble? [Calpine's website:](#)

Calpine is committed to producing the clean, efficient, cost-competitive electricity that our customers need. Today, we generate enough electricity to meet the needs of more than 22 million households. By the end of 2005, we expect to produce more than 28,000 megawatts of electricity — enough to supply approximately 28 million homes and make

Calpine one of the largest power producers in the industry.

but

Calpine operates electric-generating facilities that are fueled by **natural gas**, a clean-burning fossil fuel. Calpine's state-of-the-art, combined-cycle natural gas-fired energy centers are environmentally friendly sources of electricity. Modern natural gas-fueled facilities produce 90 percent less emissions and are 40 percent more fuel-efficient than older technology, fossil-fueled electric generating facilities.

(emphasis added) and so, [AP again](#):

Cartwright, 75, and Kelly, 47, presided over an aggressive expansion that transformed once-tiny Calpine into one of the nation's largest wholesalers of electricity. The company operates 92 plants in states and Canada with a total capacity of 26,500 megawatts - enough to provide power to about 20 million homes.

But the buildup saddled Calpine with heavy debt that has become even more burdensome as the company's losses have piled up during the past two years amid weak customer demand and rising expenses for natural gas - the fuel that it relied upon to generate a more environmental-friendly form of electricity.

Calpine's escalating problems have raised worries that the company will seek refuge in bankruptcy court, despite Cartwright's resolve to avoid that desperate measure.

With Calpine's founder out of the way, "the probability of a bankruptcy is somewhat higher than before," said Maxcor Financial analyst Daniele Seitz.

One can't help wondering. Was Calpine a client of CERA? The latter were [saying in 2000](#):

Nevertheless, CERA expects supply to begin to show year-over-year increases in the United States toward the end of 2000, and in Canada supply growth is at last expected to be evident this spring.

CERA does believe that there is the gas supply potential to meet the challenges of increased demand from power generation at a price that would not discourage that market development. It is very important to avoid short-term government intervention in the market that would discourage investment in supply.

The consequences of gambling on that theory are now very clear...

Here's HO's [recent backgrounder](#) on natural gas supply issues.



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