Comments of Morgan Stanley Capital Group, Inc.
FERC Order 764 Compliance
15-minute and Scheduling and Settlement
April 16, 2013

These comments are in response to the Draft Final Proposal issued by the CAISO on March 26, 2013. On a "bottom line" basis, we believe that the ISO has arrived at a construct that is viable and should be implemented. While ideally, we would still like to see price certainty for imports and exports selected in the various markets (often referred to as Bid Cost Recovery), we do not regard its omission as a fatal flaw. However, we do remain concerned that lack of price certainty at the ties will increase the bid/ask spread and reduce liquidity, the latter of which could create reliability issues at times.

With regard to concerns expressed by many parties about the mismatch between 15-minute ISO markets and hourly markets in all other Balancing Authorities (BAs) in the WECC, we do not disagree with their assessment of the current market. However, we are more optimistic about the ability of the market participants to resolve any issues arising from the mismatch. Furthermore, we suspect that the CAISO moving to such 15-minute markets and settlements can help stimulate faster evolution of other BAs to similar practices, an evolution we find highly desirable.

We would observe that our support for the Draft Final Proposal is heavily influenced by the inclusion of a reinstatement of Convergence Bidding at the interties. Again while we find the proposed position limits to be unduly restrictive and unjustified, we are willing to accept them in the spirit of "getting on with it", rather than continuing to argue about the "right" levels. Our support is contingent, however, on the timetables discussed being the "default" actions, with phase-in of less restrictive limits only able to be delayed upon discovery of problematic evidence.

MSCG would appreciate greater information on how VERs external to the CAISO can use CAISO forecasting services as outlined in the proposal. It is not clear whether by choosing to use CAISO forecasting services the VER is committing to schedule 100% of its output directly to CAISO markets, or if there is an option to send only a % of the VER output to CAISO markets depending on market conditions and transmission limitations.

Finally, we commend the CASO for adopting our recommendation to eliminate the transmission reservation and settlement feature, which we believe adds too little (if any) value relative to the increased complexity. We also support the decision not to settle deviations at the "worse of" price. The observation that this can be adjusted later if observed data indicate systematic exploitation to be occurring, is the best policy, and is also a key component of our decision to support the Draft Final Proposal. Last but not least, we applaud the approach taken to the Day-Ahead Dual Constraint issue. Stakeholders have long believed that this type of option could be developed to "finesse" the issue, and we are pleased with the ISO's responsiveness and efforts to discuss the matter with other WECC entities, resulting in a creative and sound solution.

Morgan Stanley Capital Group, Inc. (MSCG) appreciates the opportunity to comment on the Draft Final Proposal. If there is any desire for follow-up questions or discussion, please contact Steve Huhman at (914) 225-1592, or via e-mail at Steven.Huhman@morganstanley.com.