Comments of Morgan Stanley Capital Group Inc.
Draft Final Proposal on E-Tag Timing Requirements
Submitted January 21, 2010

Morgan Stanley Capital Group Inc. (MSCG) has been participating in the ongoing discussions over possible change to E-Tag timing rules, and the related, underlying subject of "implicit" virtual bidding. We are pleased to have the opportunity to provide our perspective on the latest version of the CAISO proposal, issued January 7, 2010. For questions, clarifications or follow-up discussions, please contact Steve Huhman at (914) 225-1592, or via e-mail at steven.huhman@morganstanley.com.

Broadly, MSCG finds the most recent variation, which would impose a HASP Settlement Reversal rule, to be acceptable, if short of ideal. It accomplishes our primary objective, which is allowing optimization of physical delivery arrangements from IFM to HASP, without penalty. This is a major step forward from current practice, where such optimization is at best unclearly defined in terms of its acceptability, and at worst considered a tariff violation or even a form of market manipulation (both inappropriately, in our view).

That having been said, we would prefer that the CAISO go even further, and acknowledge that it is a legitimate and useful practice for a party to respond to market signals by changing its intent "on the fly" when prices signal that this is the best approach. The legitimate practice that the HASP Reversal Settlement Rule thwarts is when a party sells in the IFM with full intent to physically deliver, but upon observing attractive prices in the HASP, changes intent and simply buys back its position. We believe that this action should be recognized as a perfectly legitimate, even desirable practice, that benefits all market participants, including end use consumers, and should in fact be encouraged, not discouraged. While it is certainly true that this type of transaction will still be enabled when the deliverer has gone ahead and E-Tagged prior to HASP, there will still be some situations where this did NOT occur, and the Reversal charges will make it unattractive to optimize.

The only argument against allowing this practice is its purported potential impact on reliability. However, we continue to believe that if power physically can get to the interties in real time, it will, and the only issues then become ones of price and accounting. Bottom line, once explicit virtual bidding becomes permitted, implicit virtual bidding becomes a non-issue (and in our view, should be regarded as such currently), and the HASP Settlement Reversal Rule becomes a solution in search of a problem.