Comments of Morgan Stanley Capital Group Inc.
E-Tag Timing Requirements Initiative Straw Proposal
December 21, 2009

Morgan Stanley Capital Group Inc. (MSCG) appreciates the opportunity to comment on the E-Tag timing Straw Proposal. It has been important to us for quite some time that the whole "implicit virtual bidding" issue be addressed, clarified, and resolved. We believe that the Straw Proposal rightly does so in a manner makes it clear that economic portfolio adjustments at the interties that take place after award of day-ahead schedules are legitimate, market-benefitting transactions that should not be subject to discouragement or sanction. For follow-up questions or discussion on these comments, please contact Steve Huhman at (914) 225-1592, or via e-mail at steven.huhman@morganstanley.com.

MSCG applauds the underlying philosophy described in the Straw Proposal. By far the best approach to achieving a desired outcome is to provide economic incentives for market participants to act in the desired manner. This is far superior to trying to become the "thought police" and trying to divine market participants' intent, or to making convoluted changes to non-related rules (E-Tag timing) in an attempt to use them as a proxy to force the desired behavior. We further applaud the explicit recognition that "… there are valid economic justifications for reversing day-ahead awards in HASP".

Our interpretation of the Straw Proposal, when read in conjunction with Section 11.31 of the tariff, causes us to believe that the intent of the proposal is to only apply Decline Charges to HASP schedules not delivered in real time. Day-Ahead schedules adjusted in HASP would not face Decline Charges, or any other types of penalty. In other words, "buying back" one's Day-Ahead schedule in the HASP, in whole or in part, will not be considered "implicit virtual bidding" by the CAISO. If our interpretations of the Straw Proposal are correct, MSCG then supports the Straw Proposal without reservation.

The remaining question then appears to be whether or not the existing Decline Charge rates, coupled with the differential in GMC charges that makes it cheaper to be an "explicit" virtual bidder than an implicit one, are sufficient economic deterrents to accomplish the purpose. It is our view that the Decline Charges as currently calculated are far from trivial. No party has so far presented a rigorous analytical framework showing why they would not be sufficient to deter implicit virtual bidding. Given that, it seems prudent to simply leave the current rates in place. If ongoing monitoring demonstrates a problem, then the CAISO will have empirical evidence to support an increase. Increasing the charges in the absence of empirical evidence or a demonstration of why the charge is clearly insufficient would just increase risks of supplying the CAISO market, with no offsetting benefit. Therefore, we believe it would be in the best interest of all parties to make no changes until an actual (not theoretical) problem is identified. At that time, the issue can be revisited, and an appropriate remedy tailored to match the problem.