Price Inconsistency Caused by Intertie Constraints
Comments of Morgan Stanley Capital Group, Inc.
May 11, 2011

Morgan Stanley Capital Group, Inc (MSCG) has reviewed the Issue Paper and Straw Proposal published on April 27, and listened to the stakeholder call on May 4, regarding the problem of energy being awarded to bidders at prices outside of their bid constraints. Or, in plain English, exporters "winning" bids to purchase energy at the ties, only to discover that the actual price of the energy purchased was higher than that bid, for example. We would offer the following observations:

- Settling physical and virtual bids at different prices (Option A) is highly undesirable. Doing so removes one of the core purposes of convergence bidding.
- Option B (Economic curtailment of physical schedules after the price run) is clearly preferable as a theoretical matter.
- As we understand it, the primary practical problem with Option B, from the CAISO's standpoint, is that it would require an additional run of the economic dispatch algorithm. However, the discussion to date has not made it clear what the practical problems of an additional run would be. Is it the incremental cost of running the program again? Is it the time required? Is it an inconsistency with WECC scheduling requirements? Absent better understanding of problems that doing so might cause, our presumption would be that looking at some way to adjust the current economic dispatch cycle, such as closing the market 30 minutes earlier to allow for the incremental run, or closing as currently done and publishing awards 30 minutes later, would be the best approach.
- In particular, given that the day-ahead market is intended to be solely a financial market, it is unclear as to why Option B would be inconsistent with WECC requirements. A more thorough description as to exactly what the perceived problem is would be very useful. Problems must first be thoroughly understood before creative thinking can be enlisted to arrive at solutions.

Thank you for the opportunity to comment on the issue. 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.