

Response of Morgan Stanley Capital Group, Inc.
Market Usage Forward Energy Discussion Paper
August 10, 2009

Morgan Stanley Capital Group Inc. (MSCG) appreciates the opportunity to comment on the Market Usage Forward Energy GMC charge code issue, particularly as it pertains to the charges for Inter-SC trades (ISTs). As a matter of principle, MSCG believes that the CAISO's willingness to provide a scheduling and billing service for ISTs is a useful addition to the overall market structure in the CAISO footprint. If, in fact, there are any costs associated with providing the service, then of course those costs should be reflected in a charge to service users. However, in order to be useful to market participants, that charge must not be so high as to have a meaningful negative economic impact on the deals for which it is being used. It is also a strongly held principle of MSCG, which extends far beyond the specific issue at hand, that charges should be based on cost causation. It was our view from the beginning of MRTU, now supported by the cost analysis in the above referenced whitepaper, that the initial rate of approximately \$.43/mwh was far in excess of the cost to provide the service. Furthermore, it was certainly too high to avoid having a meaningful negative economic impact on the underlying transactions.

Question 1: Which of the options listed in the whitepaper as a potential change to the structure of the Market Usage Forward Energy GMC Charge Code do you support?

Answer 1: MSCG most strongly supports Recommended Option 2. Under the logic of the analysis in the whitepaper, costs for the GMC are based on energy, not schedules. That being the case, MSCG believes that gross energy rather than net is the methodology that best aligns rates with cost causation. To see why this is so, consider a very large user which has a perfectly balanced schedule. It strains credibility to say that such a user imposes zero costs on the system. Conversely, under a "net" scenario, another entity which has a similarly sized schedule, but all on one side of the ledger, would be faced with a very large assessment, even though its system "usage" would only be half as large. Also problematic is the practical effect of a "net" approach, which would be a cost shift to importers. Absent a clear cost causation analysis demonstrating that imports impose higher costs on the system than other transaction types, it does not seem wise policy to adopt an approach that would impose higher costs on a crucial resource that likely has other options.

Question 2: If none of the options presented in the whitepaper are supported, do you have an alternative proposal?

Answer 2: Not applicable

