

Comments of Morgan Stanley Capital Group Inc.
Data Release and Accessibility
Phase 1: Transmission Constraints
Straw Proposal
December 16, 2009

Morgan Stanley Capital Group Inc. (MSCG) has reviewed the Straw Proposal released on December 3. We appreciate the CAISO's significant movement in the direction of greater transparency with regard to constraint management. Broadly, we believe every change suggested in the Straw Proposal will be an improvement over the status quo. Additionally, we look forward to the separate paper on release of outage information promised by the end of the year.

If there is any desire for follow-up questions or discussions, please contact Steve Huhman at (914) 225-1592, or via e-mail at steven.huhman@morganstanley.com. With regard to the specific features in the straw proposal, we would like to make the following comments:

- I. We believe that the best available information on outages and constraints should be released prior to the primary the Day-Ahead scheduling deadline. The goal should be to use market participants' decision making to help the CAISO manage the grid in light of constraints. Pre-deadline posting of the "All Constraints List" should be a "win/win" choice, as it will enable market participants to optimize in light of current constraints, which in turn should reduce the number of adjustments the CAISO must make in the Day-Ahead run. Current industry practice is for most bilateral trading to take place between 5 and 7 a.m. Prevailing Pacific Time (PPT). For constraint information to really be useful, it needs to be available and up-to-date prior to that window. We note that the CAISO currently updates its OASIS with the latest transmission outage information at 3 p.m. PPT. We suggest that this would be a good time to also release the updated All Constraints List. Doing so would maximize the ability of market participants to hedge their obligations. We understand that some parties have expressed concern that providing such information could enable "market manipulation" of some kind. However, we do not believe this fear is well-founded, for two reasons. First, primarily, if constraint information is posted publicly, then everyone knows about all of the system issues currently in play. If not, perhaps only a subset of market participants is aware of it. Clearly, market manipulation is more likely when only a small number of market participants are aware of an issue than when everyone knows. Secondly, refusal to release data out of fear of market manipulation suggests lack of faith in the CAISO's market monitoring department. MSCG believes that the market monitoring staff has both the tools and the expertise to quickly identify and rectify any market manipulation that might result from release of constraint data.

- II. So far, there has not been much discussion regarding what criteria the CAISO uses to move a constraint in or out of the IFM model. We would encourage the CAISO to develop and publish a protocol for robustly testing the impact of making such a change on LMPs. The test results should then be made available to the market in advance of actually making the change. This would enable market participants to anticipate “day one” lurches in LMP prices at key nodes, and develop sourcing and routing alternatives and hedging strategies to manage their exposure to the change.
- III. There were a couple of items MSCG mentioned in its comments after the Issue Paper that were not discussed in the Straw Proposal. One is publication of information regarding how the CAISO makes “exception” decisions to “manually” not enforce a constraint that is nominally viewed as binding. We strongly urge the CAISO to publish a general operating procedure, or other appropriate document, that discusses the circumstances under which such decisions are considered and made. There should also be published an “exception report” after each day-ahead schedule posting, itemizing and explaining any such decisions that were made for that particular schedule. Item number two we would like to see addressed is the review of potential constraint enforcement adjustments in the D+2 and D+3 timeframes that was mentioned in the Issue Paper. MSCG believes that making public the outcome of these discussions would be very valuable, and that, at a minimum, the CAISO should discuss any issues and problems with doing this, as well as pros and cons.