

Comments of Morgan Stanley Capital Group Inc.  
California 33% Renewable Electricity Standard Preliminary Draft Regulation  
Subchapter 10  
April 8, 2010

Morgan Stanley Capital Group Inc. (MSCG) appreciates the opportunity to comment on the draft regulation implementing a 33% Renewable Electricity Standard (RES) for California. As one of the largest wholesale suppliers of electricity in the Western Electricity Coordinating Council, MSCG has a significant interest in the details of the implementation.

In the discussion of Section 97004, Staff asks for input regarding two options for potentially increasing the availability of renewable resources for compliance.

MSCG's recommendations:

1. Adopt Option 1:

Allow the unlimited use of unbundled and undelivered RECs.

2. Do not restrict trading to regulated entities.

Such a restriction is very likely to lead to large inefficiencies and ultimately to a higher cost to consumers. It will also weaken the incentives to unregulated entities to participate in Renewable Electricity production and delivery, which will result in less renewable energy.

3. Eliminate limits on REC banking.

From an efficiency standpoint it is strongly desirable to encourage early renewable energy generation and not to penalize early actors.

4. Clearly allow unrestricted matching of RECs against energy across vintages.

Any restriction in matching will unnecessarily reduce the incentives for Renewable project development, which is contrary to the goals of the initiative.

5. Renewable energy delivered via firm transmission should be treated as a "bundled" REC transaction. If our prime recommendation of allowing unlimited usage of "unbundled" RECs is adopted, then this issue would be moot.

A failure to do so will be counterproductive by reducing the volume of economic renewable generation.

MSCG will be happy to provide further comments and clarifications on these recommendations, and assist Staff in any other manner in the implementation of this timely and significant initiative.

Contact person:

Steve Huhman

Phone: (914) 225-1592

E-mail: [Steven.Huhman@morganstanley.com](mailto:Steven.Huhman@morganstanley.com).