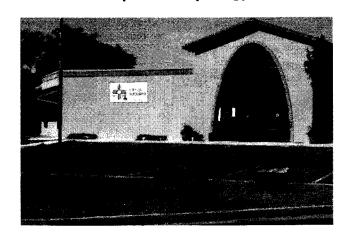
MORGAN STANLEY CAPITAL GROUP INC.

City Of Socorro, New Mexico – RFI for Wholesale Electric Supply RFI Response – April 29, 2016



Submitted via email to:
RFI Administrator:
Edwin Reyes, Jr.
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City of Socorro:
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Chief Procurement Officer/IT Director
111 School of Mines Rd.
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Bidder's Primary Contact: Ali Yazdi Phone Number: 604-658-8112

Email Address: ali.yazdi@morganstanley.com

1. Morgan Stanley Capital Group Inc. - Relevant Experience:

Morgan Stanley Capital Group Inc. (MSCGI) is a wholly owned subsidiary of Morgan Stanley, a global financial services firm and a market leader in asset management, investment banking, capital markets, trading, and wealth management. MSCGI, the principal entity through which Morgan Stanley conducts its North American energy trading activities, has over 25 years of experience in trading both physical and financial commodities products. MSCGI has significant know-how in commodities hedging and risk management and currently trades power, natural gas, emissions, crude oil, refined petroleum products and renewable fuels.

MSCGI is consistently rated one of the top commodity risk managers by the industry. Morgan Stanley has been active in the North American physical power markets for more than 15 years and has served a variety of customers including cooperatives, municipal utility systems and investor owned utilities. MSCGI has participated in a variety of scheduling services, power sales and tolling agreements all across the United States. The firm participates in all major Independent System Operator (ISO) markets and actively dispatches several gas generating units. MSCGI has a long history of providing solutions in the electricity sector. Solutions have included power and regulatory products purchases/sales, scheduling services, and full requirements load following for both short term and long term tenors.

General Experience in the Southwest region of WECC

MSCGI is very active in trading and scheduling power in the Southwest and Rockies markets and has wheeled power across the entire WECC for more than a decade. MSCGI currently manages the resources and load service of a 700 megawatt system serving Utah customers and has been doing so since 2003. MSCGI dispatches the system's thermal and hydro resources, performs load forecasting and hourly load service, and optimizes the system's excess generation and transmission resources. In addition to optimization, MSCGI handles all scheduling and back office functions including NERC E-tagging, preschedule, realtime and after-the-fact checkout, and settlement. MSCGI is also very active at most of the trading hubs in the southwest including Palo Verde, Four Corners, Mead and Marketplace. Daily activity includes purchases and sales, transmission optimization and an active realtime desk that can be used to minimize generation imbalance charges caused by load or generation fluctuations.

Generation Sources and Reserves

The sources that MSCGI will use to deliver the power to Socorro will come with the required Bal-002 generation side reserves. MSCGI will procure the transmission, including the required transmission reserves, to deliver the energy to Socorro at the delivery point

(Four Corners). In addition, MSCGI can schedule Socorro's Network Integration Transmission service to move the power from the delivery point to Socorro's load.

MSCGI will be procuring the energy for Socorro from a variety of sources in the Southwest region based on the most economic source on the day factoring in natural gas prices, transmission availability and other factors. MSCGI does have several long term contracts for supply on the Columbia River and wind assets in the Pacific Northwest. In addition, MSCGI has been managing the load and resources for a large Cooperative in Utah for over 10 years and those system resources can access the Four Corners delivery point via available transmission.

2. Power Requirements

- a. Load: MSCG is proposing to serve the Total City load
- b. Product: WSPP Schedule C energy
- c. Contract Quantity: Seller shall be responsible for meeting Buyer's hourly electrical loads net of Buyer's self generation from renewables (up to a negotiated maximum).
- d. Load Changes: Any load changes of more than 3% (year over year) of weather adjusted total energy consumption will be negotiated in advance or default to being priced off the Palo Verde Intercontinental Exchange Index (adjusted for transmission costs). Buyer and Seller will agree to a formula for calculating weather adjusted load based on daily temperatures, or some other mutually agreed upon basis, on or before contract effective date. Each year thereafter a 'look-back' calculation will be made to determine if the weather adjusted total energy load for the previous 12 months increased or decreased by greater than 3%.

3. Disclosure of exceptions to RFP requirements

Any new loads greater than 1MW shall be negotiated separately between the parties or priced at Palo Verde Intercontinental Exchange Index, adjusted for transmission costs to Four Corners 345kv.

4. Delivery Point

Primary point of delivery will be <u>Four Corners 345kv</u>. Seller shall have the right to deliver into unconstrained points on PNM's network using Buyer's NITS Agreement to reach Socorro's distribution substation as identified in the NITS Agreement.

5. Pricing

MSCG is willing to offer the following terms and pricing options for Socorro's review. MSCG reserves the right to refresh pricing through the short list period based upon market conditions and this offer is subject to MSCG credit approvals.

5 year term: Jan 2017 – December 2021 \$43.95/MWh

10 year term: Jan 2017 – December 2026 \$49.75/MWh

6. Ancillary Services

Buyer shall be responsible for providing or paying for the following ancillary services under PNM's Open Access Transmission Tariff ("OATT"): Scheduling (OATT Schedule 1), Reactive Supply (OATT Schedule 2), Regulation (OATT Schedule 3), and Spinning Reserves for load (OATT Schedule 5) and Supplemental Reserves for load (OATT Schedule 6).

Seller shall be responsible for providing or paying for the following ancillary services under PNM's Open Access Transmission Tariff ("OATT"): Energy Imbalance (OATT Schedule 4), Spinning Reserves for generation (OATT Schedule 5) and Supplemental Reserves for generation (OATT Schedule 6).

7. Financial Information

The most recent Morgan Stanley financial information is available at the following link: http://www.morganstanley.com/about-us-ir/sec_filings.html

Morgan Stanley will provide a parental guarantee for the obligations of Morgan Stanley Capital Group Inc. (MSCGI) under this transaction.

a. Credit information: Morgan Stanley current ratings, as of Apr 2016 are:

Agency	Short Term	Long Term	Outlook
Moody's Investors Service	P-2	АЗ	Stable
Standard & Poor's	A-2	888+	Stable
Fitch Ratings	F1	A	Stable
DBRS, Inc.	R-1 (middle)	A (high)	Stable
Rating and Investment Information, Inc.	a-1	A -	Stable

b. Credit requirements from Socorro

MSCGI will require full financial statements from Socorro to evaluate credit worthiness for the duration of this transaction including receivables and any potential mark to market exposure from a fixed price power contract. This offer remains subject to MSCGI credit and management approvals.

Reference Customers:

- Clay MacArthur, VP Power Marketing and Contracts
 Deseret Power Electric Cooperative
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 cmacarthur@deseretpower.com
- Chris Hodge , Senior Vice President, Commercial Operations Naturener USA
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