

each RTO footprint. We're also participating in a new contingency reserve sharing group involving numerous parties in and around the Midwest ISO. Along with other RTO border entities in the MAPP region, we participate in a seams operating agreement with the Midwest ISO.

MidAmerican Energy values its participation in all of those RTO markets. Today I want to touch on the benefits that border entities bring to these markets, and I want to assure you that we're paying our way.

Let's talk for a moment about the benefits that border entities bring to RTOs. First of all, external parties like MidAmerican Energy maximize the overall economic efficiency of RTO markets. The price signals we get at our RTO interfaces contribute to convergence between related energy markets. Responding to these price signals has the overall effect of reducing aggregate costs across all interconnected energy markets.

As a result, entities on RTO borders enhance market liquidity. And they contribute toward the goal of dispatching least cost generation across all interconnected markets.

Second, market participants outside RTOs help alleviate congestion inside RTOs. Once again, the price signals at the RTO interfaces either encourage or discourage imports depending upon transmission congestion.

Comments like these might seem self-serving if I'd written them myself. I didn't. Every one of these comments was made by the Midwest ISO itself to entities in the MAPP region at the December 8, 2006 "Planning Conference: 2007 and Beyond."² And

² "External Market Participant Contribution to Midwest ISO Market Efficiency," Midwest ISO presentation at Midwest ISO "Planning Conference: 2007 and Beyond," December 8, 2006, St. Paul MN.

MidAmerican Energy concurs with the Midwest ISO's statement that entities bordering RTOs help increase efficiency and alleviate congestion.

The Commission scheduled today's session in part to determine whether border entities are benefiting from services they're not paying for. First of all, MidAmerican Energy *does* pay for RTO services. For example, the Midwest ISO serves as our NERC Reliability Coordinator. The Midwest ISO performs that same reliability service for a number of other utilities outside its market footprint. MidAmerican Energy wouldn't expect that service to be free, and it's not: we pay for reliability services under the terms of an agreement entered into freely by the Midwest ISO itself.

In fact, that Reliability Coordinator agreement creates certain economic *disadvantages* for MidAmerican Energy when compared to entities within the Midwest ISO market. When the Midwest ISO redispatches generation within its market footprint for reliability reasons, those generators are paid for their operation.³ However, generators outside the Midwest ISO market receive no compensation for operating at the Midwest ISO's direction.⁴

Second, when MidAmerican Energy transacts with RTO markets, it pays for transmission service and administrative fees just as any other entity that purchases and sells into RTO markets. In 2006, we paid almost \$6 million for transmission service on RTO systems. The rates we pay for RTO administration fees are proposed by the RTOs themselves and accepted by this Commission. And every dollar MidAmerican Energy

³ See Midwest ISO Tariff, Attachment AA.

⁴ See the Midwest ISO's November 8, 2004 filing in Docket No. ER04-458-004 at page 7.

pays in market administration fees is a dollar that doesn't have to be paid by an entity in the RTO footprint.

MidAmerican Energy has also been a leader in helping to shape regional policy. MidAmerican Energy recently helped bring together a number of MAPP participants and Midwest ISO members to form a new contingency reserve sharing group. By providing a broader means to share generation reserves, this effort has helped reduce costs for all participants – whether they're in an RTO market or bilateral markets.

MAPP members have also negotiated a seams operating agreement with the Midwest ISO to govern operation of the seam between them.

MidAmerican Energy believes RTO markets are continuing to improve. The Midwest ISO has improved its operations from the early days of its market in 2005. The Midwest ISO ancillary services market, expected to be implemented next year, will further improve performance.

We want to encourage the success of RTO markets, and we hope they can create a strong business case for greater involvement. However, there are still some issues that need to be addressed before that occurs. For example, limiting the rights of members to withdraw does nothing to create appropriate market incentives and efficiencies. Neither does seeking to impose higher administrative fees on border entities. Instead, these tactics would have a chilling effect on market activity between RTOs and border entities, and in doing so they would harm the RTOs' own members.

In short, RTOs and their border entities provide benefits to each other. MidAmerican Energy looks forward to continuing to work with its RTO neighbors. We believe RTOs are an important part of the current market landscape, and we want RTO markets to succeed. Border entities like MidAmerican Energy help improve the efficiency of RTO markets. We help alleviate congestion in those markets. And when we participate in those markets, we pay the tariffed rates proposed by the RTOs themselves.

Thanks again for offering MidAmerican Energy the chance to make these comments. I'm happy to answer any questions you may have.