

Stakeholder Presentation 2022 Budget

PRESENTED BY

ATC Leadership

October 13, 2021



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Agenda

Topic	Presenter
Welcome and Introductions	Randy Karls
Budget Overview	Eric Lundberg
Capital Investment	Sarah Justus
Q&A	All
Summary & Close	Randy Karls

Budget highlights

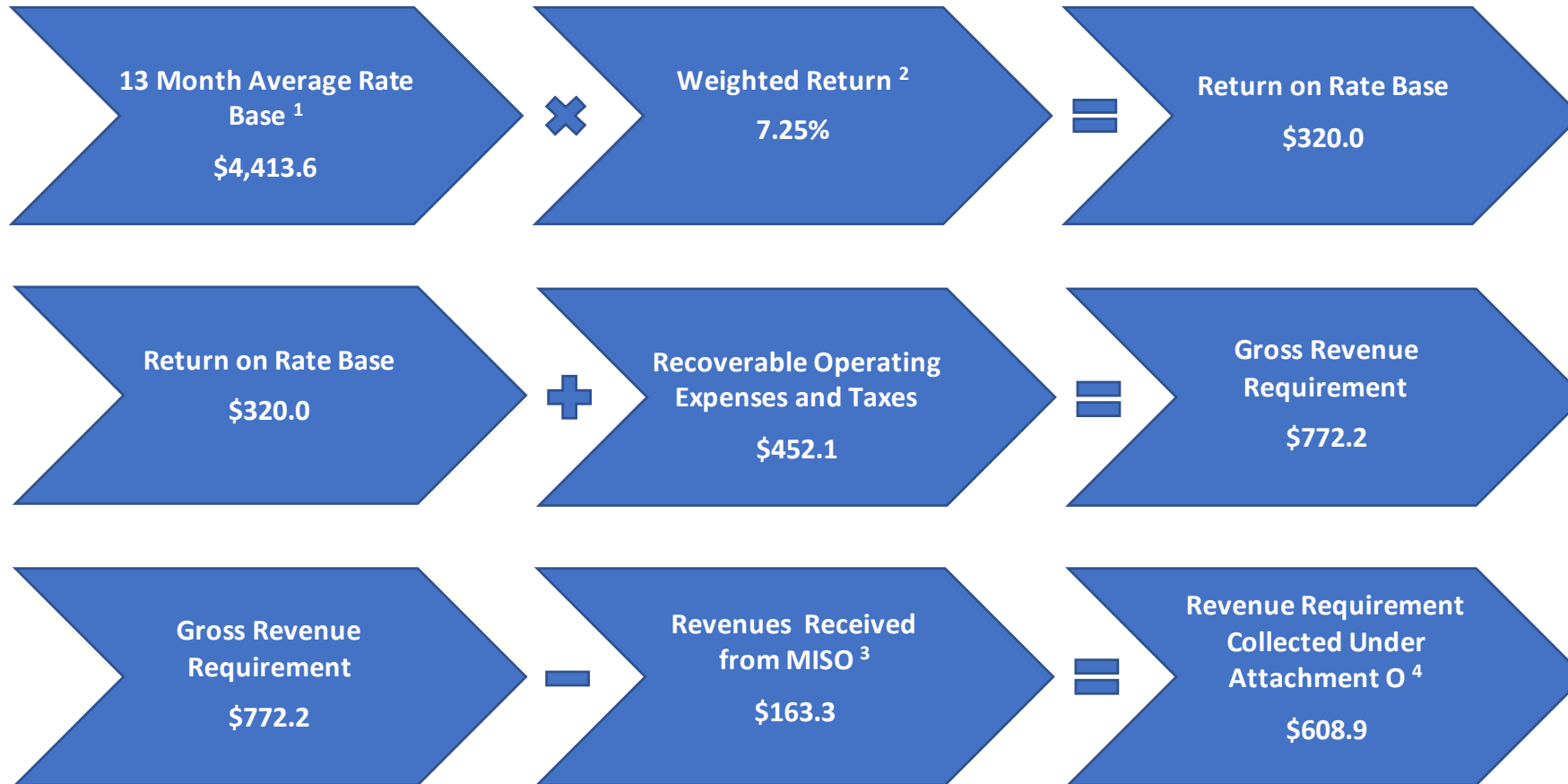
- Proposed O&M is \$141.4M; a 1.2% reduction from the 2021 budget of \$143.1M
 - Continuation of ATC's Perfecting the Core and Cost Management efforts
- Revenue requirement is \$772.2M; a 1.6% increase from the 2021 budget of \$760.2M
 - Increase due to capital additions to rate base offset by lower weighted debt rate and excess deferred income tax amortization
- Network revenue is \$608.9M; a 1.4% increase compared to the 2021 budget of \$600.7M

2022 Key budget assumptions

- **Return on equity (ROE)**
 - Budget assumes 10.52% ROE including 50 bp adder
 - Loss of the 50 bp RTO adder would reduce the 2022 revenue requirement by ~\$14.2M
- **Capital projects**
 - No delays to Cardinal-Hickory Creek schedule
 - \$83M in generator interconnections, approximately 15% of total capital expenditures
- **Asset maintenance**
 - No major event or significant equipment failures
 - Continued execution of base maintenance and NERC compliance programs
- **FERC**
 - No impact from the appeals of FERC's November 2020 Order
 - Continued recovery of income taxes
- **Financing and Taxes**
 - \$200M in financing during 2022
 - ◆ \$100M refinancing
 - ◆ \$100M to help finance capital program
 - No change to federal tax rate – 21%

2022 Projected network revenue requirement

(\$ in Millions)



¹ Includes eligible CWIP and new assets placed in-service.

² Comprised of 50% Weighted Cost of Debt and 50% Allowed Return on Equity.

³ This includes revenues collected under Schedule 26 (RECB), Schedule 26-A (MVP), Schedule 1 and other credits such as Point-to-Point revenues

⁴ Actual billed revenue will decrease by \$5.3M for prior year true-ups

Network revenue requirement projection

(\$ in Millions)

	2021 Forecast	2022 Budget	2023 Forecast	2024 Forecast	2025 Forecast
Return on Rate Base	307.9	320.0	335.7	352.7	360.9
Income Taxes	71.8	69.9	71.8	75.5	76.3
Depreciation	196.6	204.7	213.9	233.1	242.1
Operations & Maintenance	142.5	141.0	143.8	146.7	149.7
Other Operating Expenses	38.0	36.5	40.4	46.0	48.0
Total Revenue Requirement	756.8	772.2	805.6	854.0	877.1
Offsets					
RECB (Schedule 26)	(97.2)	(94.2)	(94.7)	(94.9)	(94.6)
MVP (Schedule 26-A)	(37.3)	(44.7)	(51.8)	(57.1)	(57.0)
Point-to-Point (Schedule 7 & 8)	(10.0)	(8.4)	(8.4)	(8.4)	(8.4)
Load Dispatch (Schedule 1)	(13.9)	(14.3)	(14.8)	(15.2)	(15.6)
Other Operating Revenue	(1.8)	(1.6)	(1.6)	(1.6)	(1.6)
Over/(Under) collection	4.1	(0.0)	(0.0)	(0.0)	(0.0)
Network Revenue Requirement	600.7	608.9	634.4	676.9	699.9
Network True-up Adjustments	0.9	(5.3)	-	-	-
Network Billed Revenue	601.5	603.6	634.4	676.9	699.9
Network Billed Revenue (Oct 2020)	601.5	594.5	618.7	636.9	
Network Billed Change from Oct 2020	0.0	9.1	15.7	39.9	

MISO regional charges



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Regional cost sharing impact on ATC zone

- The MISO estimated charges to the ATC pricing zone are updated every June and December
- MISO projections for Schedule 26 (RECB) and Schedule 26A (MVP) charges can be found on the MISO website (www.misoenergy.org) under:
- Planning /MTEP /Schedule 26 and 26A Indicative Rates
 - The following is from the MISO website:

Home > Planning > MTEP > Schedule 26 and 26A Indicative Reports

FOLLOW 

Schedule 26 and 26A Indicative Reports

MISO produces indicative forecasts of Schedule 26 and 26-A annual charges (by MISO Pricing Zone) for cost shared projects approved in the MTEP. These reports are typically updated annually in Q2. The posted reports reflect the FERC approved ROE value (plus any applicable adders) and corporate tax rate provided in Attachment O and GG at the time of publication. Prospective changes to the ROE will be applied only to reports produced after the respective FERC order(s) become effective. Values should not be relied upon for settlement or ratemaking purposes and are subject to change.

- [Schedule 26 Indicative Annual Charges](#)
- [Schedule 26A Indicative Annual Charges](#)

Budget Details



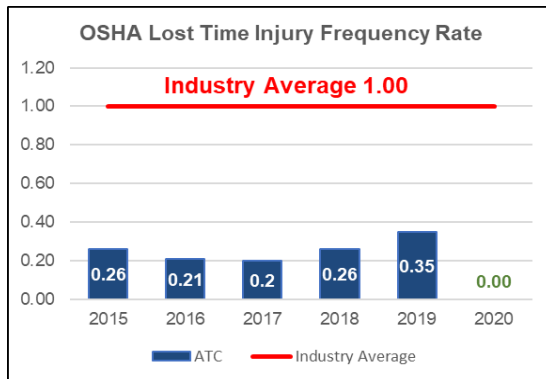
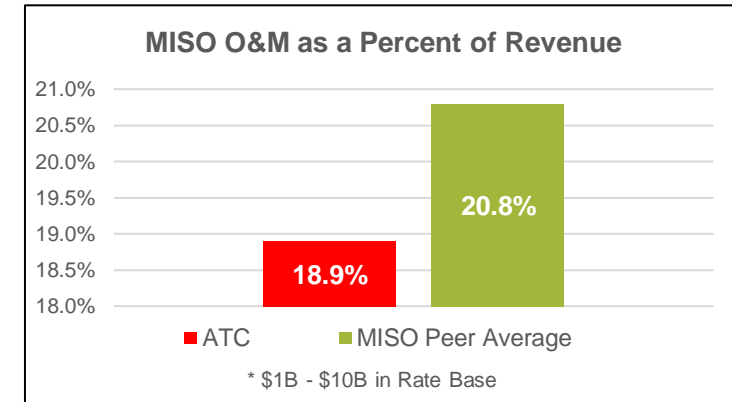
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Perfecting the core

- O&M Efficiency

- ATC's O&M is in the top third for O&M efficiency and compares very favorably to our MISO peer group
- ATC spends more per dollar on reliably operating and maintaining the system and less on administration and general (A&G) than our peer group
 - ATC A&G/Total O&M – 27%
 - MISO Peer average A&G/Total O&M – 39%

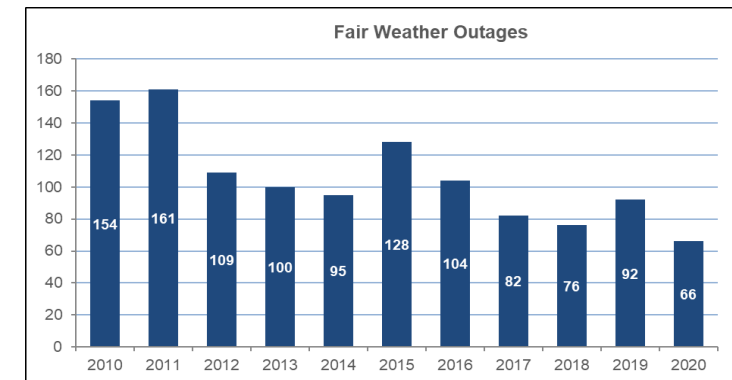


- Safety

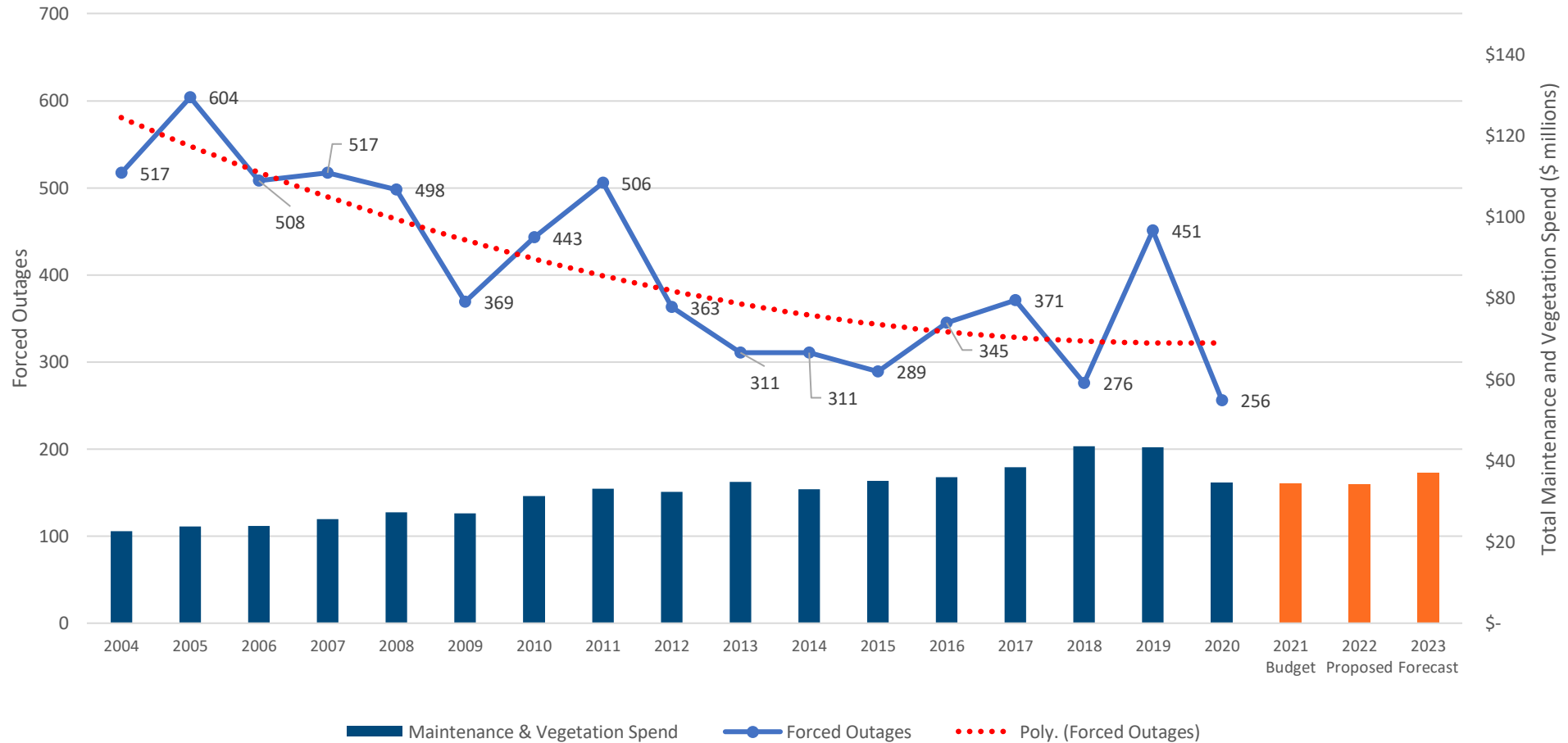
- ATC reached a new milestone with over 200 days on our footprint without an OSHA recordable injury
- ATC set a record with zero employees and contractors on the footprint losing a day of work due to injury

- Reliability

- In 2020, ATC achieved the lowest fair-weather and bulk power outages in our company's history
- Our low number of bulk power outages (200 kV and above) remains among the best in the industry



Cost effective reliability improvement



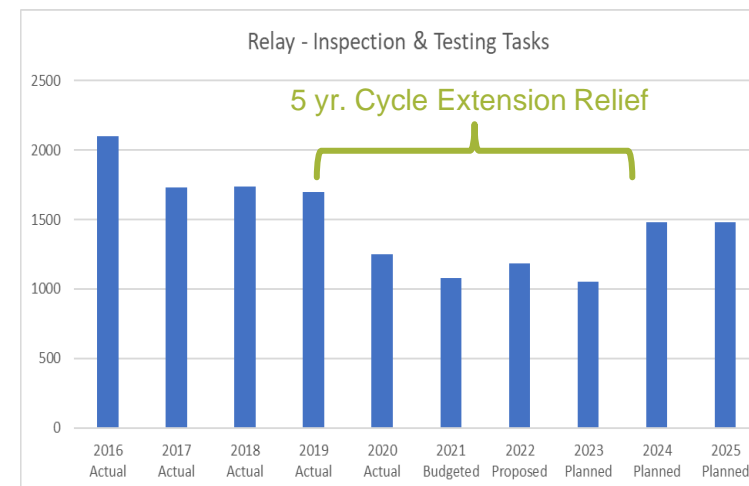
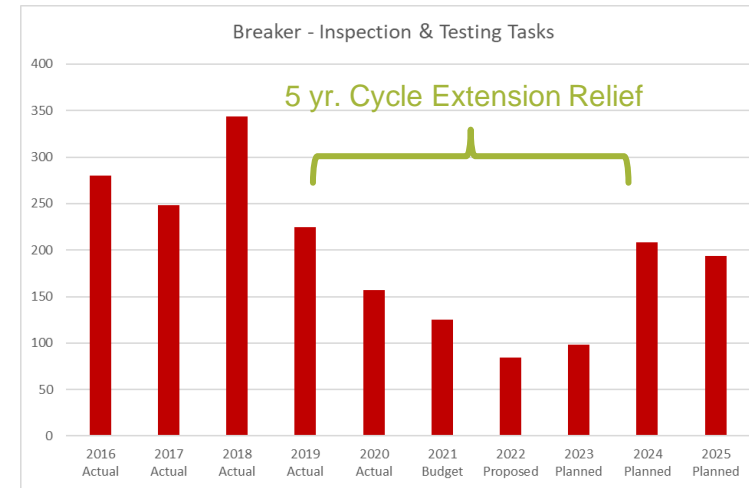
Note: 2018 and 2019 include the Straits and Blount events

In 2020, ATC achieved the lowest fair-weather and bulk power outages in company history

Substation maintenance program changes

Resultant work activities

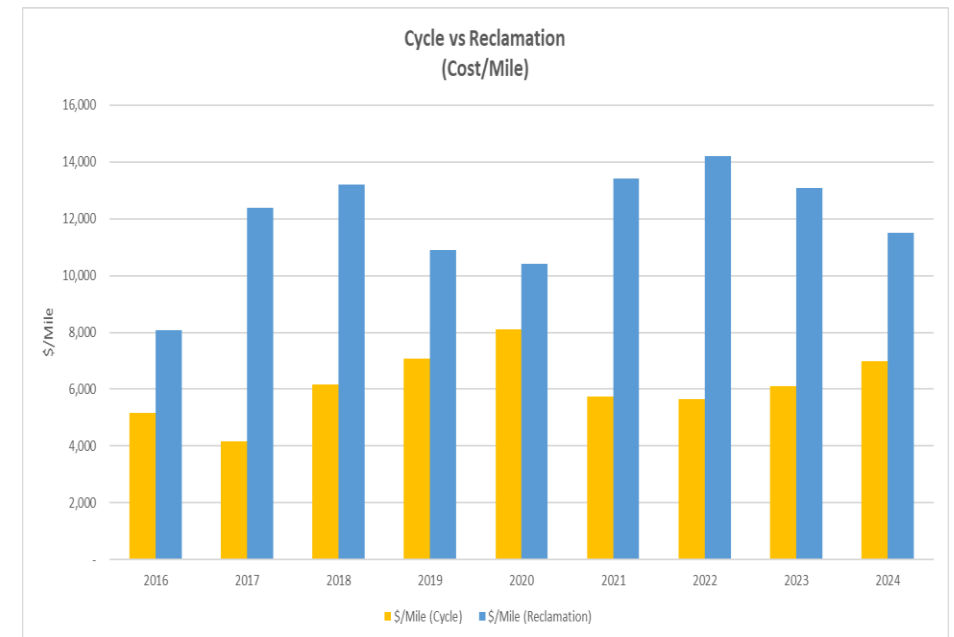
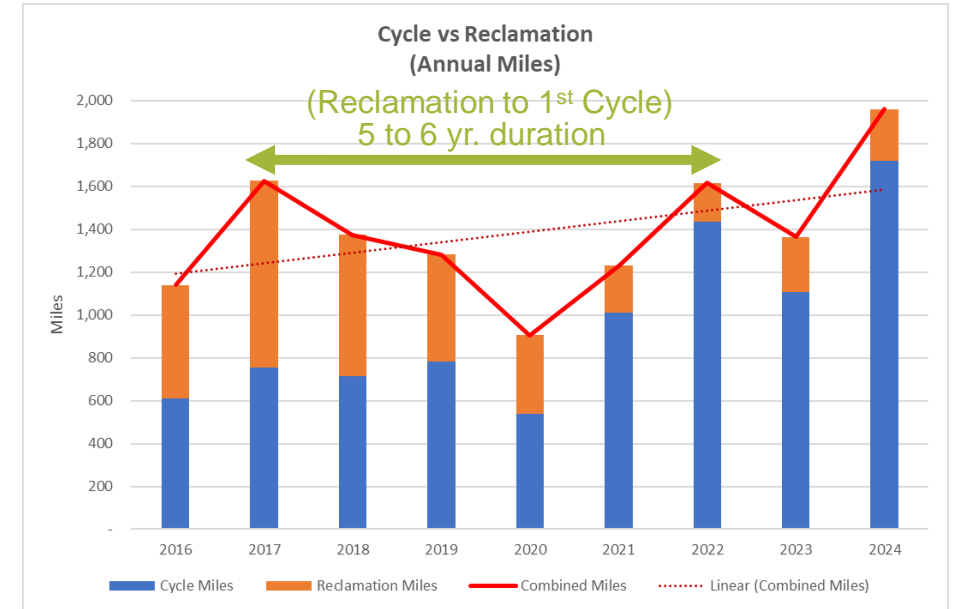
- Utilizing data analytics prudent cycle extensions have provided O&M reductions while maintaining reliability
 - Performance based extension from 8- to 10-year preventative maintenance cycles on non-Mitsubishi gas circuit breakers in 2020
 - Performance based extension from 10- to 15-year preventative maintenance cycles on Mitsubishi gas circuit breakers and microprocessor relays in 2019



Vegetation management

Cycle clearing vs. reclamation

- Completed 2,000 miles of reclamation in 2016-2018, now due for first cycle clearing after reclamation
- 1,400 miles of cycle clearing proposed in 2022, most in ATC's history
 - Cycle clearing costs approximately 50% less per mile as reclamation
- 200 miles of reclamation clearing proposed in 2022
 - Reduced to absorb labor increases and maintain the vegetation program costs at a flat year over year budget
 - Maintains reclamation program progress, but at a slower pace



Capital Investment



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2022 Capital Projects Summary

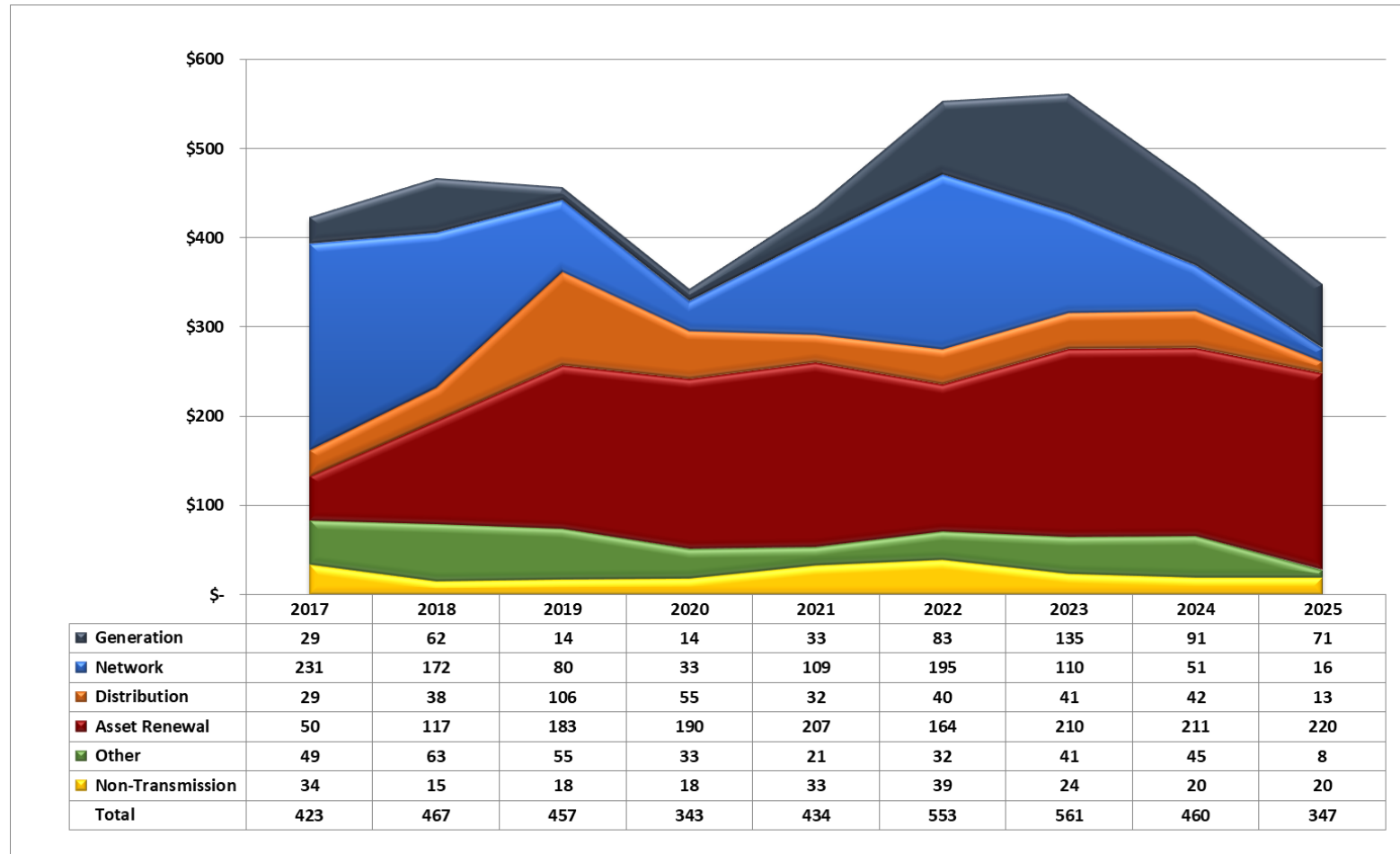
(\$ in millions)

	Project Name/Description	2022	Total Project	Reason
1	Cardinal Hill Valley New 345kV TL	\$ 101.6	\$ 210.2	Network Reliability
2	Cardinal Hickory Creek New 345kV SS	29.9	33.9	Network Reliability
3	Arcadian SS 345kV Bus Reconfig	29.0	49.1	Asset Renewal
4	Howards Grove - Erdmann 138kV New T-line	19.9	27.0	Network Reliability
5	J850/J878 MPFCA East Paris New SS	18.7	25.7	Generation
6	Petenwell-Saratoga (X43) Rebuild	15.2	22.1	Asset Renewal
7	Bayport-Pioneer Rebuild	14.7	44.5	Asset Renewal
8	New Holstein-Custer (P68) Line Rebuild	14.3	29.1	Asset Renewal
9	Atlantic SS Transformer Replacement & Bus Reconfig	9.4	11.6	Network Reliability
10	Finger-Wesmark (FIRY11) Rebuild	7.8	15.1	Asset Renewal
11	Generator Interconnection	83.0		
12	All Other Projects	209.8		
	Total	\$ 553.4		

Top 10 projects represent \$261M or 49% of the 2022 total

Capital history and forecast by category

(\$ in millions)



- Generator Interconnections and Cardinal-Hickory Creek driving new capital in 2022 and 2023
- Reflects the 2020 Generator Interconnections queue
- Does not include:
 - Pending affected system impact studies
 - Future Generator Interconnection queues
 - MISO Long-Range Transmission Plan

Questions



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Appendix



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Five-Year Outlook

(\$ in Millions)

	2021		2022		2023		2024		2025	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	307.9	40.7%	320.0	41.4%	335.7	41.7%	352.7	41.3%	360.9	41.2%
(2) Income Taxes	71.8	9.5%	69.9	9.1%	71.8	8.9%	75.5	8.8%	76.3	8.7%
(3) Depreciation Expense	196.6	26.0%	204.7	26.5%	213.9	26.6%	233.1	27.3%	242.1	27.6%
(4) Capital Costs	576.4	76.2%	594.6	77.0%	621.4	77.1%	661.3	77.4%	679.4	77.5%
(5) Operations and Maintenance Expense	142.5	18.8%	141.0	18.3%	143.8	17.9%	146.7	17.2%	149.7	17.1%
(6) Project O&M	5.9	0.8%	6.9	0.9%	11.2	1.4%	15.7	1.8%	16.9	1.9%
(7) Precertification Expense	5.0	0.7%	3.2	0.4%	2.0	0.2%	2.0	0.2%	2.0	0.2%
(8) Property and Other Taxes	27.1	3.6%	26.4	3.4%	27.2	3.4%	28.4	3.3%	29.2	3.3%
(9) Operating Expenses	180.4	23.8%	177.5	23.0%	184.2	22.9%	192.8	22.6%	197.7	22.5%
(10) Total Revenue Requirement	756.8	100.0%	772.2	100.0%	805.6	100.0%	854.0	100.0%	877.1	100.0%
Offsets										
(11) RECB Revenue	(97.2)		(94.2)		(94.7)		(94.9)		(94.6)	
(12) MVP Revenue	(37.3)		(44.7)		(51.8)		(57.1)		(57.0)	
(13) Other MISO Revenues	(23.9)		(22.7)		(23.2)		(23.6)		(24.0)	
(14) Other Revenue Sources	(1.8)		(1.6)		(1.6)		(1.6)		(1.6)	
(15) (Over)/Under Network Collection	4.1		(0.0)		(0.0)		(0.0)		(0.0)	
(16) 2019 True-up	0.9		(0.0)		(0.0)		(0.0)		(0.0)	
(17) 2020 True-up	(0.0)		(5.3)		(0.0)		(0.0)		(0.0)	
(18) Network Billed Revenue	601.5		603.6		634.4		676.9		699.9	

- The RECB (line 11) and MVP (line 12) amounts represent revenues received from MISO relating to ATC's regionally cost shared projects
- Each company should use their load ratio share multiplied by the Network Billed Revenue (line 19) above to arrive at an estimate of Schedule 9 (Network Service) expense for each year

Timing of true-ups

