

American Transmission Company LLC
Responses to July 25, 2014 Questions on 2013 True-up From Alliant Energy

1. **Alliant Question:** A verbal question was asked and answered in the meeting regarding when the 2013 over-collection of \$16.7 million in revenue would be returned to network customers. Please expand on the answer provided to explain in detail the formula and/or specific tariff language used to determine that an accelerated refund \$12,048,612, plus accrued interest, is currently included in 2014 Network Service rates, with the remainder plus interest to be refunded in 2015. In other words, what specifically determines how much of an accelerated refund occurs in the current year vs. being fully applied to the following year's projected revenue requirement and resulting rate? We recognize that the current ATC Attachment O Tariff provides for an accelerated refund, but have not located any specific tariff language that defines how much in each year is refunded when an accelerated refund option is elected.

ATC Response: Per Sec. VII of ATC's Attachment O: "The Net Revenue Requirement for transmission services for the following year shall be the sum of the projected cost of service for the following year, plus or minus the true-up from the previous year, if any, including the appropriate average interest rate..." ATC's Attachment O also gives the company the option of accelerating the refund of an over-collection by one year, a practice which ATC generally follows.

It is ATC's preference to reflect an over-collection from the current year in the next year's rates. However, to accommodate MISO's review of ATC's projected annual revenue requirement for the next year, the company provides this information prior to the end of the current year, which requires ATC, in September, to project the over-collection for the current year based on the current forecast. In June of the next year, ATC then finalizes the prior year's true-up and reflects any remaining over-collection in an additional true-up that will be reflected in the following year's rates.

For instance, as of October 2013, ATC projected a 2013 network true-up of approximately \$12.1 million, exclusive of interest, and this amount was reflected in the projected 2014 Network revenue requirement that would be billed to customers (see slide 26 of ATC's 2014 budget presentation from 10/8/13 at <http://www.oasis.oati.com/woa/docs/ATC/ATCdocs/ATC2014budget100113.pdf>). Between October 1, 2013 and the end of 2013, ATC accumulated an additional amount of approximately \$4.5 million of network revenue over-collection, exclusive of interest. The \$12.1 million forecasted true-up, which we communicated to customers during the fourth quarter of 2013, is currently being refunded, plus interest, through 2014 network bills. The additional \$4.5 million of over-collection from 2013 will be reflected in the 2015 rates. Both of these amounts were reflected in the 2013 true-up information that was posted on OASIS on 5/28/14.

2. **Alliant Question:** The largest component of the \$16.7 million over-collection for 2013 is a \$10 million reduction in O&M associated with capital projects. Please expand on the \$10 million O&M reduction by listing the major projects from 2013 and the amounts of actual O&M vs. projected for each, along with an explanation of the difference.

ATC Response: The \$10 million of O&M reduction that was allocated to capital projects in 2013 was spread over projects active in 2013, based on where actual labor was charged. ATC's major capital projects active in 2013 were as follows (\$s in millions):

<u>Project</u>	<u>Amount</u>
Straits Flow Control	\$ 54.2
L6904-6905 Rebuild (MI project)	\$ 25.1
Rockdale - West Middleton	\$ 18.1
Pleasant Prairie - Zion (MVP project)	\$ 18.1
Pleasant Prairie SS Bus Reconfig (non-MVP)	\$ 9.3
	<u>\$124.8</u>

The \$10 million of expenses that were allocated to capital projects in 2013 were related to administrative and general (A&G) expenses and are exclusive of project O&M. However, for your reference, here are the top ten projects in terms of project O&M for 2013 (\$s in thousands):

<u>Project</u>	<u>Amount</u>
Y146 McKenna - Big Pond Rerate	\$ 397
9911 Granville - Arcadian	331
R304 - North Appleton - Kewaunee Switch Yard	265
Granville Substation	256
Arcadian Substation	208
J-114 Coyne St - Plover	171
Y-311 North Appleton - Fitzgerald Rerate	161
8962 Paris - Burlington	134
Y-51 Kewaunee Switch Yard - Shoto	128
4453 Universtiy - Whitewater	123
Top 10 project O&M projects - 2013	<u>\$2,174</u>

3. **Alliant Question:** Please list the five largest projects and their costs that are reflected in 2013 rate base. Were any project schedules significantly different than projected?

ATC Response: See the capital projects listed in the response to #2, above. The Rockdale – West Middleton project went into service four months ahead of schedule.

4. **Alliant Question:** Please explain how A&G is allocated. In particular, please describe how the cost allocation project referenced on slide 7 resulted in the A&G credit of \$13.8 million shown on slide 6 of the presentation.

ATC Response: ATC is a transmission project-based organization which employs a work order system to promote direct charging or direct assignment of labor and non-labor to projects. However, there are certain A&G costs which ATC has not historically included in charging to projects. As part of its cost of service, such A&G costs were charged to its network and point-to-point customer group as a current period O&M expense and included in its Attachment O filed under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff for network (Schedule 9) service. However, due to the advent of regionally cost-shared projects known as Regional Expansion, Criteria and Benefits (RECB) and also Multi-Value Projects (MVP), as well as other business development initiatives, ATC decided to analyze its A&G costs more closely to ensure such costs are being allocated to the appropriate customer groups. In addition, regulatory accounting permits capitalized overheads to be capitalized into property, plant and equipment per the FERC’s uniform system of accounts.

As a result of this analysis, ATC determined that certain such A&G costs previously expensed as O&M would be allocated to capital, precertification, billable projects, and business development. The concept is to allocate such A&G costs to follow the labor charges, including those allocated to capital projects, to ensure that such costs are equitably and appropriately charged. The net effect of allocating such costs to the categories of capital, precertification, billable projects and business development is to reduce current period O&M expense. This allocation process resulted in the credit of \$13.8 million shown on slide 6 of our presentation.

5. **Alliant Question:** Please explain the drivers of the increasing growth rate in O&M. It was 7.5% in 2010; 11.5% in 2013. (2013 American Transmission Company LLC FERC Form 1, page 321, line 112).

ATC Response: ATC’s O&M for 2013, as compared to 2012, is outlined in the following table (\$ in millions):

	2013	2012	Variance	V%
Total Transmission Expenses per FERC Form 1 page 321, line 112	\$ 115.7	\$ 104.0	\$ 11.7	11.3%
Total Admin and General Expenses per FERC Form 1 page 323, line 197*	42.9	52.4	(9.5)	-18.1%
Total Elec Op and Maint Expenses per FERC Form 1 page 323, line 198	158.6	156.5	2.1	1.3%
Less: Preliminary Survey and Investigation expenses included in account 566	19.0	14.9	4.1	27.5%
Less: Project-related O&M (included in various accounts)	9.0	7.3	1.7	23.3%
Add: A&G overhead loader recorded in acct 922 (2013) and 929 (2012)	<u>12.1</u>	<u>0.3</u>	<u>11.8</u>	<u>n/a</u>
FERC Form 1 normalized O&M	<u>\$ 142.7</u>	<u>\$ 134.6</u>	<u>\$ 8.1</u>	<u>6.0%</u>

*Includes \$11.8M of YOY A&G overhead increase

The largest component of the \$8.1M normalized O&M increase from 2012 to 2013 was a \$4.4M increase in maintenance costs. The primary drivers of these costs were aerial and ground inspections of transmission equipment and vegetation management activities.

6. **Alliant Question:** Please describe what activities are included in the “Business Development” line item of \$0.3 million on slide 7 of the presentation.

ATC Response: These are costs incurred by ATC's Business Development group, which was created to seek opportunities to acquire, build, own and/or operate new transmission projects that meet potential customers' current and/or future needs. These expenses are primarily comprised of payroll, employee benefits and travel expenses of the ATC employees engaged in these activities. Such costs are borne by ATC's owners and not included in ATC's rates.

7. **Alliant Question:** Please describe what activities are included in the "Billables (primarily DATC)" line item of \$0.6 million on slide 7 of the presentation.

ATC Response: These costs are similar to those described in the response to question #6 but they are related to the Duke American Transmission Company, LLC (DATC), an entity whose ownership is shared equally between ATC and Duke Energy. ATC employees who engage in DATC-related activities charge their time and expenses to a work order which, in turn, gets billed to DATC. As with business development, such costs are excluded from ATC's rates.

8. **Alliant Question:** On the 2013 American Transmission Company LLC FERC Form 1, page 321, line 97, account 566 there is a ~ \$4 million increase in "Miscellaneous Transmission Expenses." Please explain what is included and the reasons for the difference.

ATC Response: The amounts charged to FERC account 566, "Miscellaneous Transmission Expenses," include preliminary survey and investigation expenses, or precertification expense. Under ATC's FERC-approved rate formula, we are allowed to expense in the current period and recover, through rates, such costs, as opposed to deferring them in FERC account 183 in the balance sheet. Account 566 includes precertification expense amounts for 2013 and 2012 of \$19.0 million and \$14.9 million, respectively. The projects mainly driving the increase between years are Bay Lake and Badger Coulee.