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2014 Budget

Customer Presentation

October 8, 2013

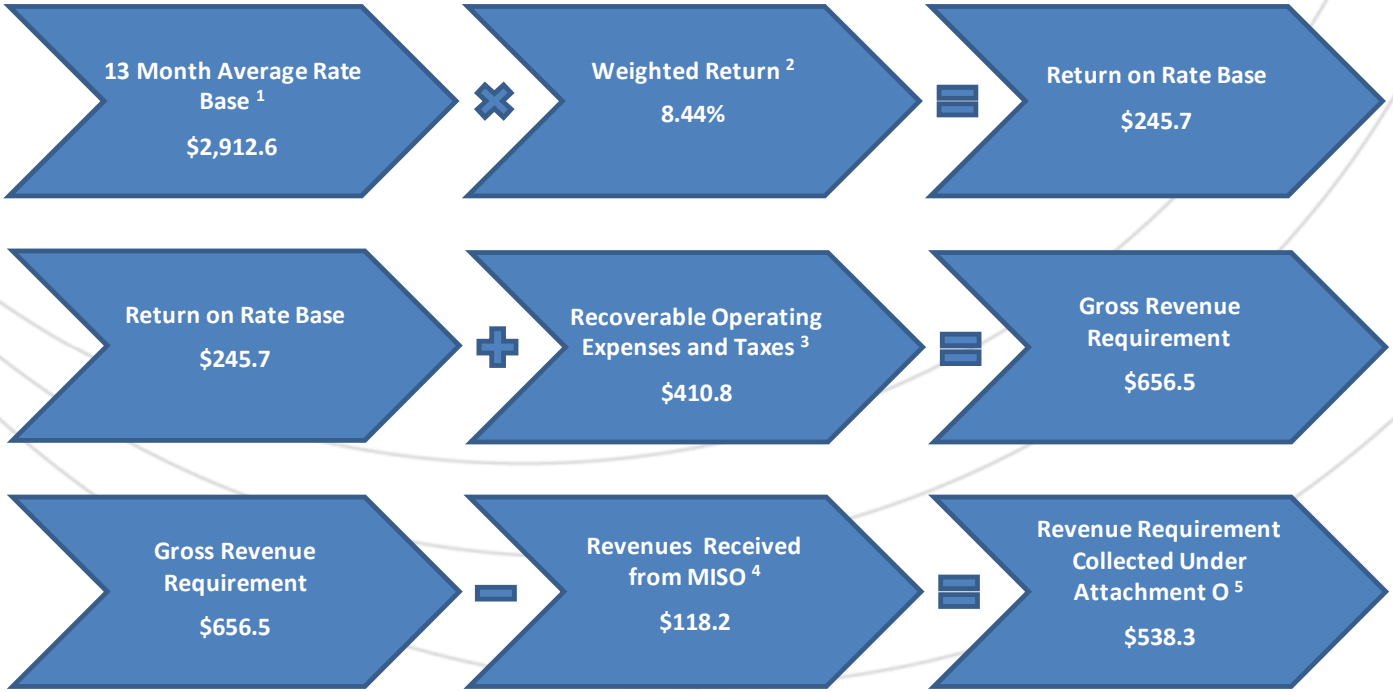
atcllc.com

Welcome & Overview

- Welcome!
  - Introductions – Randy Karls
  - Budget Overview – Kevin Szalacinski/Randy Karls
    - ATC – Network
    - MISO – Other charges
  - Asset Management – Mark Davis
  - Cyber Security/Compliance – Paul Roehr
  - Capital Investment – John McNamara
  - Pre-certification – John McNamara
  - Q&A - All
  - Summary & Close – Randy Karls

2014 Projected Network Revenue Requirement

($Millions)



[1] Includes CWIP and new assets placed in-service

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

[3] Includes O&M, precertification, depreciation and taxes collected in rates on behalf of taxable owners

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

[5] Actual billed revenue will be further reduced by $10.4M for prior year true-ups

Budget Highlights

- 2014 revenue requirement is $656M, a 2.9% increase over 2013
- Network billed revenue for 2014 will be $23.8M lower than last year's projection mainly due to:
  - Impact of change in cost allocation methodology
    - $10.4M net refund of prior year network true-ups plus impact to 2014
- 2014 O&M is 5.2% lower than 2013 due to $14.1 million shift of cost to capital, pre-certification and business development
- Excluding cost allocation change, 2014 O&M budget increase is 5%. Key drivers:
  - Labor cost increases
  - Asset management / vegetation management
  - Cyber-security / compliance
  - IT and telecommunication upgrades

Network Revenue Requirement ($Thousands)

	2013 6+6 Forecast	2014 Budget	2015 Forecast	2016 Forecast	2017 Forecast
Return on Rate Base	$ 235,735	$ 245,729	$ 262,260	$ 289,323	$ 309,694
Income Taxes	99,123	103,944	110,647	120,142	127,382
Depreciation	114,994	123,306	131,396	141,655	150,359
Operating Expenses[1]	179,253	183,493	190,040	184,962	189,147
Offsets					
Regional Cost Sharing (Schedule 26)[2]	(82,949)	(87,974)	(95,437)	(111,147)	(118,879)
MVP (Schedule 26-A)[3]	(4,692)	(9,163)	(6,841)	(13,929)	(26,760)
Point-to-Point (Schedule 7 & 8)	(9,167)	(9,000)	(9,000)	(9,000)	(9,000)
Other Trans Service (Schedule 1)	(10,637)	(10,694)	(10,720)	(10,747)	(10,774)
Other Offsets	9,493	(1,298)	(1,298)	(1,298)	(1,298)
Network Revenue Requirement	**531,152**	**538,344**	**571,046**	**589,961**	**609,871**
Network True-up Adjustment	(1,295)	(10,375)	-	-	-
Network Billed Revenue	**$ 529,857**	**$ 527,969**	**$ 571,046**	**$ 589,961**	**$ 609,871**
Network Billed Revenue (Oct 2012)	**$ 529,857**	**$ 551,786**	**$ 577,037**	**$ 639,801**	**$ 692,089**
Network Billed Change from Oct 2012	$ 0	$ (23,818)	$ (5,991)	$ (49,839)	

[1] Includes O&M, Project O&M, Precertification and Taxes other than Income Taxes.

[2] Includes precertification costs directly relating to regionally cost shared projects.

[3] Precertification costs for Badger Coulee and Cardinal Bluffs. Reduced to reflect costs shared under joint ownership with Xcel and ITC.

2014 vs. 2013 O&M ($Millions)

2013 O&M Budget	**$ 143.1**
Base labor increase	1.2
Contractor labor increases	0.6
Vegetation management	1.0
LiDAR ratings studies	0.5
Cyber-security / compliance (including staffing)	1.5
MISO transmission owner legal costs	0.3
IT and telecom system expansion and upgrades	0.8
Other staffing additions	0.4
Employee training / other	0.4
Cost allocation methodology change	(14.1)
2014 O&M Budget	**$ 135.7**

Asset Management

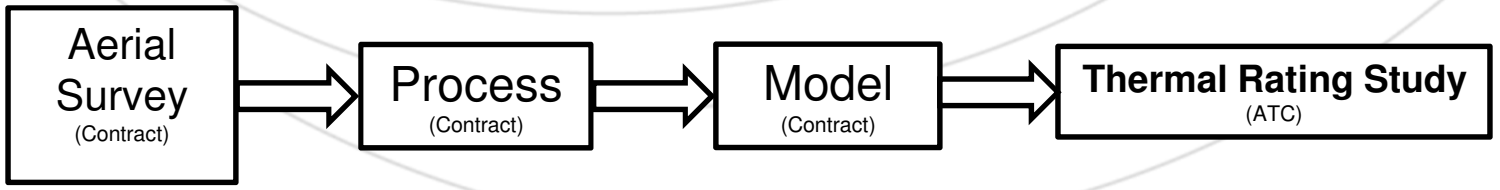
Vegetation Management

- Increase in vegetation management- $1.3M
  - Includes non-LDC contractor wage and benefits increase
- Manage safety, reliability and compliance
  - NERC Transmission Vegetation Management Programs
    - Targeting no violations
- Program highlights
  - 8,300 miles of Right of Way (ROW)
  - Nominal 5-year cycle (typical for industry)
  - 2014 focus
    - 200kV – 345kV: 300 miles
    - 100kV – 200kV: 600 miles
    - 69kV – 100kV: 500 miles
  - Use of a third party work planner to provide more accurate work plans, greater transparency and enable better risk management
  - Continued use of the aerial saw (more cost efficient use of funding)
  - Effective use of herbicides – best way to maintain ROWs long term

Historical VM Miles by Voltage (Cycle Work)

2014 Line Rating Study Program

- Continuation of the rating study program to validate overhead line ratings - $0.5M
- Employs Light Detection and Ranging (LiDAR) technology
- Program focus:
  - 69 kV circuits (non-BES) – establish and improve rating basis (reliability)
  - 100+ kV circuits (BES) – improve rating basis and compliance margin



- 2014 plan
  - Aerial Survey (350 miles)
  - Process and Model (750 miles)

Cyber-Security/Compliance

Cyber Security/Compliance

In response to an increase in security risks from an industry perspective, an ever-changing regulatory landscape and some recent self-reports with respect to the NERC Reliability Standards, ATC will execute a number of compliance-related initiatives in 2014, as outlined below. These initiatives are intended to improve our security posture, the risk awareness of our employees, contractors and LDC's, and support ATC's ongoing compliance with the NERC Reliability Standards.

Functional Group(s)	Description	Cost
Corporate Security Operations	Development and execution of initial and annual physical security perimeter access training for 500+ personnel. Development and rollout of NERC Reliability Standards training, inclusive of simulator training, human performance, and updating of applicable policies and procedures.	$600k
ISS Corporate Security EMS	Increase in staffing (a total of 6) to accommodate the increase in workload.	$400k
EMS Compliance & Risk Management	Facilitation of a gap assessment related to the industry's transition from CIP V3 to V4 to V5 and the impacts to ATC and an evaluation of internal controls for EMS and M&C. Notes: Moving from V3 to V4 will result in an increase in the number of critical cyber assess for which ATC has to manage, as well as additional training for the LDCs and contractors re: how to properly enter and work within a substation. CIP V5 will require a total review and possible rewrite of ATC's policies and procedures, inclusive of the implementation of a corrective action program, internal controls framework, etc.	$300k
ISS	Enhance ATC's physical and cyber security control posture via the implementation of new applications, security monitoring, etc.	$200k
	Total:	**$1.5M**

Cost Allocation

- ATC's cost allocation methodology is largely unchanged from that established during company start-up
- No general administrative and general ("A&G") loader is currently used for internal projects/activities
  - A&G loader is only used for third party billing purposes
  - Most A&G is expensed (e.g. Finance, IT, etc.)

Cost Allocation

- Cost allocation to multiple responsible parties is becoming more important
  - Advent of Multi-Value Projects and expanded regional cost sharing through MISO
  - Expansion of DATC activities
  - Business development activities becoming more significant
- Expanded use of A&G allocation mechanism
  - Anticipate capitalization of additional amounts in the future as a result
  - Preliminary analysis suggests shift of ~$14.1M from O&M to:
    - Capital projects
    - Pre-certification activities
    - Business development

Budget Risk Items

- Unanticipated costs
  - Major storm damage, equipment failure, etc.
- Further NERC requirements with respect to mandatory reliability standards and other compliance standards could drive additional O&M cost
  - Critical Infrastructure Protection (CIP) driven security enhancements
  - Protective relay maintenance requirements
  - Existing and potential NERC Alerts/self-reports
  - Remediation costs may be greater based on actual field conditions

Other MISO Charges

Regional Cost Sharing Impact on ATC Zone

- We will need to continue to rely more on the MISO estimate over time as the composition of regionally cost shared projects will change. The MISO estimated charges to the ATC pricing zone are updated every June and December.
  - MISO projections for the total RECB charges can be found at the following websites:
    - 2006-2012 MTEP projects: https://www.misoenergy.org/Planning/TransmissionExpansionPlanning/Pages/MTEPStudies.aspx
      - Under the MTEP Study Information heading select: *Indicative annual charges for approved BRP, GIP and MEP (Schedule 26) (Tab – Indicative Sch 26 Charges)*
    - 2013 MTEP Projects: https://www.misoenergy.org/Library/Pages/Library.aspx
      - Search for: *MTEP13 Draft Appendices A1, A2, A3*. Refer to (Tab – A-2)
      - ATC is not expected to have any regionally cost-shared projects for inclusion in MTEP13
  - MISO projections for Multi Value Project (MVP) charges can be found at the following websites:
    - https://www.misoenergy.org/Planning/TransmissionExpansionPlanning/Pages/MTEPStudies.aspx
      - Under the MTEP Study Information heading select: *Indicative annual charges for approved Multi Value Projects (Schedule 26-A) (Tab – Schedule 26-A Projections)*
- ATC estimates 2014 RECB costs of $78.1M compared to an estimate provided by MISO of $82.5M
- ATC estimates 2015 RECB costs of $87.9M within the ATC pricing zone. MISO estimates these costs to be $102.3M

Schedule 33 – Blackstart Service

- Commercial service commenced July 1, 2013
- ATC-wide annual revenue requirement (ARR) initially ~$2.2 million
- If FERC agrees, ARR will be ~$4 million in January 2015 (ER13-2019)
- If our System Restoration Plan requires more power, ARR will be ~$4.2 million
- ATC seeks geographic diversity in Blackstart resources

Capital Investment

2014 – Top 10 Projects by Spending Level

($Millions)

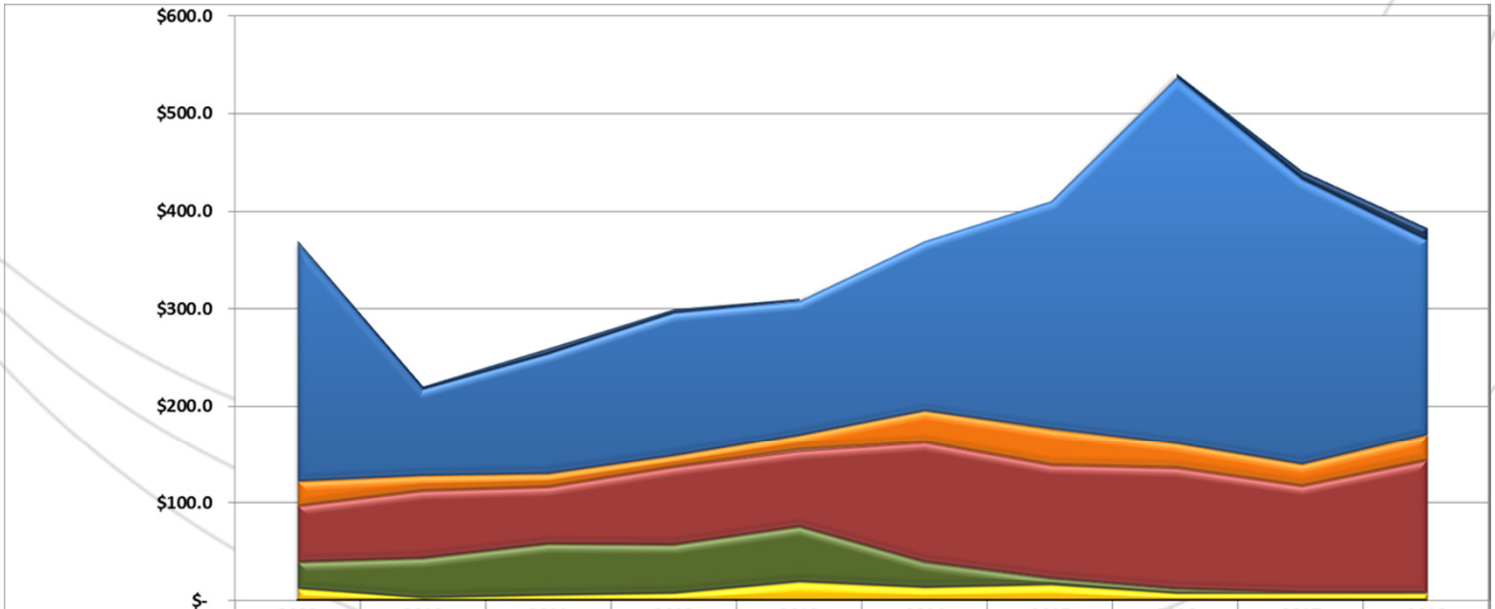
	[A] Project Name / Description	[B] From	[C] To	[D] Voltage	[E] 2014 Total	[F] Total Project	[G] Reason	[H] 2014 Status
1	Monroe County-Council Creek Cnvrsn	Monroe County	Council Creek	161	$ 38.3	$ 58.1	Network Reliability	Construction
2	Straits SS-Install Power Flow Cntrl			138	22.1	130.3	Network Reliability	Construction
3	WMCERP Design and Construction	Tap 5041 Near Bluemound SS 96th St. SS	Milwaukee County SS Milwaukee County SS	138	14.8	22.7	Distribution	Engineering
4	Arnold SS-Expand Existing SS			345	14.5	18.7	Network Reliability	Engineering
5	Bay Lake	North Appleton Holmes	Morgan Escanaba	345 138	12.9	384.6	Network Reliability	Engineering
6	Chandler-Old Mead Road SS	Chandler	Escanaba	138	11.1	24.8	Network Reliability	Construction
7	WCS 138kV Line Rebuild	Waukesha	St. Lawrence	138	10.8	58.1	Asset Renewal	Engineering
8	L6904-6905 Rebuild 69kV to 138kV	Straits	Pine River	69	8.4	34.9	Network Reliability	Construction
9	Plains-Repl Trfmr T8-T9-Brkrs-Swtch			345	7.3	8.7	Asset Renewal	Engineering
10	K115 138kV Conversion-Construction	Pulliam	Glory Rd	138	6.5	24.9	Network Reliability	Engineering
	All Other Projects				222.8			
Total					**$ 369.5**			

Key Points

The top 10 projects represent $146.7M or 40.9% of the 2014 total projected capital spending

Capital History and Forecast by Category

($Millions)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Generation	2.5	2.9	5.3	3.8	2.5	-	0.3	3.7	9.1	13.2
Network	245.4	90.4	124.7	148.3	138.6	174.2	234.5	375.8	292.5	199.8
Distribution	25.5	15.7	13.3	11.2	15.8	33.0	37.0	24.8	22.0	26.7
Asset Renewal	57.1	69.2	58.7	79.7	78.4	122.9	116.6	123.9	108.0	135.3
Other	27.8	40.2	52.6	50.5	56.6	25.9	6.4	5.4	2.6	1.2
Non-Transmission	12.1	2.9	5.0	7.0	18.9	13.5	16.3	7.1	7.2	7.2
Total	370.3	221.1	259.8	300.4	311.0	369.5	411.1	540.7	441.4	383.4
Asset Contribution	0.2	0.6	-	-	-	-	-	-	-	-

- 2014 capital expenditures were estimated to be $301.0M in the October 2012 customer presentation

2014 – Top 5 Project O&M Drivers ($Thousands)

	[A] Project Name / Description	[B] Project Type	[C] 2014 Total
1	Projects resulting from NERC Allerts / Ratings Issues	Maintenance	$ 4,514
2	WCS 138kV Line Rebuild	Maintenance	1,598
3	Y39 Castle Rock-HillTop	Maintenance	482
4	R304-Repl Xarm-Poles-Insulators	Maintenance	315
5	I9 115kV Thermal Rerate	Operations	314
	All Others		6,306
Total			**$ 13,529**

Key Points

The top 5 projects represent 53.4% of the 2014 total Project O&M

2014 – Top 5 Pre-cert Projects ($Thousands)

	[A] Project Name / Description	[B] From	[C] To	[D] Voltage	[E] 2014 Total
1	Bay Lake	North Appleton	Morgan		$ 4,154
2	Cardinal Bluffs	Dubuque	Cardinal	345	2,850
3	Badger-Coulee	Briggs Road North Madison	North Madison Cardinal	345 345	1,680
4	Victoria-Winona	Victoria	Winona	69	960
5	Branch River	Branch River	Point Beach	345	865
	Other Projects				6,937
Total					**$ 17,447**

Key Points

The top 3 projects represent 49.8% of the 2014 total precertification expense

Questions

Appendix

Five-Year Outlook ($Thousands)

		2013 6+6 Forecast		2014 Budget		2015 Forecast		2016 Forecast		2017 Forecast	
		(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
(1)	Return on Rate Base	235,735	37.5%	245,729	37.4%	262,260	37.8%	289,323	39.3%	309,693.95	39.9%
(2)	Income Taxes	99,123	15.8%	103,944	15.8%	110,647	15.9%	120,142	16.3%	127,382	16.4%
(3)	Depreciation	114,994	18.3%	123,306	18.8%	131,396	18.9%	141,655	19.2%	150,359	19.4%
(4)	Capital Costs	449,852	71.5%	472,979	72.0%	504,303	72.6%	551,120	74.9%	587,435	75.6%
(5)	Operations and Maintenance Expense	134,367	21.4%	135,227	20.6%	141,320	20.4%	146,267	19.9%	151,390	19.5%
(6)	Project O&M	10,666	1.7%	13,529	2.1%	15,242	2.2%	7,194	1.0%	5,192	0.7%
(7)	Precertification Expense	18,786	3.0%	17,447	2.7%	13,110	1.9%	10,517	1.4%	10,956	1.4%
(8)	Property and Other Taxes	15,435	2.5%	17,290	2.6%	20,368	2.9%	20,984	2.9%	21,609	2.8%
(9)	Operatng Expenses	179,253	28.5%	183,493	28.0%	190,040	27.4%	184,962	25.1%	189,147	24.4%
(10)	***Total Revenue Requirement***	**629,105**	**100.0%**	**656,472**	**100.0%**	**694,343**	**100.0%**	**736,083**	**100.0%**	**776,582**	**100.0%**
	Offsets										
(11)	RECB	(82,949)		(87,974)		(95,437)		(111,147)		(118,879)	
(12)	MVP	(4,692)		(9,163)		(6,841)		(13,929)		(26,760)	
(13)	Other MISO Revenue	(19,804)		(19,694)		(19,720)		(19,747)		(19,774)	
(14)	Other Operating Revenue	(1,347)		(1,298)		(1,298)		(1,298)		(1,298)	
(15)	Over/(Under) Network Collection	10,840		-		-		-		-	
(16)	2011 Network True-up	(1,295)		-		-		-		-	
(17)	2012 Forecasted Network True-up	-		2,064		-		-		-	
(18)	2013 Forecasted Network True-up	0		(12,439)		0					
(19)	***Network Billed Revenue***	**529,857**		**527,969**		**571,046**		**589,961**		**609,871**	

- The RECB (line 11) and MVP (line 12) amounts represent credits to ATC's total revenue requirement for ATC's expected portion of RECB and MVP revenues received from MISO.
- Each company should use their load ratio share multiplied by the Network Billed Revenues (line 19) above to arrive at an estimate of Schedule 9 (Network Service) expense for each year.