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# 2018 Budget

## Stakeholder Presentation

October 10, 2017

[atcllc.com](http://atcllc.com)

# Welcome & Overview

- Welcome – Randy Karls
- ROE Complaints – Brian Drumm
- Budget Overview – Kevin Szalacinski
  - ATC – Network
  - MISO – Other charges
- Asset Management – Jim Vespalec
- Capital Investment – Matt Weber
- Pre-certification – Matt Weber
- Q&A - All
- Summary & Close – Randy Karls



# Key Budget Assumptions

## • ROE Complaints

- ATC posted rates on September 29, 2017 for the 2018 billing year
  - We assumed no FERC order in complaint #2 (Docket No. EL15-45) before the posting date
  - Per the tariff, Network and MISO revenues must be based on the current approved ROE of 10.82% (This reflects the FERC approved 10.32% under Docket No. EL14-12 and a 50 basis point adder for RTO participation)
- Budgeted pre-tax earnings reflect a FERC order in Docket No. EL15-45 effective January 1, 2018
  - ATC assumes FERC accepts the administrative law judge's recommended ROE of 9.70% plus the 50 basis point adder for RTO participation for an ROE of 10.20%.
  - When FERC ruling is issued, ATC must re-post revenue requirements

## • Bonus Depreciation

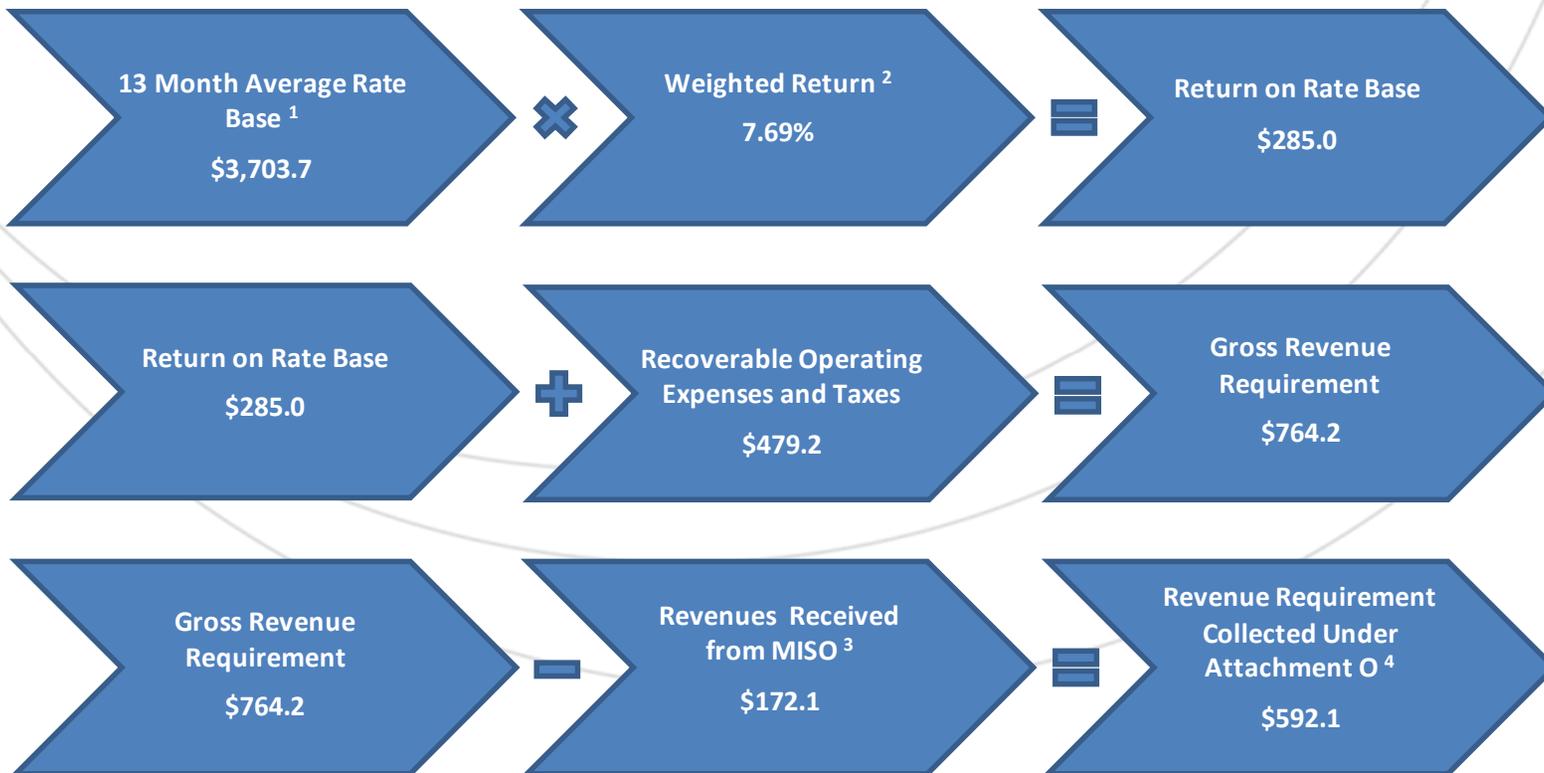
- Assumes 50% bonus depreciation is in effect through 2020
  - Slightly more conservative than phase-out in current law

# Budget Highlights

- Total revenue requirement for 2018 is \$764.2M compared to \$723.4M in 2017
  - Revenue requirements reflects the current FERC approved ROE of 10.82% (including the RTO adder)
- Network billed revenue for 2018 is \$589.7M compared to \$563.3M in 2017
- 2018 O&M budget is \$155.3M – flat from the 2017 approved budget

# 2018 Projected Network Revenue Requirement

(\$Millions)



<sup>1</sup> Includes CWIP and new assets placed in-service.

<sup>2</sup> Comprised of 50% Weighted Cost of Debt and 50% Allowed Return on Equity.

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

<sup>4</sup> Actual billed revenue will be decreased by \$2.4M for a prior year true-ups

# Network Revenue Requirement

(\$Thousands)

	2017 Budget	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Return on Rate Base <sup>1</sup>	\$ 270,394	\$ 284,975	\$ 286,629	\$ 297,811	\$ 304,168
Income Taxes	110,247	116,078	114,243	118,281	121,017
Depreciation	153,081	167,488	186,021	195,609	201,068
Operating Expenses <sup>2</sup>	189,681	195,612	197,571	206,623	207,721
Offsets					
RECB (Schedule 26)	(103,236)	(111,754)	(113,474)	(110,247)	(106,160)
MVP (Schedule 26-A)	(21,896)	(33,435)	(39,537)	(38,883)	(40,462)
Point-to-Point (Schedule 7 & 8)	(9,000)	(8,400)	(8,400)	(8,400)	(8,400)
Load Dispatch (Schedule 1)	(16,500)	(17,172)	(17,688)	(18,218)	(18,765)
Other Operating Revenue	(1,300)	(1,300)	(1,300)	(1,300)	(1,300)
Over/(Under) collection	-	-	-	-	-
<b>Network Revenue Requirement</b>	<b>571,471</b>	<b>592,092</b>	<b>604,067</b>	<b>641,275</b>	<b>658,888</b>
Network True-up Adjustments	(8,159)	(2,414)	-	-	-
<b>Network Billed Revenue</b>	<b>\$ 563,312</b>	<b>\$ 589,678</b>	<b>\$ 604,067</b>	<b>\$ 641,275</b>	<b>\$ 658,888</b>
<b>Network Billed Revenue (Oct 2016)</b>	<b>\$ 563,312</b>	<b>\$ 586,490</b>	<b>\$ 603,808</b>	<b>\$ 633,119</b>	<b>\$ -</b>
<b>Network Billed Change from Oct 2016 <sup>3</sup></b>	<b>\$ -</b>	<b>\$ 3,188</b>	<b>\$ 259</b>	<b>\$ 8,156</b>	

## Footnotes:

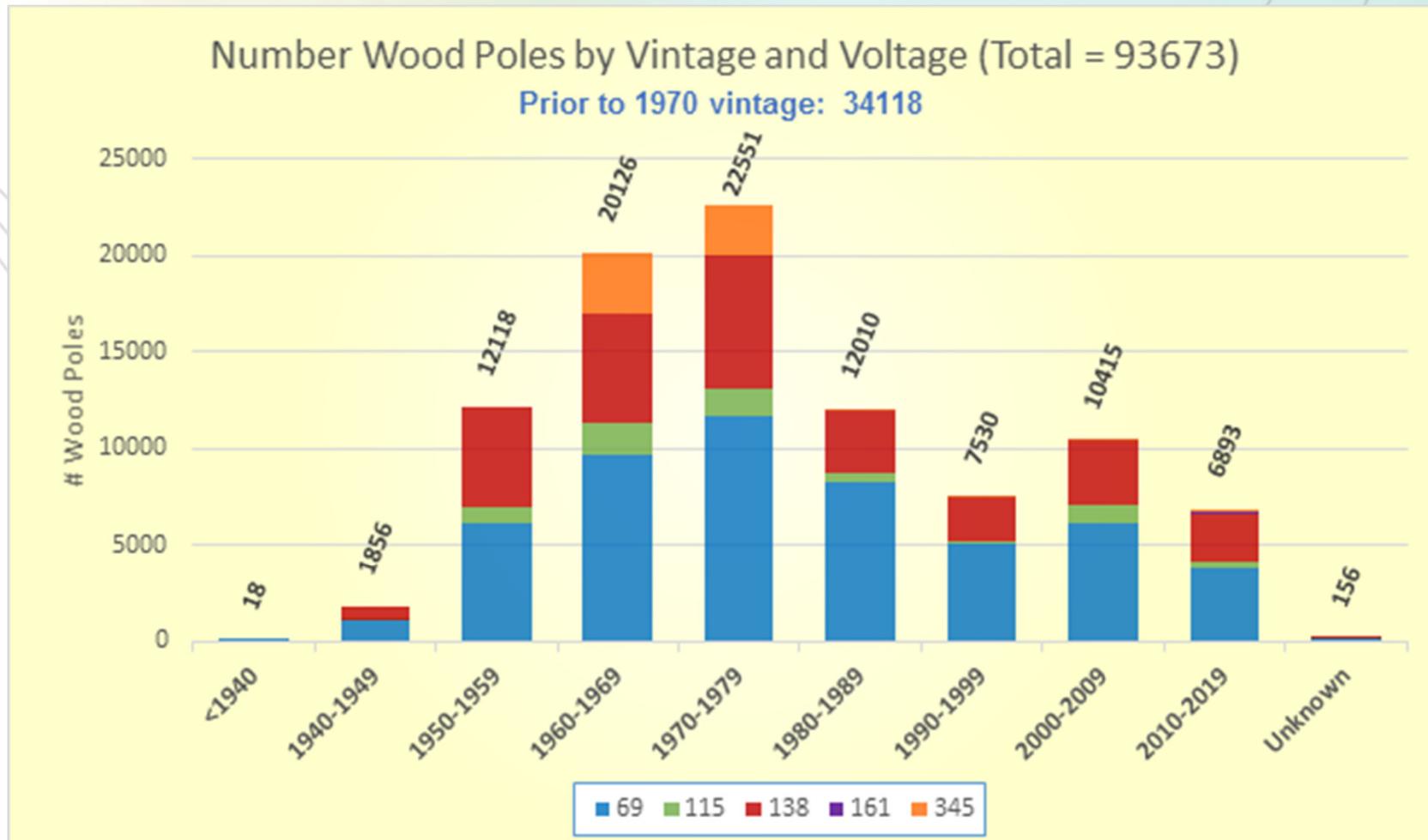
1. Return on rate base for 2018 reflects a 10.82% ROE and 2019-21 reflects a 10.20% ROE.
2. Includes O&M, Project O&M, Precertification and Taxes other than Income Taxes.
3. Variance in 2018 due to lower assumed ROE of 10.20% in last year's presentation compared to current authorized ROE of 10.82%. Adjusting the ROE would result in a decrease of \$10.5M.

# Asset Management

# Asset Management

- From a reliability perspective, ATC is top quartile or better compared to our industry peers
- Improved Maintenance practices
  - Identified efficiencies to reduce costs coming to fruition
  - Increased funding for greater needs to improve safety, reliability and long-term savings
  - Overall spending remains nearly flat
- Vegetation Management
  - Emerald Ash Borer (EAB) advancement is slower than anticipated
  - Right-of-way reclamation leading to lower anticipated costs within 5 years
- LiDAR (Light Detection and Ranging)
  - Survey collection method for transmission lines to verify field conditions match system of record
  - Data collection is tapering down after 2017
  - Processing and modeling of collected data to continue for another 3 to 4 years

# Asset Management – Asset Renewal Drivers



# Other MISO Charges

# 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 the total RECB 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 BRP, GIP and MEP (Schedule 26) (Tab – Indicative Sch 26 Charges)*
  - 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)*

# Capital Investment

# 2018 – Top 10 Projects by Spending Level

(\$Millions)

	Project Name / Description	2018	Total Project	Reason	2017 Status
1	Badger Coulee Project	\$ 82.7	\$ 313.2	Multi-Value Project	Construction
2	Green Bay-Morgan 345kV (portion of Bay Lake)	56.6	270.1	Network Reliability	Construction
3	Spring Valley-N Lake Geneva 138kV	28.9	66.4	Network Reliability	Engineering
4	J390 Riverside Energy Center GIC	27.5	42.6	Generation	Engineering
5	J704 WeEnergies GIC (Baraga Cty)	22.6	36.1	Generation	Engineering
6	J10 Finger Rd-Canal 69kV Rebuild	15.8	59.0	Asset Renewal	Engineering
7	Edgewood-Mukwonago-St Martins Rebuild	13.8	24.9	Asset Renewal	Engineering
8	J703 WeEnergies GIC (Marquette Cty)	12.5	15.9	Generation	Engineering
9	Inland Line Rebuild (Seeney-Blaney)	9.7	17.2	Network Reliability	Engineering
10	Odgen St Networking-Construction	7.2	9.9	Network Reliability	Engineering
11	All Other Transmission	238.9			
<b>TOTAL</b>		<b>\$ 516.2</b>			

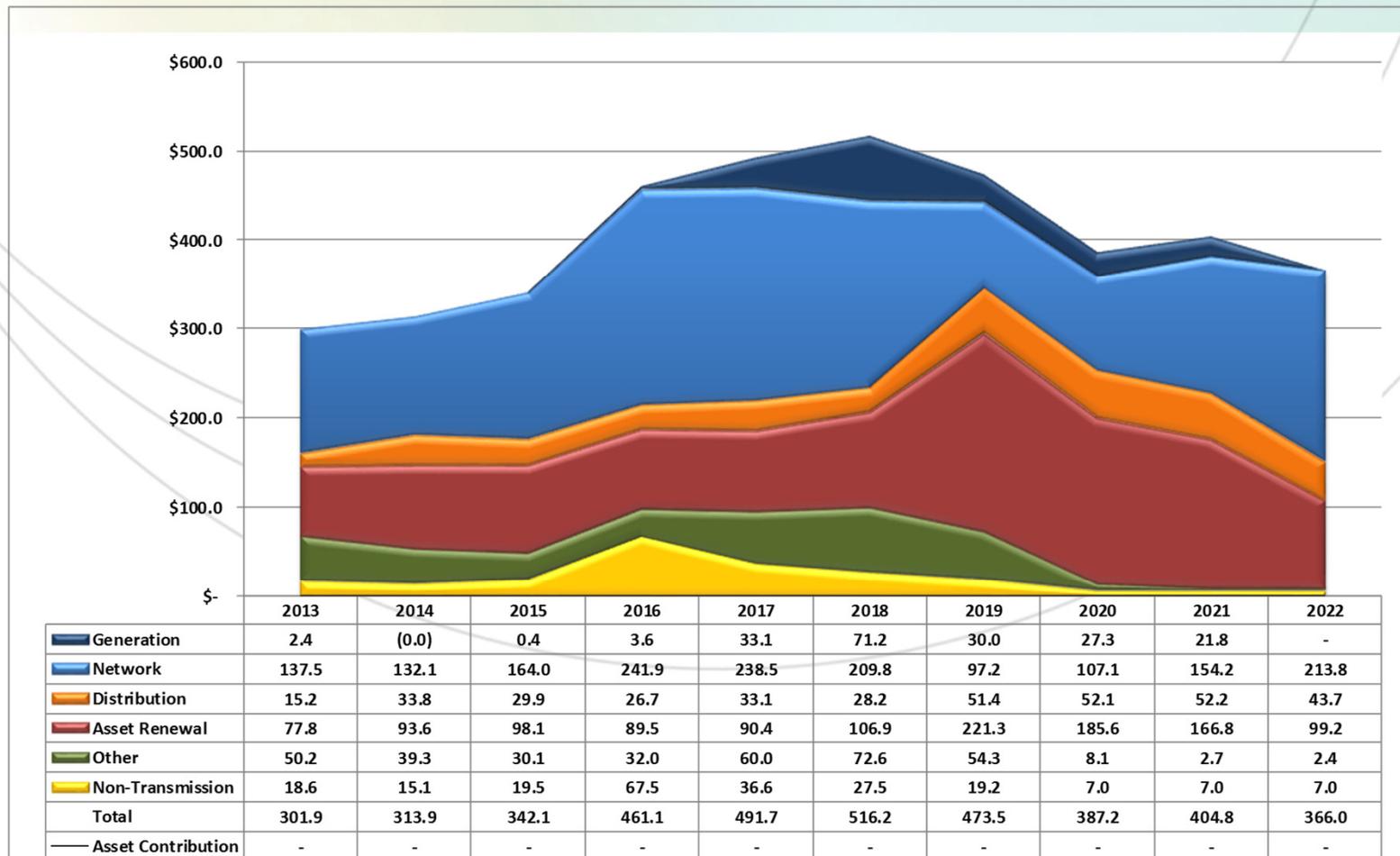
## Key Points

- The top 10 projects represent \$277.3M or 54% of the 2018 total projected capital spending.
- Badger Coulee 2018 capital spending of \$82.7M reflects ATC's 50% share



# Capital History and Forecast by Category

(\$Millions)



- 2018 capital expenditures were estimated to be \$489.1M in the October 2016 Customer Presentation



# 2018 – Top 5 Project O&M Drivers

(\$Thousands)

	Project Name / Description	Project Type	2018 Total
1	Projects resulting from NERC Alerts / Ratings Issues	Asset Renewals	\$ 1,140
2	Inland Line Rebuild (Seeney-Blaney)	Asset Renewals	\$ 599
3	Wood Structure Replacements	Maintenance	\$ 441
4	Shunt Installs South Central WI	Maintenance	\$ 327
5	X42 POE SGL 29-30 172-173 Rerate	Asset Renewals	\$ 306
6	All Others		\$ 4,629
<b>TOTAL</b>			<b>\$ 7,443</b>

- The top 5 projects represent 38% of the 2018 total Project O&M

# 2018 – Top 5 Pre-cert Projects

(\$Thousands)

	Project Name / Description	2018
1	Cardinal Hickory Creek	\$ 3,886
2	Bayport to Pioneer Line Rebuild	2,900
3	Crivitz-Sobieski Rebuild	800
4	Custer-New Holstein Rebuild	632
5	Wesmark-Rapids Manwrap Rebuild	632
6	Other Projects (5 Projects)	602
<b>TOTAL</b>		<b>\$ 9,451</b>

## Key Points

The top 2 projects represent 72% of the 2018 total precertification expense



# Questions

# Appendix

# Five-Year Outlook

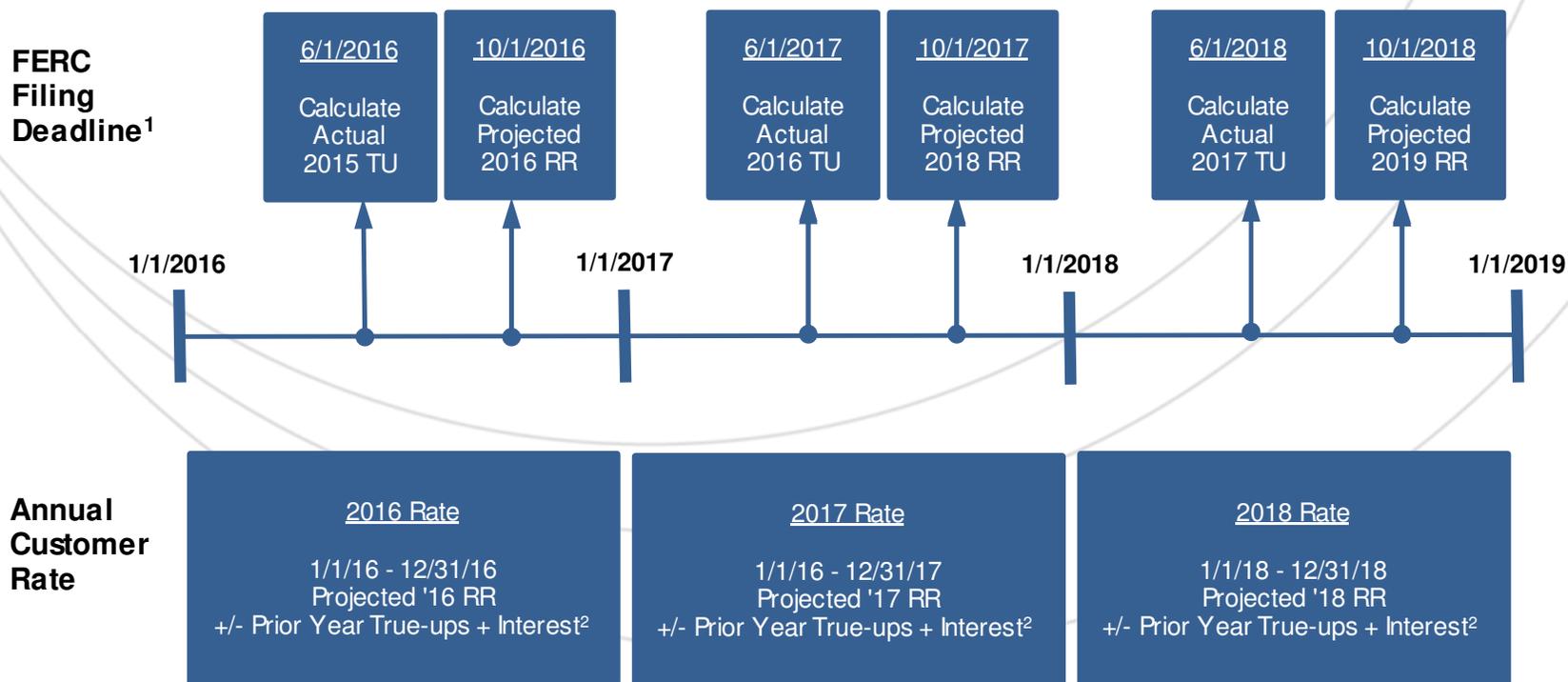
(\$Thousands)

	2017 6+6 Forecast		2018 Forecast		2019 Forecast		2020 Forecast		2021 Forecast	
	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
(1) Return on Rate Base	270,229	37.5%	284,975	37.3%	286,629	36.5%	297,811	36.4%	304,168	36.5%
(2) Income Taxes	110,245	15.3%	116,078	15.2%	114,243	14.6%	118,281	14.5%	121,017	14.5%
(3) Depreciation	154,717	21.5%	167,488	21.9%	186,021	23.7%	195,609	23.9%	201,068	24.1%
(4) Capital Costs	535,191	74.2%	568,540	74.4%	586,894	74.8%	611,701	74.8%	626,252	75.1%
Total O&M Expense	154,428		155,257		155,257		155,257		155,257	
Non-Recovered O&M Expense	(494)		(518)		(515)		(541)		(542)	
(5) Operations and Maintenance Expense	153,934	21.3%	154,740	20.2%	154,743	19.7%	154,716	18.9%	154,715	18.6%
(6) Project O&M	7,143	1.0%	7,443		11,199		13,318		13,644	
(7) Precertification Expense	4,726	0.7%	9,451	1.2%	5,816	0.7%	12,000	1.5%	12,000	1.4%
(8) Property and Other Taxes	20,211	2.8%	23,979	3.1%	25,814	3.3%	26,589	3.2%	27,362	3.3%
(9) Operatng Expenses	186,013	25.8%	195,612	25.6%	197,571	25.2%	206,623	25.2%	207,721	24.9%
(10) <b>Total Revenue Requirement</b>	<b>721,204</b>	<b>100.0%</b>	<b>764,153</b>	<b>100.0%</b>	<b>784,465</b>	<b>100.0%</b>	<b>818,324</b>	<b>100.0%</b>	<b>833,974</b>	<b>100.0%</b>
<b>Offsets</b>										
(11) RECB	(102,764)		(111,754)		(113,474)		(110,247)		(106,160)	
(12) MVP	(21,943)		(33,435)		(39,537)		(38,883)		(40,462)	
(13) Other MISO Revenue	(24,837)		(25,572)		(26,088)		(26,618)		(27,165)	
(14) Other Operating Revenue	(1,503)		(1,300)		(1,300)		(1,300)		(1,300)	
(15) (Over)/Under Network Collection	1,313		-		-		-		-	
(16) 2015 True-up	(920)		-		-		-		-	
(17) 2016 True-up	(7,239)		(380)		-		-		-	
(18) 2017 True-up	-		(2,034)		-		-		-	
(19) <b>Network Billed Revenue</b>	<b>563,312</b>		<b>589,678</b>		<b>604,067</b>		<b>641,275</b>		<b>658,888</b>	

- The RECB (line 11) and MVP (line 12) amounts represent credits to ATC's expected portion of RECB and MVP revenues received from MISO relating to ATC 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



- 1) Annual Rates are posted on OASIS on or before October 1st and True-ups on or before June 1st
- 2) ATC is required to refund any over-collected network amounts, plus interest, within two years subsequent to the rate year, with the option to accelerate all or a portion of any such refund, and is permitted to include any under-collected amounts, plus interest, in annual network billings two fiscal year subsequent to the rate year