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businesses running
and communities strong®

2019 Budget

Stakeholder Presentation

October 11, 2018

Welcome & Overview

- Welcome – Randy Karls
- 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



Budget Highlights

- 2019 total revenue requirement is \$730.5M or a 4.4% decrease from 2018 budgeted revenue of \$764.2M
 - Mainly due to impact of tax reform as well as reductions in operating expenses
- Network billed revenue for 2019 is \$569.9M and is approximately \$34.2M lower than last year's projection of \$604.1M for 2019
- 2019 proposed O&M budget is \$150.6M or a 3% reduction from the 2018 Board approved budget



Key Budget Assumptions – Tax Law Changes

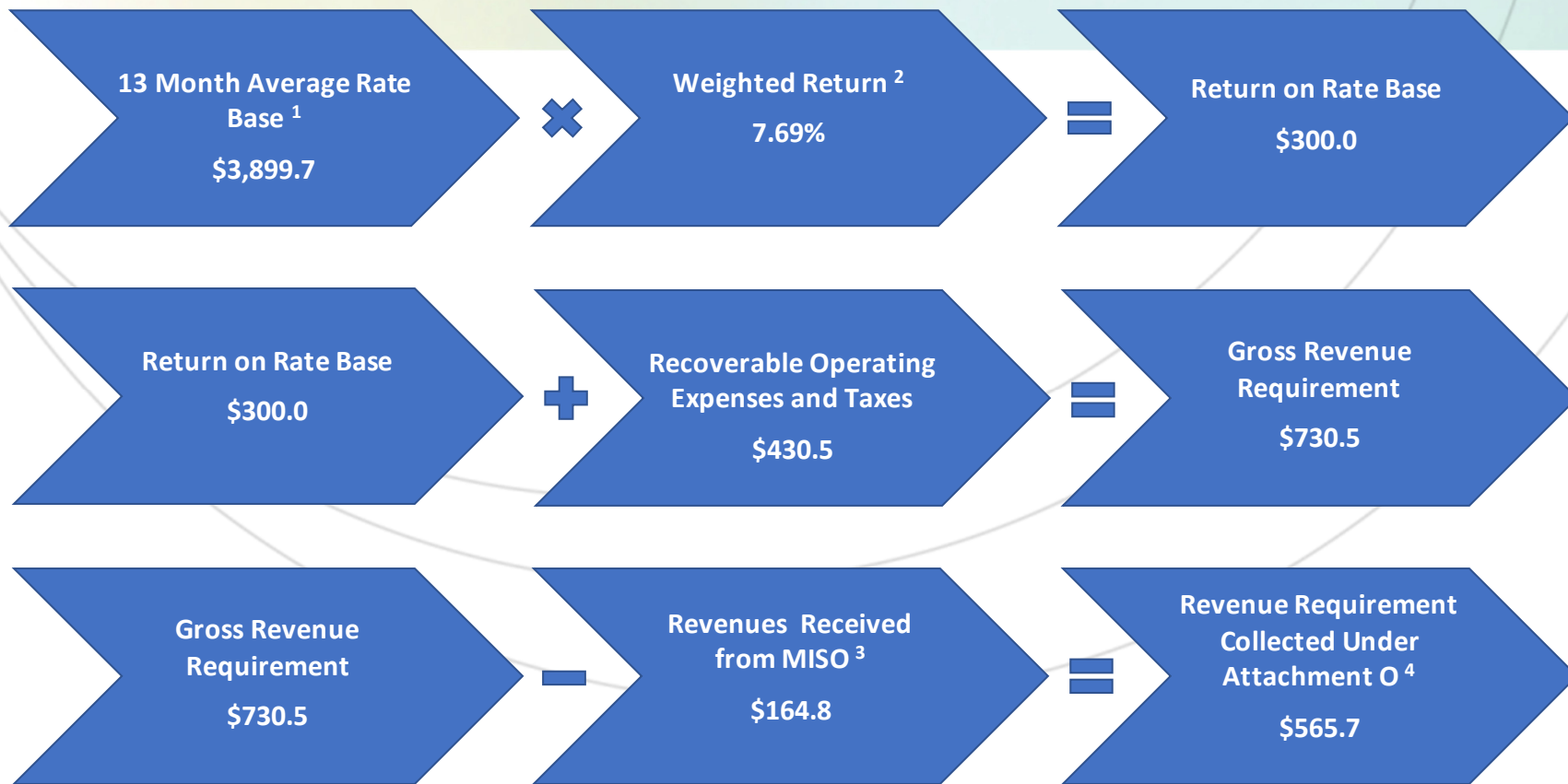
- **Reduction in corporate tax rate**
 - As of January 1, 2018 the federal statutory corporate tax rate dropped from 35% to 21%
 - The lower effective tax rate resulted in a decrease in income taxes collected in rates
- **Excess deferred income taxes**
 - Deferred taxes were recorded at a higher tax rate than will ultimately be paid by ATC's taxable owners, so ATC will be required to refund excess taxes of approximately \$267 million
 - This permanent tax savings is refunded to customers over the regulatory life of the assets via reductions in future taxes collected
 - ATC is evaluating method and timing for this reduction in cost of service

Key Budget Assumptions - ROE

- Return on Equity (ROE)
 - Administrative Law Judge (ALJ) recommendation in second complaint is 9.7% base (10.2% with MISO adder)
 - Timing of FERC order in the second complaint is still unknown
 - Until FERC rules in second complaint, ATC must bill based on the current approved ROE
 - Budget assumes we start billing 2019 based on the current approved 10.82% ROE
 - ROE of 10.20% remains in effect for 2020-22 forecast period

2019 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 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 be increased by \$4.1M for prior year true-ups

Network Revenue Requirement Projection

(\$ in Thousands)

	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Return on Rate Base {A}	\$ 282,373	\$ 300,033	\$ 301,420	\$ 307,349	\$ 311,838
Income Taxes	59,359	61,843	66,983	68,182	69,192
Depreciation	166,885	183,473	197,116	204,482	210,094
Operating Expenses {B}	190,244	185,111	185,179	188,715	188,024
Offsets					
RECB (Schedule 26)	(99,866)	(101,700)	(100,600)	(97,875)	(94,687)
MVP (Schedule 26-A)	(31,520)	(37,436)	(36,392)	(38,423)	(43,899)
Point-to-Point (Schedule 7 & 8)	(7,962)	(8,400)	(8,400)	(8,400)	(8,400)
Load Dispatch (Schedule 1)	(15,078)	(15,587)	(16,054)	(16,536)	(17,032)
Other Operating Revenue	(1,686)	(1,600)	(1,600)	(1,600)	(1,600)
Over/(Under) collection	9,104	(0)	(0)	(0)	(0)
Network Revenue Requirement	551,853	565,738	587,652	605,895	613,530
Network True-up Adjustments	(2,410)	4,138	-	-	-
Network Billed Revenue	\$ 549,443	\$ 569,876	\$ 587,652	\$ 605,895	\$ 613,530
Network Billed Revenue (Oct 2017)	\$ 589,678	\$ 604,067	\$ 641,275	\$ 658,888	\$ -
Network Billed Change from Oct 2017 {C}	\$ (40,235)	\$ (34,191)	\$ (53,623)	\$ (52,992)	

Footnotes:

(A) ROE is assumed to be 10.82% for 2019. For 2020-22 it's assumed to be 10.20%.

(B) Operating expenses includes O&M, Project O&M, Precertification and Taxes other than Income Taxes.

(C) Network billed revenue change from last year mainly due to impact of tax reform.



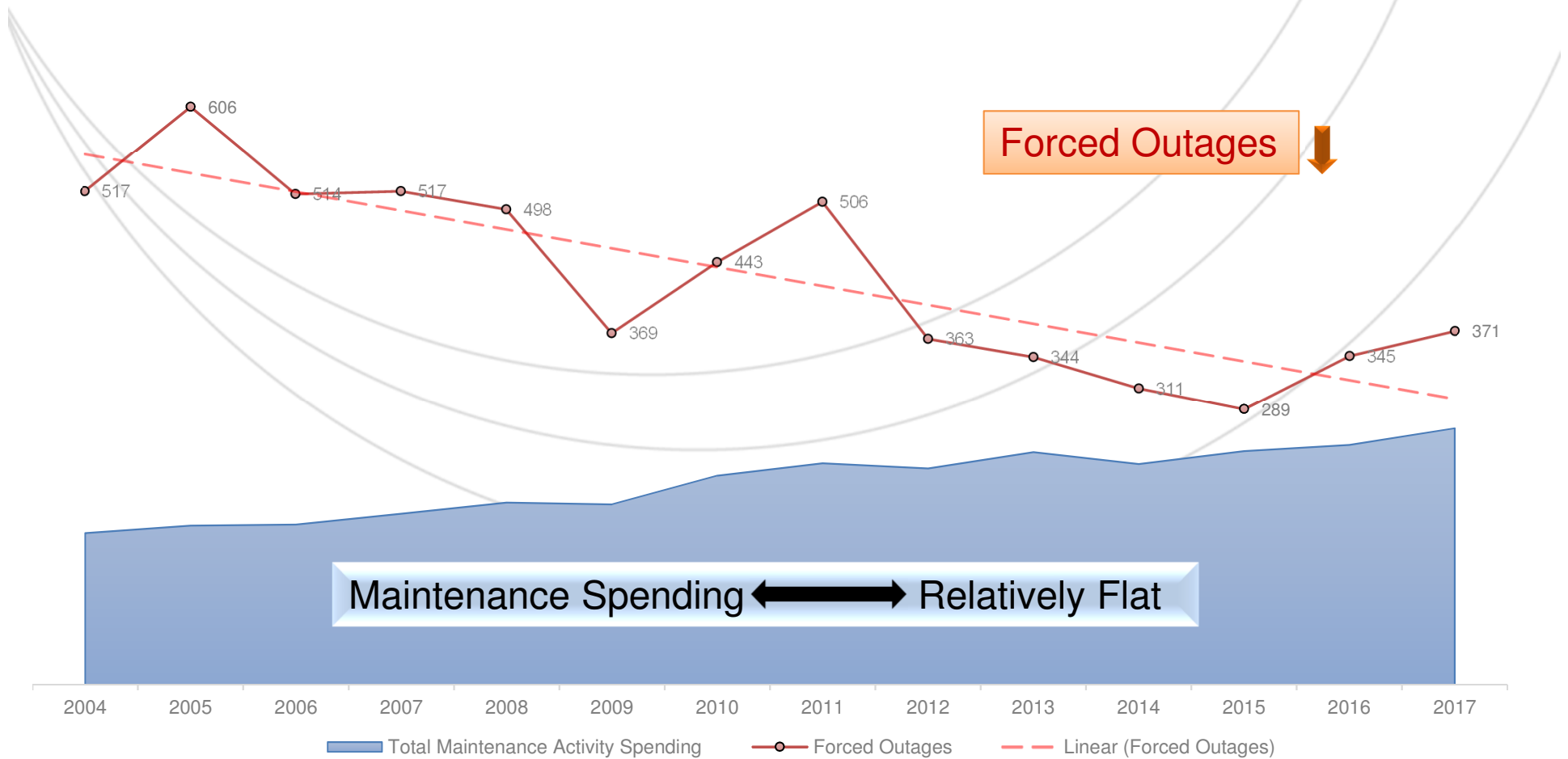
Asset Management



Asset Management

- Past maintenance and renewal programs have contributed to good equipment performance
 - Results in reduced unplanned corrective maintenance costs in several equipment types
- Contractor efficiencies gained through work management driving efficiencies in the field (how we package and release work).
 - Refining aerial patrol frequency and combining work activities (e.g. pole and ground line inspections)

Total Forced Outages vs. Maintenance Spend



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 Schedule 26 (RECB) and Schedule 26A (MVP) charges can be found on the MISO website (www.misoenergy.org) under:
Planning /Transmission Planning /MTEP /MTEP Studies /Indicative Rate Reports

Indicative Rate Reports (the following is from the MISO website)

Schedule 26 and 26-A Indicative Rate Reporting

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 twice a year in March and August. The posted reports reflect the latest FERC approved ROE value of 10.32% (plus any applicable adders). Prospective changes to the ROE value 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.xlsx](#)

 [Schedule 26A Indicative Annual Charges.xlsx](#)

Capital Investment



2019 – Top 10 Projects by Spending Level

(\$ in Millions)

	Project Name / Description	2019	Total Project	Reason	2019 Status
1	Mount Pleasant Tech Interconnection	\$ 83.0	\$ 117.2	Distribution	Construction
2	Finger Road - Canal 69kV Rebuild	\$ 26.2	\$ 56.8	Asset Renewal	Construction
3	Spring Valley-N Lake Gen New 138kV	\$ 23.9	\$ 67.4	Network Reliability	Construction
4	Boscobel - Lone Rock (Y124) 69kV Rebuild	\$ 18.5	\$ 34.6	Asset Renewal	Construction
5	Caldron Falls-Goodman (J88) 69kV Rebuild	\$ 13.3	\$ 26.4	Asset Renewal	Construction
6	Juneautown T-D	\$ 10.3	\$ 32.8	Distribution	Construction
7	Cedar Ridge Wind - Mullet River (X97) Rebuild	\$ 9.4	\$ 22.4	Asset Renewal	Engineering
8	Badger Coulee Project T-Lines	\$ 9.1	\$ 299.2	Multi-Value Project	Construction
9	J711 RES GIC-Network Upgrades	\$ 8.8	\$ 19.1	Generation	Engineering
10	Riverside Energy Centr J390 Network	\$ 7.4	\$ 36.4	Generation	Construction
11	All Other Transmission	\$ 260.3			
TOTAL		\$ 470.3			

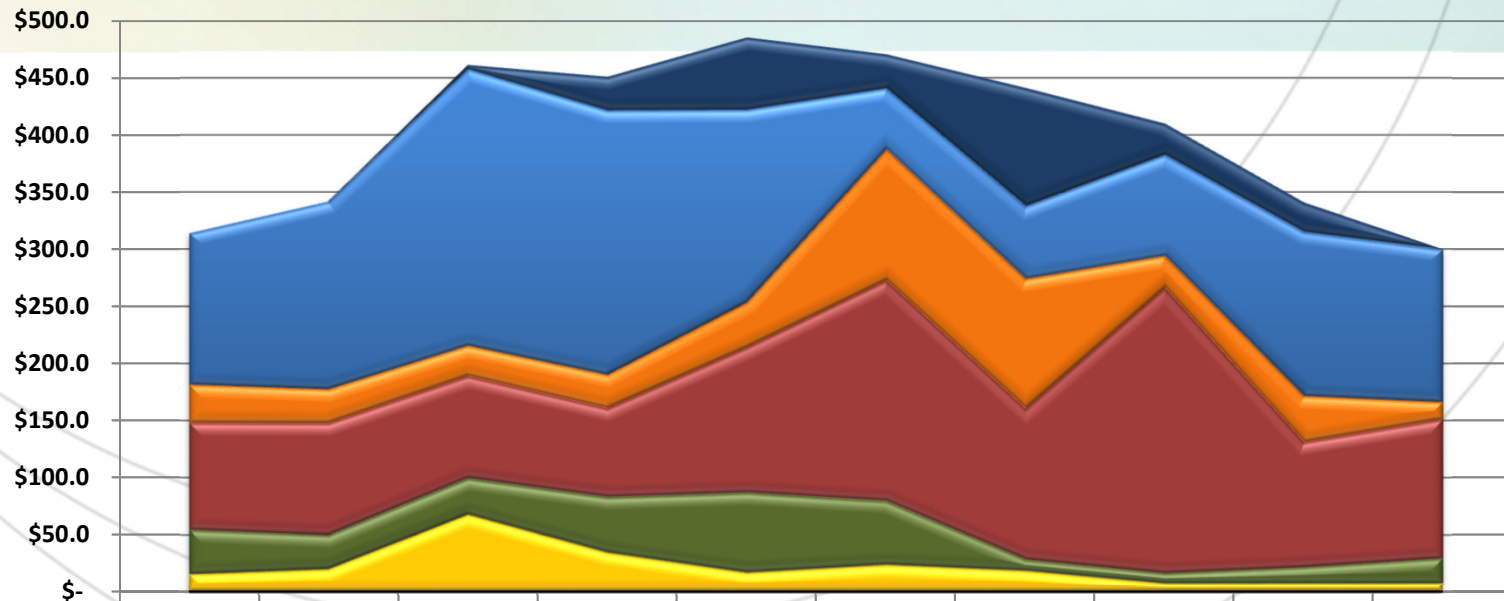
Key Points

- The top 10 projects represent \$210M or 45% of the 2019 total projected capital spending.
- Badger Coulee expected in-service date is December 2018. This 2019 spending is projected for restoration work and potential land owner legal settlements.



Capital History and Forecast by Category

(\$ in Millions)



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Generation	(0.0)	0.4	3.6	29.4	63.3	29.5	103.3	27.2	25.5	-
Network	132.1	164.0	241.9	231.2	168.4	53.3	63.7	88.3	143.5	133.6
Distribution	33.8	29.9	26.7	29.4	39.6	114.8	113.6	28.1	40.6	14.8
Asset Renewal	93.6	98.1	89.5	77.7	127.1	193.0	132.2	249.9	109.5	122.0
Other	39.3	30.1	32.0	49.0	70.3	56.1	10.1	9.3	14.7	22.4
Non-Transmission	15.1	19.5	67.5	34.1	16.5	23.5	18.1	7.0	7.0	7.0
Total	313.9	342.1	461.1	450.8	485.2	470.3	441.0	409.7	340.7	299.9
Asset Contribution	-	-	-	-	-	-	-	-	-	-

- 2019 capital expenditures were estimated to be \$473.5M in the October 2017 customer presentation



2019 – Top 5 Project O&M Drivers

(\$Thousands)

	Project Name / Description	Project Type	2019 Total
1	Projects resulting from NERC Alerts / Ratings Issues	Asset Renewals	\$ 815
2	Mount Pleasant Tech Interconnection	Distribution	\$ 597
3	Wood Structure Replacements	Asset Renewals	\$ 459
4	Hiawatha to Pine River (ESE 6908) -Repl Poles-Insulators	Asset Renewals	\$ 306
5	Transformer Test Switches	Asset Renewals	\$ 204
6	All Others		\$ 5,076
Total			\$ 7,456

Key Points

- The top 5 projects represent 32% of the 2019 total Project O&M

2019 Pre-cert Budget

(\$ in Thousands)

Col	Project Name / Description	Amount
1	Cardinal Hickory Creek	\$ 1,010
2	Bayport-Pioneer Rebuild	621
3	Ogden St Networking	164
4	Northern Lights Interconnect	122
TOTAL		\$ 1,917

Key Points

- The top 2 projects represent 85% of the 2019 total precertification expense

Questions

Appendix

Five-Year Outlook

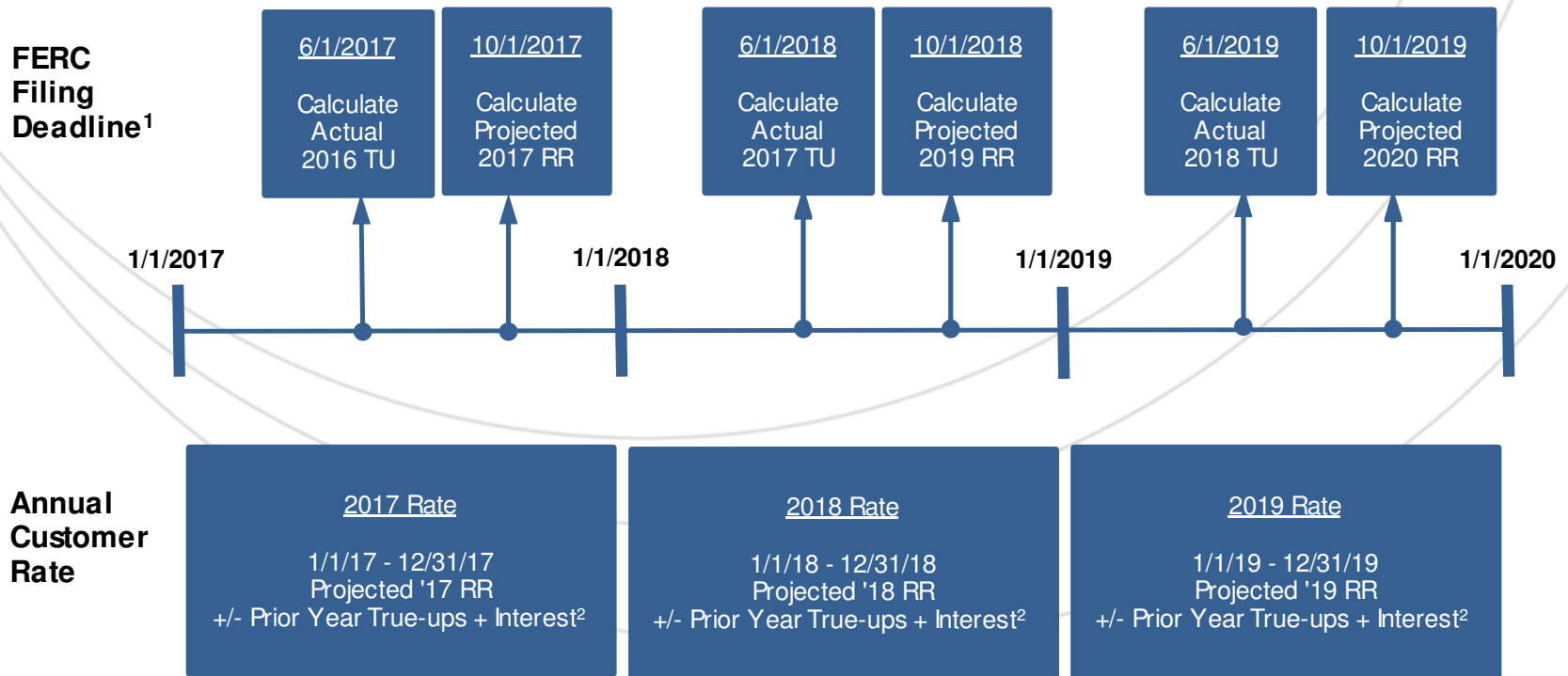
(\$Thousands)

	2018		2019		2020		2021		2022	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	282,373	40.4%	300,033	41.1%	301,420	40.2%	307,349	40.0%	311,838	40.0%
(2) Income Taxes	59,359	8.5%	61,843	8.5%	66,983	8.9%	68,182	8.9%	69,192	8.9%
(3) Depreciation Expense	166,885	23.9%	183,473	25.1%	197,116	26.3%	204,482	26.6%	210,094	27.0%
(4) Capital Costs	508,617	72.8%	545,350	74.7%	565,520	75.3%	580,014	75.5%	591,125	75.9%
(5) Operations and Maintenance Expense	153,421	22.0%	150,196	20.6%	147,189	19.6%	145,716	19.0%	145,714	18.7%
(6) Project O&M	6,285	0.9%	7,456	1.0%	8,851	1.2%	10,656	1.4%	9,181	1.2%
(7) Precertification Expense	6,764	1.0%	1,917	0.3%	2,555	0.3%	5,000	0.7%	5,000	0.6%
(8) Property and Other Taxes	23,774	3.4%	25,541	3.5%	26,584	3.5%	27,343	3.6%	28,128	3.6%
(9) Operating Expenses	190,244	27.2%	185,111	25.3%	185,179	24.7%	188,715	24.5%	188,024	24.1%
(10) Total Revenue Requirement	698,861	100.0%	730,461	100.0%	750,698	100.0%	768,729	100.0%	779,148	100.0%
Offsets										
(11) RECB Revenue	(99,866)		(101,700)		(100,600)		(97,875)		(94,687)	
(12) MVP Revenue	(31,520)		(37,436)		(36,392)		(38,423)		(43,899)	
(13) Other MISO Revenues	(23,040)		(23,987)		(24,454)		(24,936)		(25,432)	
(14) Other Revenue Sources	(1,686)		(1,600)		(1,600)		(1,600)		(1,600)	
(15) (Over)/Under Network Collection	9,104		(0)		(0)		(0)		(0)	
(16) 2016 True-up	(376)		0		0		0		0	
(17) 2017 True-up	(2,034)		4,138		0		0		0	
(18) Network Billed Revenue	549,443		569,876		587,652		605,895		613,530	

- 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 18) 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.