



# ATC 2009 Budget

Customer Meeting

October 7, 2008



# Welcome & Overview

- Welcome!
  - Introductions – Tom Finco
  - Budget Overview – Mike Hofbauer
  - Capital Investment – Carol Chinn
  - Pre-certification – Carol Chinn
  - Q&A - All
  - Summary & Close – Tom Finco

# 2009 Financial Overview

- Capital
  - \$366M of capital expenditures
  - \$412M to be placed into service
- O&M
  - Total O&M budget of \$122.8M
  - No budgeted additions to headcount
- Pre-cert
  - Pre-cert budget is \$7.0M
  - Rockdale – West Middleton is expected to be primary driver of spend

# Key 2009 Budget Risks

- Regional cost sharing forecasts
- Point-to-point forecasts
- Variability of pre-certification expense
- Evolving NERC compliance
  - Operating standards
  - Increasing scrutiny over cyber-security standards

# O&M Change

## 2008 Budget

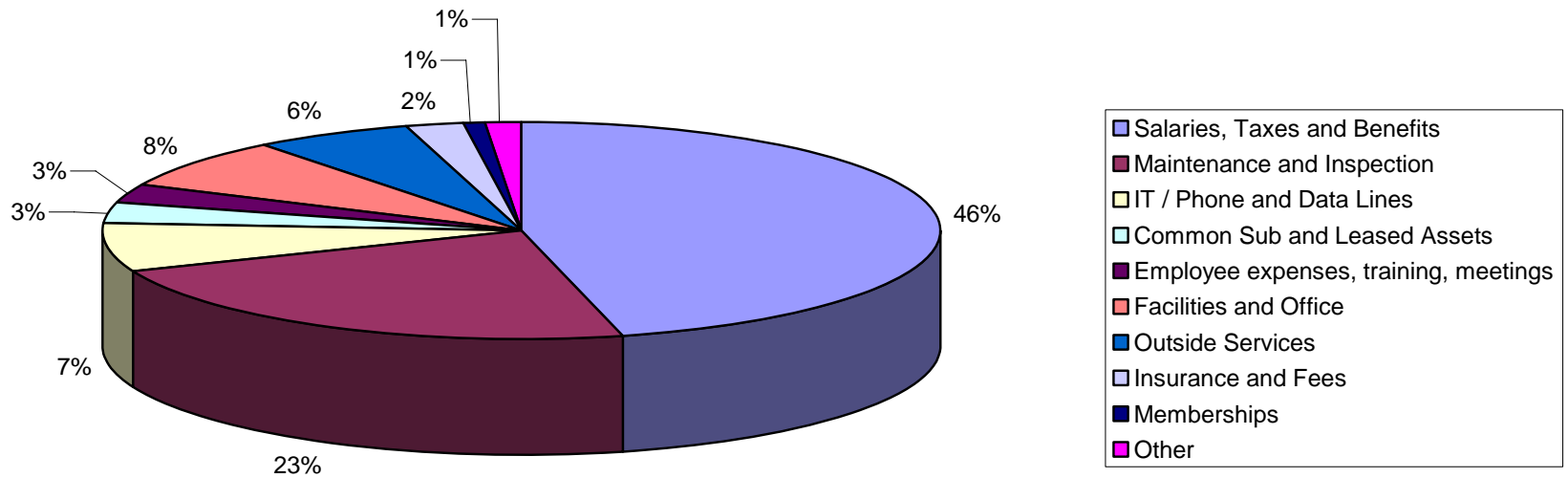
114,205

### Change from 2008

ITC Agreement Termination	2,902	117,107	2.5%
PWK HQ (Lease, OpEx, Move Costs)	2,319	119,426	4.6%
Increased Vegetation Management / Maintenance	1,243	120,669	5.7%
Labor Costs	1,163	121,832	6.7%
Hardware/Software Maintenance	474	122,306	7.1%
Wetland Mitigation Costs	415	122,721	7.5%
Building Maint/Rent/Op Ex (non HQ locations)	338	123,059	7.8%
Other PWK-HQ Costs (Maint, Office Serv.)	282	123,341	8.0%
Reduced Transition Service Agreements	(388)	122,953	7.7%
Other	(116)	122,837	7.6%

122,837

# 2009 O&M Budget



# Five-Year Outlook

	2008 7+5 Forecast			2009			2010			2011			2012		
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
(1) Forecasted Prior Year Revenue Requirement		408,003			467,104			523,239			563,643			581,484	
Revenue Requirement due to Capital Program															
(2) Pre-Tax Return on Capital Placed in Service	48,423			34,075			22,243			9,313			8,896		
(3) Depreciation Expense	6,955			9,632			10,935			6,545			2,270		
(4) Project O&M	81			1,497			(449)			(2,487)			212		
(5) Pre-certification Costs	(2,085)			1,520			913			(902)			0		
(6) Total Revenue Requirement due to Capital Program		53,374	113.1%		46,724	110.0%		33,643	106.4%		12,470	102.2%		11,379	102.0%
(7) Operation and Maintenance Expense		3,849	114.0%		8,632	111.9%		6,435	107.7%		4,524	103.0%		4,683	102.8%
(8) Taxes Other than Income		1,878	114.5%		779	112.0%		327	107.7%		846	103.2%		255	102.8%
<b>(9) New Revenue Requirement</b>		<b>467,104</b>	<b>114.5%</b>		<b>523,239</b>	<b>112.0%</b>		<b>563,643</b>	<b>107.7%</b>		<b>581,484</b>	<b>103.2%</b>		<b>597,800</b>	<b>102.8%</b>
(10) 2008 Forecasted True-Up Refund		14,892			(15,476)										
(11) Billed Revenue		<u>481,996</u>			<u>507,763</u>			<u>563,643</u>			<u>581,484</u>			<u>597,800</u>	

	2008 7+5 Forecast		2009		2010		2011		2012	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	186,108	39.8%	209,679	40.1%	225,962	40.1%	231,998	39.9%	238,730	39.9%
(2) Income Taxes	72,155	15.4%	82,659	15.8%	88,619	15.7%	91,897	15.8%	94,060	15.7%
(3) Operations and Maintenance Expense	118,957	25.5%	129,086	24.7%	135,072	24.0%	137,110	23.6%	142,005	23.8%
(4) Precertification Expense	5,469	1.2%	6,989	1.3%	7,902	1.4%	7,000	1.2%	7,000	1.2%
(5) Depreciation	76,109	16.3%	85,741	16.4%	96,676	17.2%	103,221	17.8%	105,492	17.6%
(6) Property and Other Taxes	8,306	1.8%	9,085	1.7%	9,412	1.7%	10,258	1.8%	10,513	1.8%
(7) Total Revenue Requirement	<u>467,104</u>	<u>100.0%</u>	<u>523,239</u>	<u>100.0%</u>	<u>563,643</u>	<u>100.0%</u>	<u>581,484</u>	<u>100.0%</u>	<u>597,800</u>	<u>100.0%</u>
(8) Offsets										
(9) RECB	(24,788)		(41,042)		(51,752)		(58,945)		(70,313)	
(10) Other MISO Revenue	(21,443)		(18,669)		(19,216)		(19,504)		(19,801)	
(11) Other Operating Revenue	(1,295)		(1,267)		(1,267)		(1,267)		(1,267)	
(12) 2006 True-Up Under Collection	6,460									
(13) 2007 True-Up Refund	(4,632)									
(14) 2008 Forecasted True-Up Refund	14,892		(15,476)							
(15) Network Billed Revenue	<u>436,298</u>		<u>446,784</u>		<u>491,408</u>		<u>501,767</u>		<u>506,419</u>	
(16) % Increase		13.0%		2.4%		10.0%		2.1%		0.9%

## Key Points

- 83% of 2009 Revenue Requirement increase due to capital program
- 2009 overall Revenue Requirement of \$523.2M
  - Oct '07 meeting forecasted \$524.4M for 2009
  - Oct '06 meeting forecasted \$524.1M for 2009

# RECB Impact on ATC Zone

- What is the net impact of RECB on the ATC pricing zone?
  - ATC has estimated the annual RECB billings to the ATC zone and credits to ATC's network revenue requirement based on publicly available information in MTEP06-MTEP08 and Attachment O

<b>Net Impact of RECB Projects on ATC Customers</b>			
	ATC Customer's RECB Bills from MISO	ATC Network Service Credits for RECB	Net Savings (Cost) to ATC Customer from RECB
2008	(20,509,963)	24,788,000	4,278,037
2009	(34,980,173)	41,042,000	6,061,827
2010	(45,270,274)	51,752,000	6,481,726
2011	(51,528,559)	58,945,000	7,416,441
2012	(61,066,466)	70,313,000	9,246,534
2013	(66,153,006)	76,479,000	10,325,994
<b>6 Year Total</b>	<b>(279,508,441)</b>	<b>323,319,000</b>	<b>43,810,559</b>

## **Key Point:**

- Includes only projects approved in MTEP06-MTEP08, these numbers will change as new projects are added in future MTEPs





# Capital Investment



# 2009 – Top 10 Projects by Spending Level

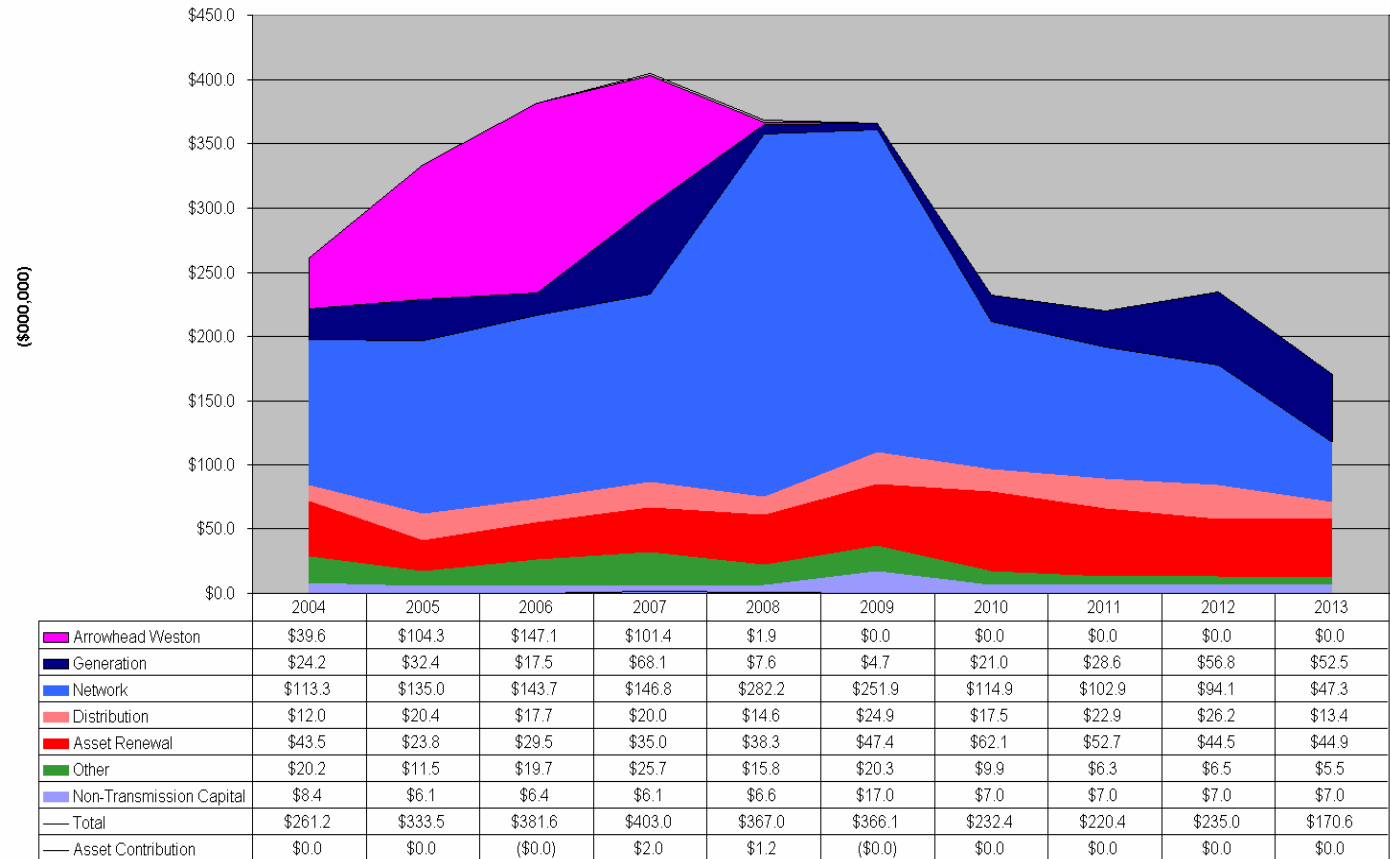
	[A]	[B]	[C]	[D]
	Project	2009 \$ (Millions)	Total Project \$ (Millions)	Reason
1	Paddock - Rockdale 345kV line	75.4	131.4	Network
2	Cranberry-Conover-Iron River-Plains ****	43.9	127.6	Network
3	Werner West - Morgan ****	39.6	132.5	Network
4	Jefferson Co Reliability Project ****	15.4	33.7	Network
5	Rockdale - West Middleton	11.5	179.2	Network
6	Verona - SE Fitchburg	9.5	20.5	Network
7	Arpin - Rocky Run	7.5	23.3	Network
8	Pine River Substation ***	6.9	9.2	Asset Renewal
9	Elm Road Unit 1 - Phase 2 ****	5.6	13.8	Network
10	Montana Distribution Interconnect ****	5.2	7.1	Distribution
11		220.5	678.3	

\*\*\* Project has 2009 In-Service date

## Key Points:

- Total Capital spend for 2009 anticipated to be \$366 Million
- The top 10 projects represent 63% of the 2009 total
- 95% of the Top 10 spend is network reliability related

# Capital History and Forecast by Category

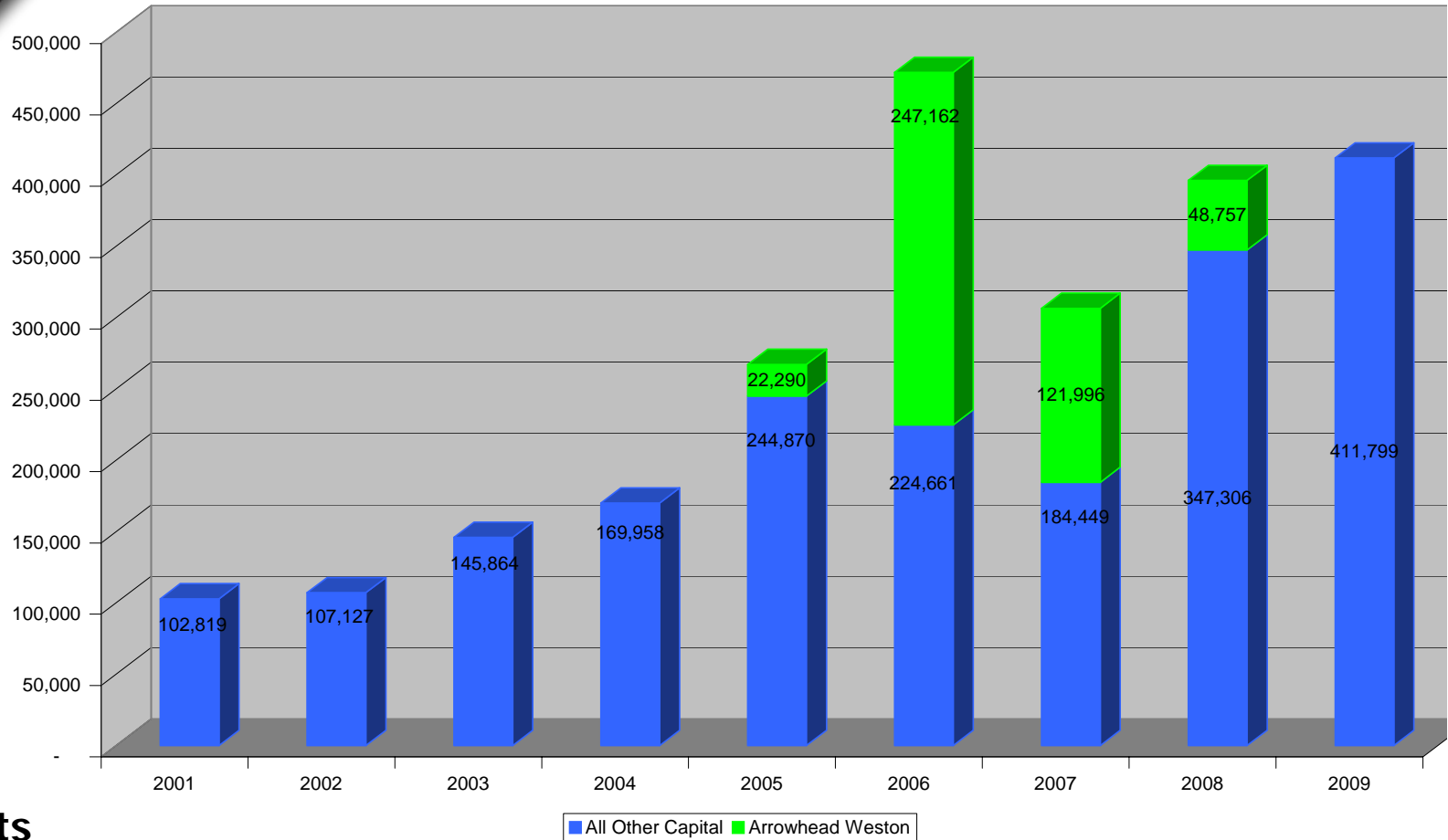


## Key Points:

- Does not include full wind/renewable potential or regional high-voltage backbone potential
- The capital plan peaked in 2007 at slightly over \$400 million
- Arrowhead-Weston was complete in 2008

# Assets Placed In-Service

Placed in service (000's)



## Key Points

- 2009 forecasted to be highest non-AW in-service level in ATC history
- \$2B of new assets placed in service from 2001-2008

# What is Pre-cert?

- Pre-certification expenses are costs that are incurred on a planned project prior to PSCW approval
- Drivers
  - Regulatory requests for studies, multiple route alternatives
  - Legal costs related to filing, interveners, hearings
  - Environmental studies on routes, impacts
  - Engineering work
  - Efforts to educate and gain support of the public
- Some work done “up-front” can create a lower total project cost in the long run

# 2009 Pre-cert Budget

- Highly variable due to uncertainty of intervenor and regulatory actions
  - Current forecasted range : \$3.8M - \$13.9M
- Forecast methodology:
  - 2008 Budget 50% probability based
    - Budget was \$12.4M, current forecast \$4.9M
  - 2009 Budget 25% probability based
    - 2009 Budget = \$7.0M
- Rockdale – West Middleton project will drive majority of upside risk in 2009

# 2009 Pre-cert Budget

	[A]	[B]	[C]	[D]
	Portfolio	Description	Reason	2009 (\$000)
1	East	Milwaukee County	Distribution	\$990
2		Spring Valley	Distribution	\$600
3		Oconomowoc North	Distribution	\$338
4		Shorewood-Cornell Underground 138kV Line	Network	\$188
5	East Total			\$2,116
6	West	Monroe County to Council Creek	Network	\$467
7		Coly Rd - Brick Church Rebuild	Network	\$392
8		Horicon-East Beaver Dam 138 kV Line	Network	\$75
9		White River Substation	Network	\$63
10		Lake Delton - Birchwood 138kV	Network	\$50
11		Loop Nine Springs-Pflaum into Femrite	Network	\$50
12		Brodhead - South Monroe Rebuild	Network	\$5
13	West Total			\$1,102
14	North	Canal-Dunn Road	Network	\$311
15		Kewaunee Substation	Network	\$122
16	North Total			\$433
17	Central	Arnett Road PreCert	Distribution	\$459
18	Central Total			\$459
19	Major Projects - West	Rockdale-West Middleton 345 kV Precert	Network	\$2,485
20		Oregon - Verona	Maintenance	\$270
21		Point Beach Uprates	Network	\$125
22	Major Projects West Total			\$2,879
23	Grand Total			\$6,988

## Key Points:

- \* Budget developed using risk probability methodology
- \* Transmission – distribution interconnections (East portfolio projects) are dependent on customer readiness





Questions?







# Appendix



# Project Category Definitions

<b>Arrowhead-Weston</b>	All work orders related to Arrowhead-to-Weston project
<b>Generation</b>	Transmission facilities (generally stability-related) necessary to interconnect new generation
<b>Network</b>	Projects required to meet the growing loads of our network customers, improve/maintain reliability, and provide access
<b>Distribution</b>	Transmission interconnections for distribution facilities
<b>Protection</b>	Projects for system protection, such as relay improvements
<b>Operations</b>	Projects undertaken for system operation purposes
<b>Other</b>	Infrastructure relocation, asset acquisitions and land/easement purchase for future use
<b>Asset Renewal</b>	Projects on existing infrastructure undertaken due to physical condition, such as line repairs and pole replacements
<b>Non-Transmission Capital</b>	Projects related to general plant, such as software, hardware, office furniture, and facilities remodeling