



ATC 2010 Budget

Customer Meeting

October 7, 2009





Welcome & Overview

- Welcome
 - Introductions – Tom Finco
- Budget Overview – Kevin Szalacinski
- Capital Investment – Karen Miller
- Pre-certification – Karen Miller
- Q&A - All
- Summary & Close – Tom Finco



2010 Financial Overview

- Capital
 - \$220M of capital expenditures
 - \$283M to be placed into service
- O&M
 - Total O&M budget of \$129.4M
 - No additions to headcount
- Pre-cert
 - Pre-cert budget is \$12.9M
 - Madison-LaCrosse project will drive majority of spending in 2010 - \$8.4M



Key 2010 Budget Risks

- Point to Point revenues
- Regulatory compliance (State & Federal)
 - Increasing requirements
 - Uncertainty of interpretations of standards
- Employee benefit costs
- Variability of pre-certification expense
- Financing risks
- Other unanticipated costs
 - Abnormal weather, storm damage, etc.

O&M Change

2009 Budget	123,256
<u>Change from 2009</u>	
Pewaukee Headquarters Full Year Impact (Lease/OpEx)	2,320
Base Labor Cost Increase	1,895
Reduced Expected Turnover	956
Increased Medical & Post Retirement Benefits	563
Vegetation Management	352
Estimated Labor Cost Increase on Maintenance Contractors	550
Maintenance Work Plan Efficiencies	(314)
Other	(201)
	<hr/>
	6,121
2010 Budget	<u><u>129,377</u></u>

Key Points

- Operations & Maintenance expense, excluding the change in the headquarters expense (lease & operating), increased 3.2%
- 1.8% increase due to full year effect of new the new headquarters



O&M Expenses

O&M Break Down

<u>Expense Group</u>	<u>Budget Amt</u> <u>\$(Millions)</u>
Salaries and Benefits	59.4
Maintenance Work Plans	19.4
Facilities	10.2
Vegetation Management	9.0
IT/Telecomm	8.5
Contractor/Outside Services	8.3
Other	5.0
Employee Expenses	4.3
Asset Rental	3.6
Insurance	1.7

Total 2010 Operations & Maintenance = \$129.4M

Five-Year Outlook

	2009 6/6 Forecast			2010			2011			2012			2013		
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
(1) Forecasted Prior Year Revenue Requirement		466,571			524,587			565,992			582,059			607,371	
Revenue Requirement due to Capital Program															
(2) Pre-Tax Return on Capital Placed in Service	34,893			16,904			10,722			19,873			14,331		
(3) Depreciation Expense	9,082			11,499			5,435			3,408			4,206		
(4) Project O&M	2,095			(1,362)			1,286			(2,965)			(993)		
(5) Pre-certification Costs	2,511			6,340			(5,892)			0			0		
(6) Total Revenue Requirement due to Capital Program		48,581	110.4%		33,381	106.4%		11,551	102.0%		20,316	103.5%		17,544	102.9%
(7) Operation and Maintenance Expense		8,467	112.2%		5,832	107.5%		4,557	102.8%		4,688	104.3%		4,852	103.7%
(8) Taxes Other than Income		968	112.4%		2,192	107.9%		(41)	102.8%		309	104.3%		320	103.7%
(9) New Revenue Requirement		524,587	112.4%		565,992	107.9%		582,059	102.8%		607,371	104.3%		630,086	103.7%
(10) 2007 RECB True-up		(4,130)			0			0			0			0	
(11) 2008 Network True-up		(16,442)			0			0			0			0	
(12) 2008 RECB True-up		0			(847)			0			0			0	
(13) 2009 Forecasted Network True-up		(4,276)			0			4,334			0			0	
(14) 2009 Forecasted RECB True-up		(1,508)			0			1,528			0			0	
(15) Billed Revenue		498,231			565,145			587,921			607,371			630,086	

Five-Year Outlook

	2009 6/6 Forecast		2010		2011		2012		2013	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	210,493	40.1%	222,386	39.3%	229,238	39.4%	243,555	40.1%	254,498	40.4%
(2) Income Taxes	83,490	15.9%	88,488	15.6%	92,375	15.9%	97,948	16.1%	101,353	16.1%
(3) Depreciation	84,916	16.2%	96,415	17.0%	101,850	17.5%	105,259	17.3%	109,465	17.4%
(4) Capital Costs	378,900	72.2%	407,289	72.0%	423,463	72.8%	446,761	73.6%	465,316	73.8%
(5) Operations and Maintenance Expense	122,961	23.4%	128,808	22.8%	133,348	22.9%	138,018	22.7%	142,852	22.7%
(6) Project O&M	6,952		5,590		6,876		3,911		2,917	
(7) Precertification Expense	6,552	1.2%	12,892	2.3%	7,000	1.2%	7,000	1.2%	7,000	1.1%
(8) Property and Other Taxes	9,222	1.8%	11,413	2.0%	11,372	2.0%	11,681	1.9%	12,001	1.9%
(9) Operating Expenses	145,687	27.8%	158,703	28.0%	158,596	27.2%	160,610	26.4%	164,770	26.2%
(10) Total Revenue Requirement	524,587	100.0%	565,992	100.0%	582,059	100.0%	607,371	100.0%	630,086	100.0%
(11) % Change in Revenue Requirement		12%		8%		3%		4%		4%
Offsets										
(12) RECB	(42,058)		(47,579)		(54,704)		(64,385)		(64,385)	
(13) Other MISO Revenue	(14,775)		(16,361)		(16,384)		(16,406)		(16,406)	
(14) Other Operating Revenue	(1,217)		(1,267)		(1,267)		(1,267)		(1,267)	
(15) 2008 Network True-up	(16,442)		0		0		0		0	
(16) 2009 Forecasted Network True-up	(4,276)		0		4,334		0		0	
(17) Network Billed Revenue	445,818		500,785		514,039		525,313		548,028	
(18) % Increase		2.2%		12.3%		2.6%		2.2%		4.3%
(19) CapEx	385,182		219,699		272,625		260,712		194,487	
(20) % Increase Related to Capital Program		84%		81%		72%		80%		77%

Key Points

- 2010 overall Revenue Requirement of \$566.0M is consistent with forecast of \$563.6M presented to customers in October 2009 (<1/2% change)



Network Billing Revisions

- Beginning with the 2010 billing year, ATC will be changing the measurement period for load ratio share from January-December to September-August
 - Ex. 2010 load ratio share will be based on peaks for the September 2008 to August 2009 period
- This methodology will be used to allocate the revenue requirement for both the October 1, rate posting and the January actual billings
- This change was made to enhance the predictability of our network charges to our customers
- This change is revenue neutral to ATC

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 the new Attachment GG Methodology and publicly available information in MTEP06-MTEP08 and Attachment O

Net Impact of RECB Projects on ATC Customers			
	ATC Customer's RECB Bills from MISO	ATC Network Service Credits for RECB	Net Savings (Cost) to ATC Customer from RECB
2010	(41,146,339)	\$ 47,579,472	6,433,133
2011	(48,127,860)	\$ 54,703,573	6,575,712
2012	(56,355,212)	\$ 64,385,126	8,029,914
2013	(60,914,539)	\$ 66,305,736	5,391,197
2014	(63,600,451)	\$ 69,451,515	5,851,064
5 Year Total	(270,144,401)	302,425,421	32,281,020

Key Point:

- Includes only projects approved in MTEP06-MTEP08; these numbers will change as new projects are added in future MTEPs
- New Attachment GG Methodology effective in 2010 decreased the Net Savings to ATC Customers approximately \$400k in 2010



Capital Investment



2010 – Top 10 Projects by Spending Level

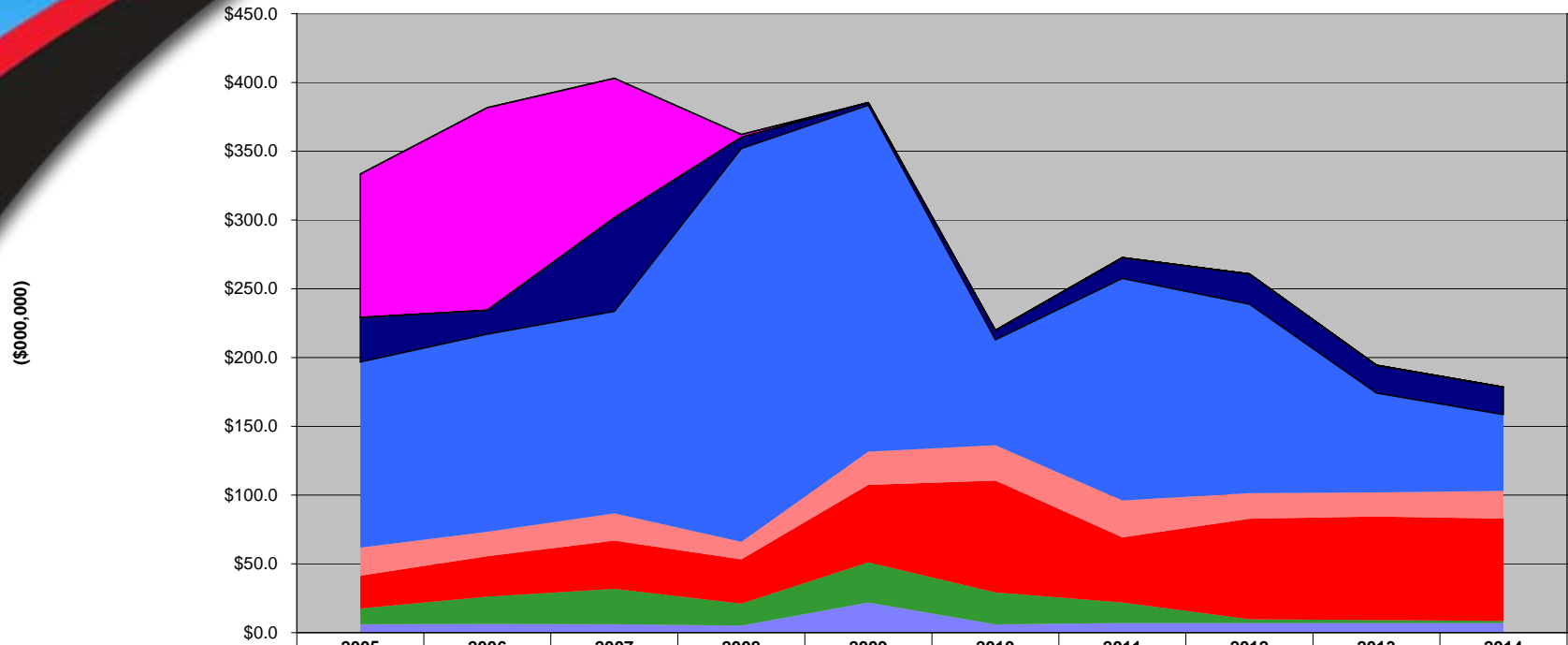
	[A]	[B]	[C]	[D]	[E]	[F]
	Project	2010 \$ (Millions)	Total Project \$ (Millions)	Reason	2010 Status (at 1/1/10)	Key Benefits
1	Rockdale - West Middleton	22.5	219.0	Network	Engineering	NERC Compliance Reduce System Losses
2	Cranberry-Conover-Iron River-Plains ****	10.8	111.0	Network	Construction	NERC Compliance
3	Roberts - Nine Mile Clearance Issues & Reliability Performance	8.4	20.2	Asset Renewal	Engineering	NEC Compliance Lightning Reliability & Performance Customer Interconnection
4	Nine Mile - Pine River, T-D (ESE)	8.1	25.7	Distribution	Engineering	Maintain Reliability
5	Paddock - Rockdale ****	5.6	123.2	Network	Construction	Reduce System Congestion Reduce System Losses
6	Kewaunee SS Transformer Add ****	5.2	5.8	Network	Construction	Improve Nuclear Plant Safety Improve Maintenance Outage Flexibility
7	Communications Reliability Project	5.0	33.7	Network	Engineering	Improved SCADA Communications Improved Relay Performance Improved SOC to SOC Connectivity
8	Shorewood - Cornell Underground ****	4.8	6.0	Network	Engineering	Reduce Load At Risk
9	Arpin - Rocky Run ****	4.7	25.4	Network	Construction	Reduce Sustained Outages Capital & O&M Savings
10	Ellinwood Substation Improvements	3.7	5.0	Asset Renewal	Engineering	End of Life Equipment Maintain Reliability
11		78.8	575.0			

**** Project has 2010 In-Service date

Key Points

- Total transmission capital spend for 2010 anticipated to be \$220 Million
- Shift in capital has occurred as large projects are being completed
 - The top 10 projects only represent 36% of the 2010 total
 - This compares to 63% in 2009 and 62% in 2008

Capital History and Forecast by Category



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Arrowhead Weston	\$104.3	\$147.1	\$101.4	\$2.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Generation	\$32.4	\$17.5	\$68.1	\$8.2	\$1.8	\$7.0	\$15.2	\$22.0	\$20.3	\$20.0
Network	\$135.0	\$143.7	\$146.8	\$286.0	\$252.0	\$76.6	\$161.4	\$137.3	\$72.2	\$55.5
Distribution	\$20.4	\$17.7	\$20.0	\$12.6	\$24.1	\$25.7	\$26.8	\$18.6	\$17.6	\$20.1
Asset Renewal	\$23.8	\$29.5	\$35.0	\$32.3	\$56.3	\$81.4	\$47.3	\$73.1	\$75.3	\$74.4
Other	\$11.5	\$19.7	\$25.7	\$15.9	\$29.1	\$23.2	\$15.0	\$2.7	\$2.1	\$1.5
Non-Transmission Capital	\$6.1	\$6.4	\$6.1	\$5.1	\$21.9	\$6.0	\$7.0	\$7.0	\$7.0	\$7.0
Total	\$333.5	\$381.6	\$403.0	\$362.1	\$385.3	\$219.7	\$272.6	\$260.7	\$194.5	\$178.5

Key Points:

- Asset Renewal increases in 2009-2011 driven by line rebuilds identified to improve system reliability and performance of poorly performing equipment
- Does not include full wind/renewable potential nor regional high-voltage backbone potential
- 2010 capex was estimated at \$232.4 million in the October 2009 customer presentation



2010 Pre-cert Budget

- Highly variable due to uncertainty of intervenor and regulatory actions
- Forecast methodology:
 - 2009 Budget 25% probability based
 - Budget was \$6.7M; current forecast \$6.0M
 - 2010 Budget 25% probability based
 - 2010 Budget = \$12.9M
- Madison – LaCrosse project will drive majority of upside risk in 2010

2010 Pre-cert Budget

	[A]	[B]	[C]
	Portfolio	Description	2010 (\$000) Budget
1	East	Control Center Fiber Link	\$560
2		Milwaukee County	\$525
3		Spring Valley - Lake Geneva	\$200
4		Other Projects	\$41
5	East Total		\$1,326
6	West	Dyckesville - Sawyer Rebuild	\$1,200
7		Coly Rd - Brick Church Rebuild	\$455
8		Monroe County to Council Creek	\$445
9		White River Substation	\$63
10		Inland Line Rebuild	\$50
11	West Total		\$2,213
12	North	Woodmin - Clear Lake	\$560
13		Straits - Pine River Rebuild	\$287
14		Other Projects	\$129
15	North Total		\$976
16	Major Projects	Madison - LaCrosse	\$8,377
17	Major Projects Total		\$8,377
18	Grand Total		\$12,892

Key Points:

- Highly variable due to uncertainty of intervenor and regulatory actions
- Madison-LaCrosse project will drive majority of spending in 2010 - \$8.4M



Questions?





Appendix





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

Project Category Definitions

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