



2012 Budget

Customer Presentation
October 10, 2011

Helping to **keep the lights on**,
businesses running and communities strong®





Welcome & Overview

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

Budget Philosophy

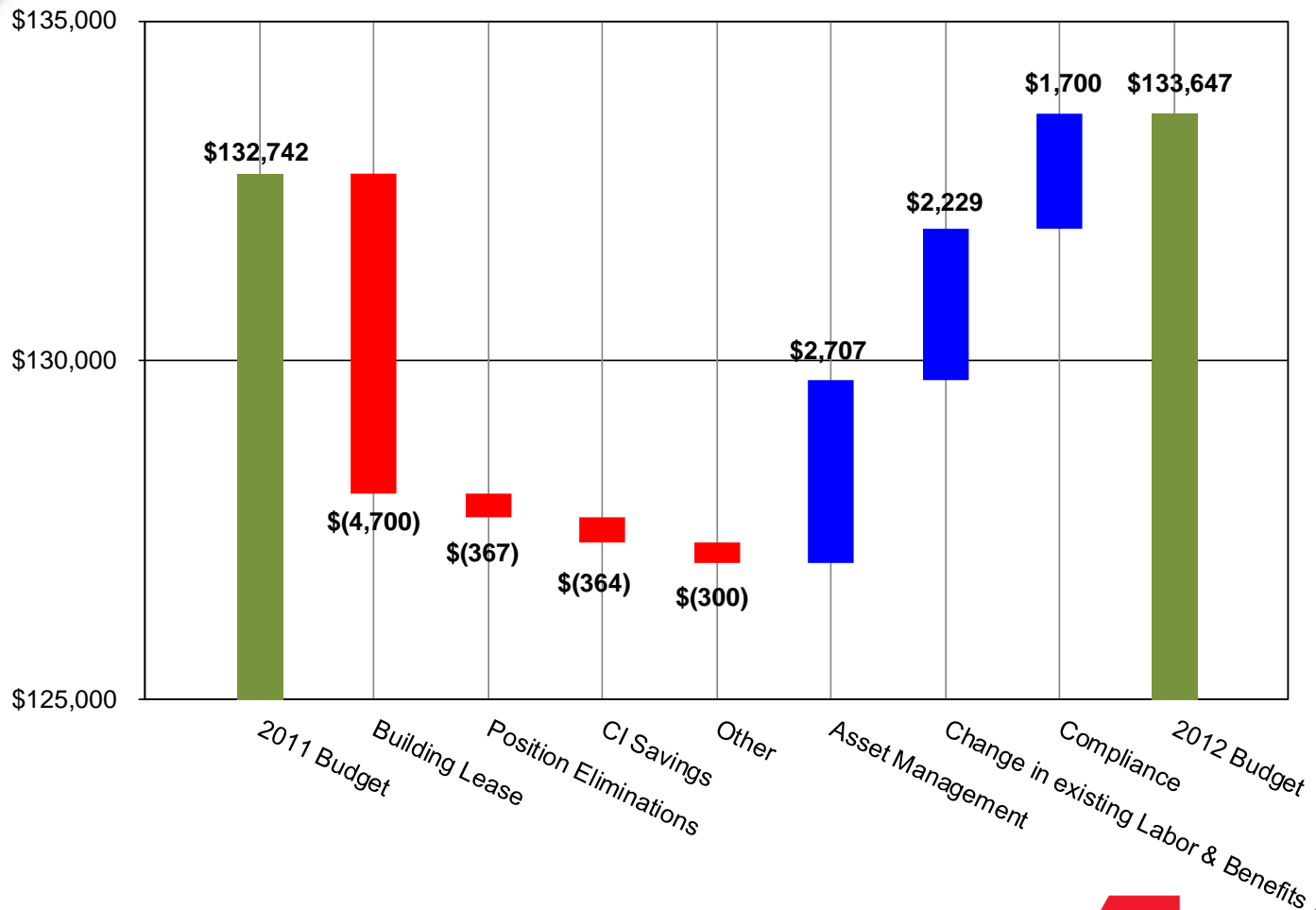
- Keep rates as low as possible, even with formula rates
- Must comply with FERC/NERC reliability standards or risk the potential of significant penalties for outages/violations
- Focus on reducing costs through continuous improvement and other cost savings efforts

2012 Budget Highlights

- Total O&M budget remains relatively flat from 2011 with a 0.7% increase (\$133.6M vs. \$132.7M in 2011)
 - ATC is in negotiations to purchase the Pewaukee headquarters building
 - Upon mutual agreement of the purchase price, a Certificate of Authority will be filed
 - Budget assumes June 1 ownership of ATC's headquarters resulting in \$4.7M O&M reduction in 2012
 - Asset maintenance increase of \$3.1M (~10%)
 - Additional compliance expense related to changing NERC reliability standards (budgeted at \$1.7M)
 - Assumes 3% salary increase
 - Consistent with market data
 - Helps to address retention concerns
 - Cost reduction of approximately \$0.7M from continuous improvement efforts and position eliminations

2012 vs. 2011 O&M

(\$000's)





Compliance



NERC Reliability Standards

- Total increase in compliance cost budgeted = \$1.7M
- Revised mandatory reliability standards continue to add operational and compliance requirements that must be fulfilled
 - Increase in compliance and operational staffing (~ \$1.0M)
 - Increase in non-labor expense (~ \$0.7M)
 - Examples:
 - PRC-005 - Protection System Maintenance Standard
 - CIP-002-4 - Protection of Critical Cyber Asset
 - NERC Alerts/self reports



Asset Management



Maintenance Methodology

- ATC employs a performance based maintenance approach on key assets versus a time-based approach
- Maintenance intervals determined by
 - equipment performance
 - best industry practices
 - condition
 - equipment manufacturer
 - importance
 - risk
- “Repair versus Replace” decisions are made with long term economics in mind

Reliability Performance Benchmarking

*ATC's goal is to be in the Top Decile of reliability performance
We are currently performing in the Top 17% of the SGS Benchmarking Study*

Voltage Level	# of Circuits	2010	2009	2008	2007
All Voltages	739	1st Quartile	1st Quartile	1st Quartile	1st Quartile
69kV	311	1st Quartile	Top Decile	1st Quartile	1st Quartile
100-161kV	380	Top Decile	Best in Class	Top Decile	Top Decile
230kV	2	N/A	Best in Class	Best in Class	4th Quartile
345kV	46	Top Decile	2nd Quartile	2nd Quartile	2nd Quartile
Total Forced Outages		483	379	501	521

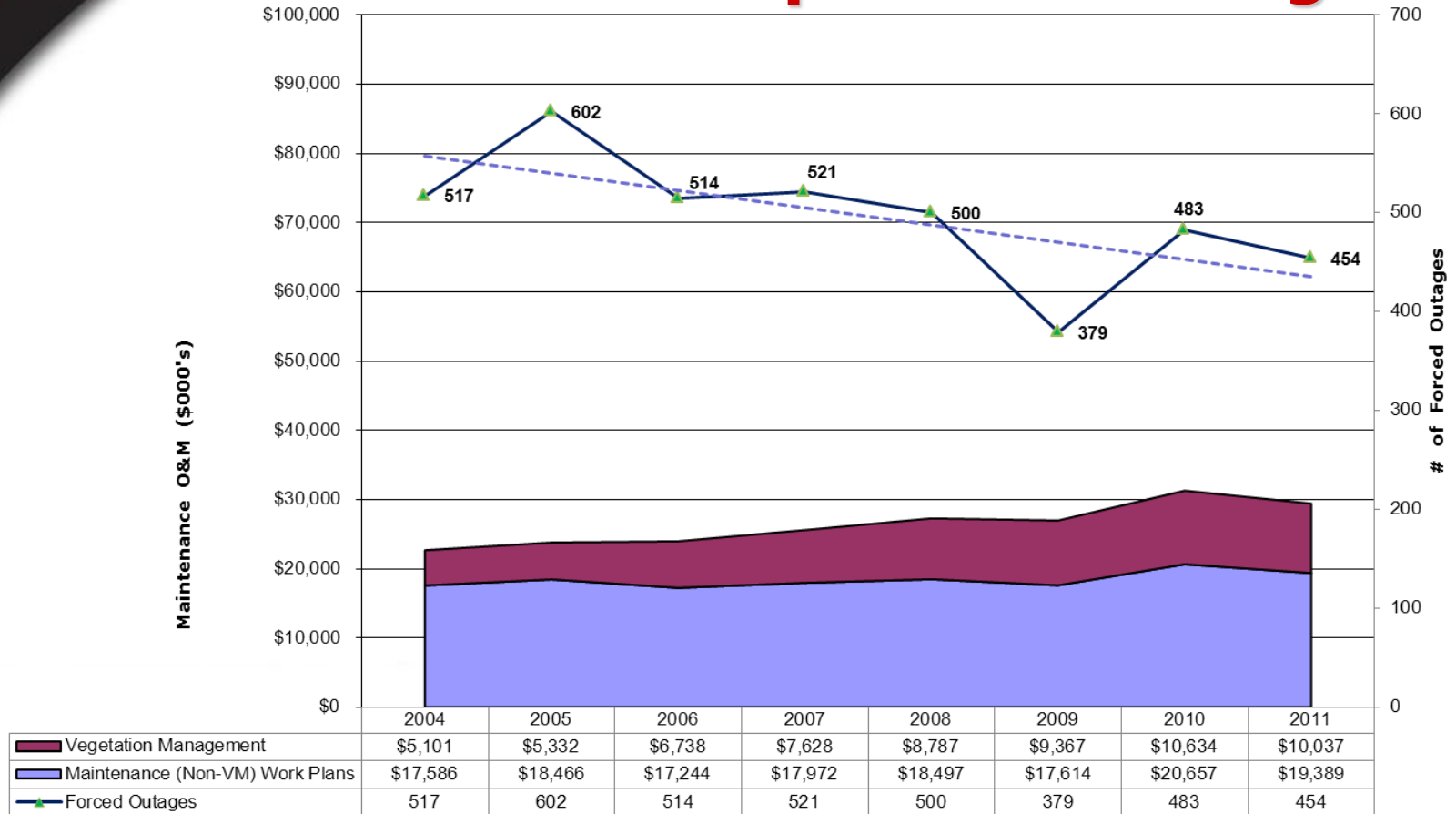
- Source: SGS Benchmarking Study (average 25 systems and 51% of US transmission grid)
- ATC rankings based on average circuit outages

2012 Work Plan

Cost Increases

Category	Description	Increase over 2011 Budget
Vegetation Management	VM Backlog Management <ul style="list-style-type: none"> - Reduce VM Backlog - Mitigate backlog - Hot-spot lines 	\$1.2M
Transmission Line Maintenance	T-Line corrective maintenance backlog reduction <ul style="list-style-type: none"> - Reduce structure painting program backlog - Reduce corrective maintenance backlog in southern Wisconsin 	\$0.6M
Transmission Line Inspections and Patrols	More T-line preventive maintenance due in 2012 cycle <ul style="list-style-type: none"> - Ground Patrols (+ 240 miles) - Ground Line Inspections (+ 6,900 structures) - Helicopter fuel increases for patrols 	\$0.3M
Substation Maintenance	More preventive maintenance due in 2012 cycle <ul style="list-style-type: none"> - Breakers (+ 50) - Transformers (+ 25) Reduce SS painting program backlog Manage increases in SS Corrective Maintenance	\$1.0M
Total		\$3.1M

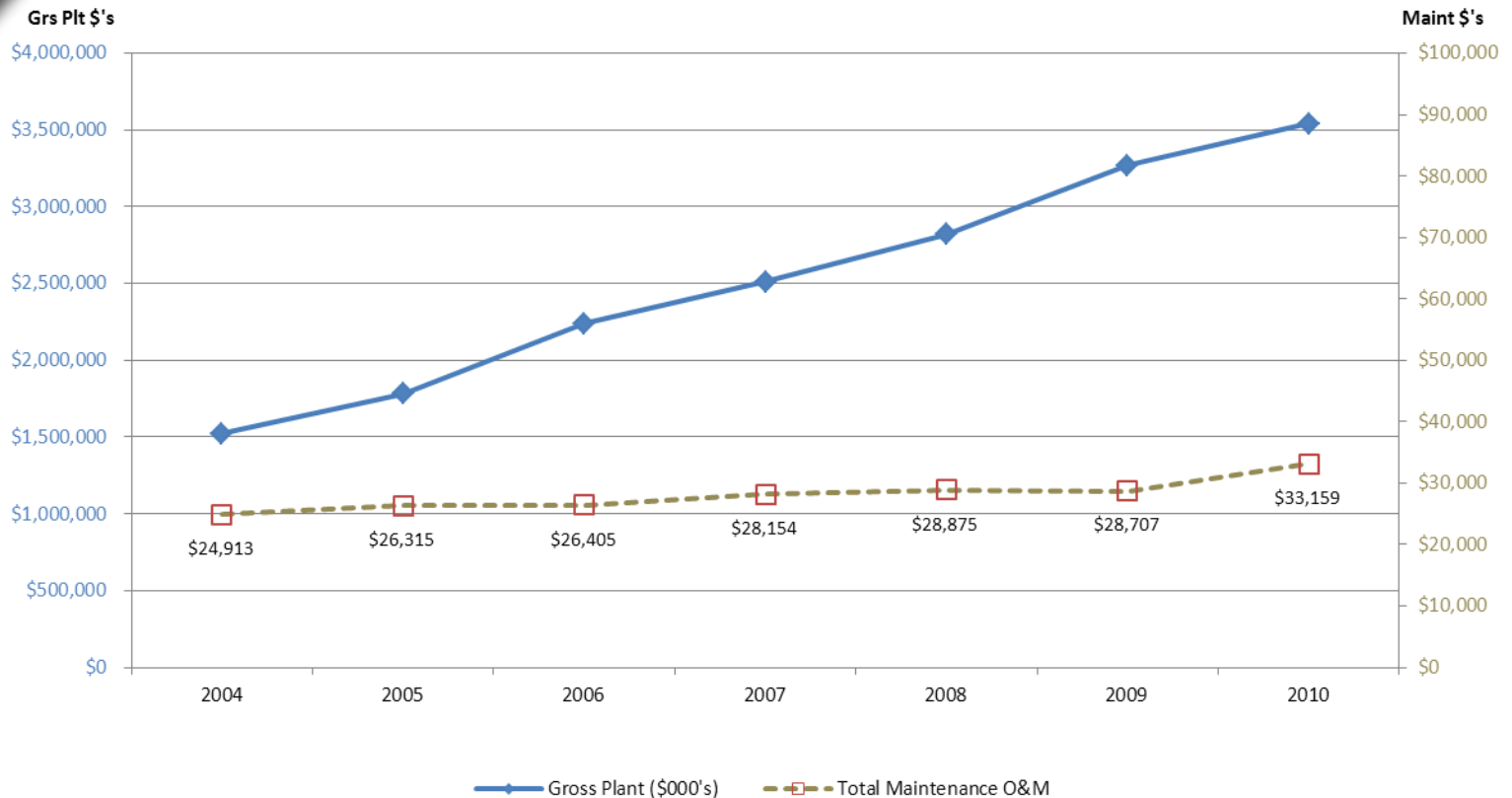
Maintenance Spend and Outages



Key Points:

- Non-VM work remains relatively flat and system reliability is improving
- However, as the infrastructure continues to both grow and age, additional funding will be needed to maintain reliability

Growth in ATC Asset Base



Key Point

- Growth in assets has outpaced growth in maintenance spend



Key 2012 Budget Risks

- PHQ acquisition
 - Certificate of Authority is required
 - Assumes June 1, 2012 ownership date
- Further NERC requirements with respect to mandatory reliability standards and other compliance standards could drive additional O&M cost
 - CIP driven security enhancements
 - PRC-005 – protection system maintenance
 - NERC Alerts/self reports
 - FAC-008 - actual field conditions in determination of facility ratings (LIDAR)
- Employee costs
 - Medical
 - Postretirement health
- Other unanticipated costs
 - Extreme weather, major storm damage, etc.

Five-Year Outlook

	2011 6+6 Forecast		2012 Budget		2013 Forecast		2014 Forecast		2015 Forecast	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	219,992	38.8%	230,867	38.9%	246,073	39.3%	259,260	39.4%	274,093	40.0%
(2) Income Taxes	87,149	15.4%	94,991	16.0%	100,372	16.0%	104,846	15.9%	110,026	16.1%
(3) Depreciation	100,382	17.7%	106,376	17.9%	112,113	17.9%	118,723	18.0%	122,845	17.9%
(4) Capital Costs	407,523	71.9%	432,234	72.8%	458,557	73.2%	482,828	73.4%	506,965	74.0%
(5) Operations and Maintenance Expense	131,335	23.2%	133,186	22.4%	139,666	22.3%	144,556	22.0%	149,618	21.9%
(6) Project O&M	5,821		5,523		3,730		3,801		4,910	
(7) Precertification Expense	9,332	1.6%	8,768	1.5%	10,650	1.7%	12,705	1.9%	8,486	1.2%
(8) Property and Other Taxes	12,994	2.3%	13,967	2.4%	13,955	2.2%	14,354	2.2%	14,768	2.2%
(9) Operating Expenses	159,483	28.1%	161,445	27.2%	168,002	26.8%	175,417	26.6%	177,783	26.0%
(10) Total Revenue Requirement	567,007	100.0%	593,679	100.0%	626,559	100.0%	658,245	100.0%	684,747	100.0%
Offsets										
(11) RECB *	(53,937)		(65,418)		(76,947)		(88,085)		(98,055)	
(12) Other MISO Revenue	(17,425)		(18,090)		(18,115)		(18,139)		(18,163)	
(13) Other Operating Revenue	(1,264)		(1,298)		(1,298)		(1,298)		(1,298)	
(14) 2009 Network True-up	979		0		0		0		0	
(15) 2010 Forecasted Network True-up	(11,063)		0		0		0		0	
(16) 2011 Forecasted Network True-up	0		(7,961)		0		0		0	
(17) Network Billed Revenue	484,297		500,911		530,200		550,723		567,231	
(18) CapEx	266,938		309,483		272,396		253,395		327,347	
(19) % Increase Related to Capital Program	53%		89%		80%		83%		79%	

* Amount represents credit to ATC's total revenue requirement for ATC's expected portion of RECB revenues received from MISO

Key Points

- 2012 overall Revenue Requirement of \$593.7M represents a < 1% change from \$599.0M presented to customers in October 2010



RECB Impact on ATC Zone

- ATC provided a projection of transmission charges for transmission service provided under Schedules 9 - Network integrated Transmission Service and 26 - Network Upgrade Costs from Expansion Planning or RECB 1 for 2012 of \$49.7M compared to an estimate provided by MISO of \$70.5M
- ATC contacted MISO to point out some key differences which we believe are causing the difference in projections
 - Cost estimates on RECB projects
 - MISO used an assumption of 75% spending on CWIP
 - Depreciation of CWIP
 - Inclusion of true-ups
- ATC estimates for 2012 approximately 90% of RECB costs is driven by ATC projects while the remaining 10% is driven by projects outside of the ATC pricing zone
- ATC estimates total RECB costs within the ATC pricing zone for 2013 of \$63.5M
- RECB projections will be updated and posted to MISO's MTEP webpage every June and December
 - <https://www.midwestiso.org/Planning/TransmissionExpansionPlanning/Pages/TransmissionExpansionPlanning.aspx>
- ATC customers will need to rely more on the MISO estimate over time as the composition of regionally cost shared projects will change



Capital Investment

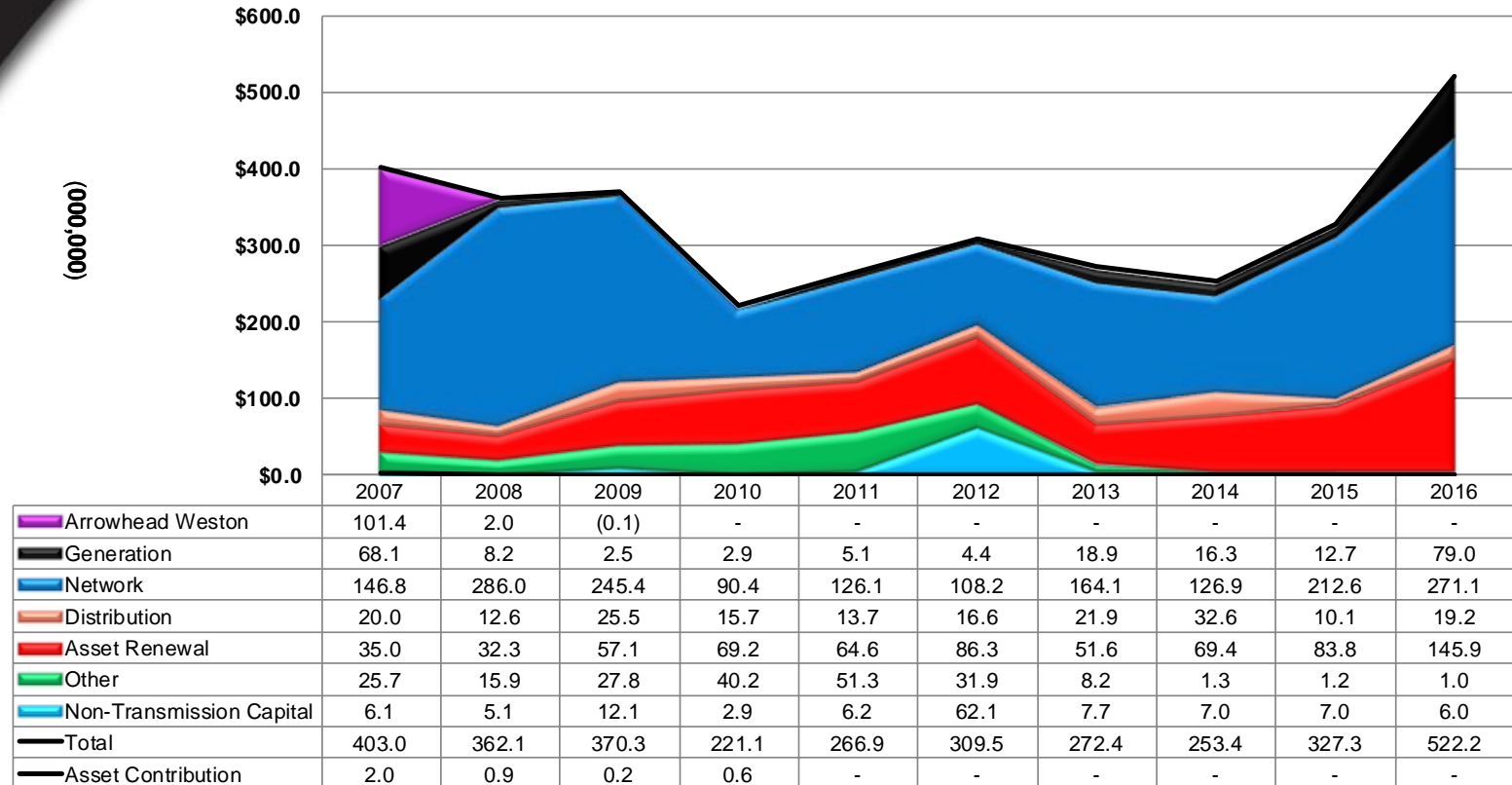
2012 – Top 5 Projects by Spending Level

[A]	[B]	[C]	[D]	[E]	[F]
Project	2012 \$ (Millions)	Total Project \$ (Millions)	Reason	2012 Status (as of 1/1/2012)	Key Benefits
1 Rockdale - West Middleton	46.4	195.7	Network Reliability	Construction	NERC Compliance Reduce System Losses Improve Operating Flexibility Supports Load Growth
2 Straits Substation - Install Power Flow Control	28.8	94.5	Network Reliability	Engineering	Improve Operational Flexibility Supports Load Growth
3 Pleasant Prairie Substation Bus Reconfiguration	20.9	33.5	Asset Renewal	Engineering	Improve Operating Flexibility Maintain Reliability
4 L6904-6905 Rebuild 69kV to 138kV	12.5	36.4	Network Reliability	Engineering	Improve Operational Flexibility Supports Load Growth
5 Woodmin-Clear Lake Distribution Interconnection	5.9	19.5	Distribution Interconnect	Construction	Customer Interconnection
	114.5				

Key Points

- Total transmission capital spend for 2012 anticipated to be \$259.0M (excludes assumed PHQ building purchase)
- The top 5 projects represent 44% of the 2012 total. This compares to 47% in 2011.

Capital History and Forecast by Category



Key Points

- 2012 capex was estimated at \$271.4M in the Oct. 2010 customer presentation

2012 Pre-cert Budget

[A]		[B]	
Project		2012 (\$000)	
1	Badger Coulee	\$3,911.0	
2	Barnhart Branch River	\$1,571.5	
3	DYKY21 Line	\$771.1	
4	PLP-Zion Energy Center	\$450.4	
5	Milwaukee County T-D	\$422.5	
6	Dubuque - Cardinal	\$400.0	
7	Arnold Substation	\$390.9	
8	Arcadian-Waukesha Rebuild	\$362.3	
9	Spring Valley-South Lake Geneva	\$288.6	
10	Chandler-18th Road	\$199.9	
		\$8,768.3	

Key Points

- Badger Coulee comprises 45% of Pre-cert budget



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