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2015 Budget

Stakeholder Presentation

October 9, 2014

Welcome & Overview

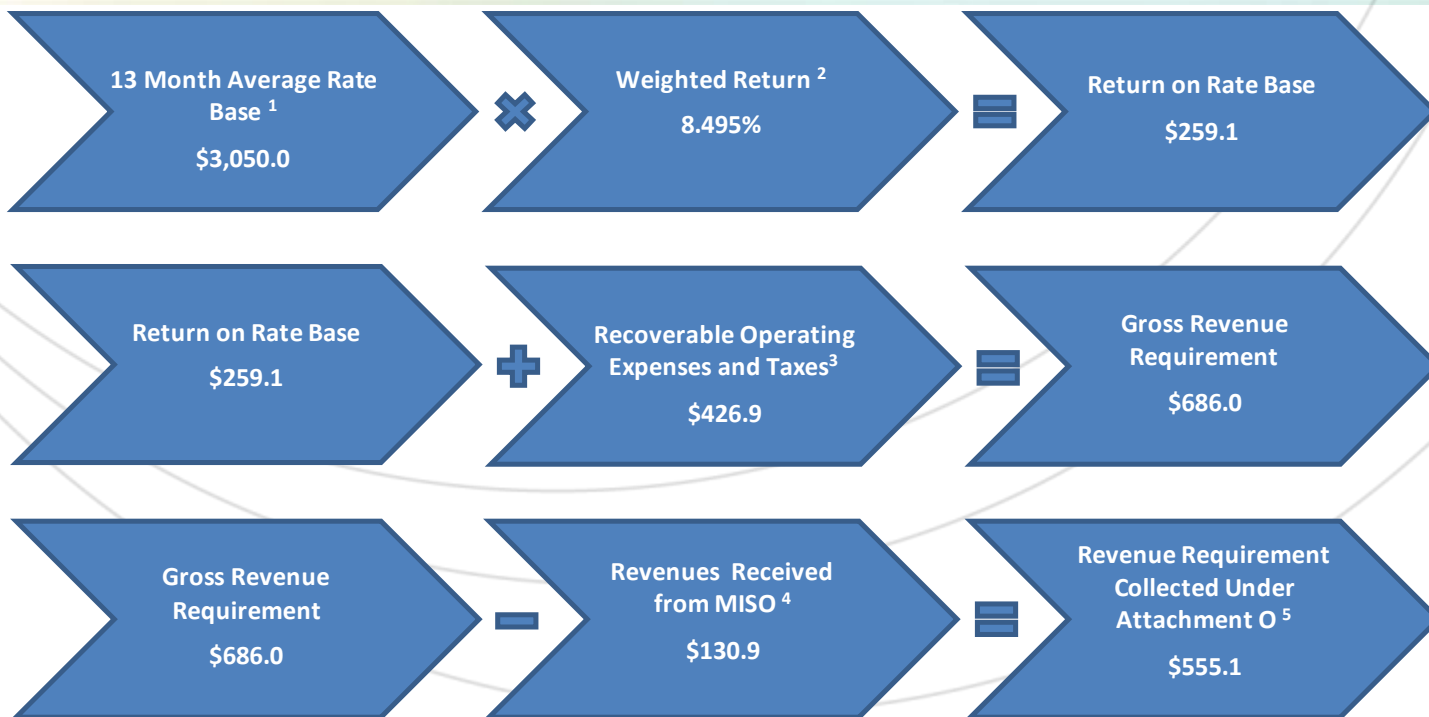
- Welcome - Randy Karls
- Budget Overview – Kevin Szalacinski
 - ATC – Network
 - MISO – Other charges
- Asset Management – Mark Davis
- Capital Investment – Matt Weber
- Pre-certification – Matt Weber
- Q&A - All
- Summary & Close – Randy Karls

Budget Highlights

- 2015 revenue requirement is \$686M, a 4.5% increase over 2014
- Network billed revenue for 2015 is \$545.3M and is approximately \$26M lower than last year's projection
 - \$11M true-up refunds
 - \$7M higher MISO revenues
 - \$5M change in rate base
 - \$4M lower operating expenses
- 2015 O&M budget increase is 5.9% (Board approved 2014 vs. proposed 2015) Key drivers:
 - Internal and contractor labor increases
 - Asset management
 - Vegetation management
 - Continuation of line rating program
 - Substation maintenance
 - IT and software upgrades
- Does not reflect any change due to ROE complaint filed against ATC and other MISO TOs

2015 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 Includes O&M, precertification, depreciation and taxes collected in rates on behalf of taxable owners

⁴ This includes revenues collected under Schedule 26 (RECB), Schedule 26-A (MVP), Schedule 1 and other credits such as Point-to-Point revenues

⁵ Actual billed revenue will be further reduced by \$9.8M for prior year true-ups

Network Revenue Requirement

(\$Thousands)

	2014 6+6 Forecast	2015 Budget	2016 Forecast	2017 Forecast	2018 Forecast
Return on Rate Base	\$ 246,368	\$ 259,101	\$ 279,847	\$ 301,772	\$ 328,542
Income Taxes	103,641	108,540	117,190	125,024	135,257
Depreciation	123,815	132,069	139,251	150,739	156,281
Operating Expenses ¹	182,813	186,245	193,299	193,495	199,828
Offsets					
RECB (Schedule 26)	(86,623)	(94,232)	(99,690)	(104,685)	(113,437)
MVP (Schedule 26-A)	(10,361)	(10,495)	(16,287)	(28,755)	(40,735)
Point-to-Point (Schedule 7 & 8)	(9,316)	(9,300)	(9,300)	(9,300)	(9,300)
Other Trans Service (Schedule 1)	(15,483)	(15,505)	(15,544)	(15,583)	(15,622)
Other Offsets	3,489	(1,300)	(1,300)	(1,300)	(1,300)
Network Revenue Requirement	538,344	555,124	587,465	611,406	639,514
Network True-up Adjustment	(10,375)	(9,854)	-	-	-
Network Billed Revenue	\$ 527,969	\$ 545,270	\$ 587,465	\$ 611,406	\$ 639,514
Network Billed Revenue (Oct 2013)	\$ 527,969	\$ 571,046	\$ 589,961	\$ 609,871	
Network Billed Change from Oct 2013	\$ (0)	\$ (25,776)	\$ (2,496)	\$ 1,536	

1. Includes O&M, Project O&M, Precertification and Taxes other than Income Taxes

2015 vs. 2014 O&M

(\$Millions)

2014 O&M Budget	\$ 135.7
Labor & benefits	2.8
Staffing additions	0.7
Contractor labor increases	1.0
Vegetation management (volume component)	0.3
Line ratings studies	0.7
Substation maintenance (NERC requirements)	0.7
Hardware / software system expansion and upgrades	0.8
Substation energy usage cost increases	0.2
Fees, memberships, facilities & other	0.7
	<hr/>
2015 O&M Budget	\$ 143.6

Asset Management

2015 Budget Highlights

Asset Management's 2015 O&M budget increase is 7.6%:

- Covers LDC and Contractor labor increases (3.0%)
- Allows execution of revised testing procedures – NERC requirements
- Continues the 2014/15 Vegetation Management Work Plan
- Supports the 2015 Line Ratings Study Program

2015 Proposed Budget vs 2014 Budget – Asset Management

(\$000's)

\$51,986

Asset Management 2014 O&M

991	Contractor labor increases
700	NERC required substation maintenance
327	Additional vegetation management
149	Defective transformer bushing replacements
985	Internal labor increase
714	Line ratings & other initiatives
83	Miscellaneous

\$3,949

Total Change

\$55,935

Asset Management 2015 O&M



Compliance

PRC-005: NERC Standard for Protection System Maintenance

- PRC-005 Version 1: (currently in effect)
 - Requires ATC to develop and implement a Protective System Testing Program
 - ATC's current program for approximately 5,500 bulk electric system relays is largely performance based
- PRC-005 Version 3 (anticipated effective date early 2015)
 - Prescribes testing intervals (no scheduling flexibility)
 - Includes new equipment testing (breakers, control circuitry, circuit switchers, transformers, etc..)
 - Will require an estimated 200 additional system outages for testing
 - Each test will require more labor

Combined impact to ATC labor and contractors is \$0.7M to support compliance.



Vegetation Management Program

- Manage safety, reliability and compliance
 - Includes NERC FAC-003 -Transmission Vegetation Management (>200kV)
- Historical spend:
 - \$11.5M (2012)
 - \$11.1M (2013)
 - \$12.4M (2014 Budget)
 - \$13.2M (2015 Proposed)
- 8,120 miles of Right of Way (ROW)
 - 450 miles of new ROW added to system over past 8 years
- 5-year cycle (typical for industry)
 - Mowing
 - Side-trimming
 - Danger tree removal
 - Herbicide application

Budget Risks

Return on Equity Complaint

- On November 12, 2013, several groups of industrial customers filed with FERC a complaint stating the base ROE of ATC (12.2%) and other MISO TOs (12.38%) are no longer just and reasonable
 - ATC and the TOs responded to the complaint and the matter is currently pending a FERC order
- FERC June 19, 2014 order in NE-ISO ROE complaint case
 - Adopted for electric transmission a two-step DCF methodology used in natural gas and oil pipelines, which incorporates short-term and long-term growth projections
 - Established a paper hearing on what is the appropriate long-term growth rate. FERC based its tentative findings on the use of Gross Domestic Product growth projections
 - The ROE was set halfway between the midpoint and top end of the zone of reasonableness
 - FERC's decision was driven by the record in this case, including the unusual capital market conditions (i.e. low interest rate environment largely due to Federal Reserve policy), but it is possible in other cases for ROEs to be set elsewhere in the zone of reasonableness based on the records in each respective case.

Other MISO Charges

Regional Cost Sharing Impact on ATC Zone

- We will need to continue to rely more on the MISO estimate over time as the composition of regionally cost shared projects will change. 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:
 - 2006-2013 MTEP projects:
<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)*
 - 2014 MTEP Projects: <https://www.misoenergy.org/Library/Pages/Library.aspx>
 - Search for: *MTEP14 Draft Appendices A1, A2, A3*. Refer to (Tab – A-2). ATC is not expected to have any regionally cost-shared projects for inclusion in MTEP14
 - 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)*
- ATC estimates 2015 RECB costs of \$86.4M compared to an estimate provided by MISO of \$82.0M
- ATC estimates 2016 RECB costs of \$89.0M within the ATC pricing zone. MISO estimates these costs to be \$88.1M

Capital Investment

2015 – Top 10 Projects by Spending Level

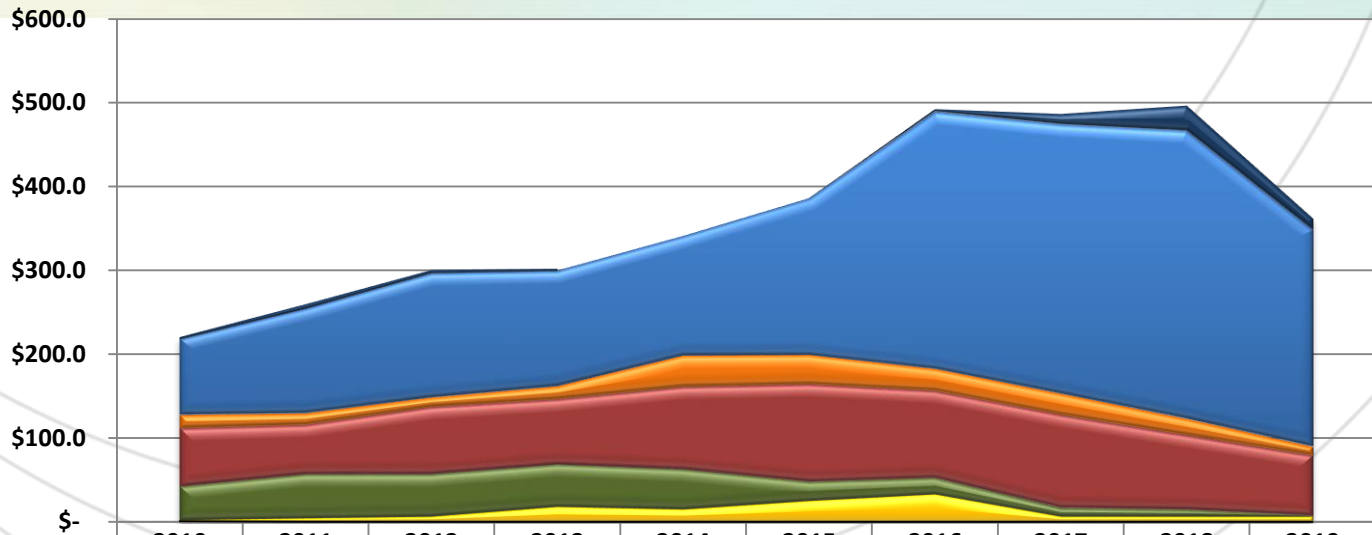
(\$Millions)

	[A] Project Name / Description	[B] 2015 Total	[C] Total Project	[D] Reason	[E] 2015 Status
1	Bay Lake	\$ 85.7	\$ 421.9	Network Reliability	Construction
2	Badger-Coulee	19.8	529.8	Multi-Value Project	Engineering
3	Waukesha-Concord-St. Lawrence Rebuild	18.9	40.2	Asset Renewal	Construction
4	Y17 Portage-Wautoma	16.6	49.3	Asset Renewal	Engineering
5	Cottage Grove Reconfiguration	13.0	36.6	System Operations	Construction
6	K115 Glory Road to Pulliam	12.3	24.4	Network Reliability	Engineering
7	Dyckseville-Sawyer	8.5	22.1	Asset Renewal	Engineering
8	Brillion Iron Works	7.1	13.5	Distribution	Engineering
9	Fitzgerald SS Transformer	5.1	8.8	Network Reliability	Engineering
10	Monroe County-Council Creek	5.8	50.5	Network Reliability	Construction
	All Other Projects	193.1			
Total		\$ 386.0			

- The top 10 projects represent \$193.1M or 50% of the 2015 total projected capital spending

Capital History and Forecast by Category

(\$Millions)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Generation	2.9	5.3	3.8	2.4	(0.0)	0.5	2.6	11.6	29.0	13.4
Network	90.4	124.7	148.3	137.5	142.3	186.6	306.3	321.0	343.0	257.8
Distribution	15.7	13.3	11.2	15.2	37.2	34.8	25.9	24.7	19.3	9.8
Asset Renewal	69.2	58.7	79.7	77.8	97.8	115.5	103.2	110.0	88.0	71.2
Other	40.2	52.6	50.5	50.2	47.7	23.0	20.4	11.3	9.0	2.0
Non-Transmission	2.9	5.0	7.0	18.6	15.6	25.6	33.1	7.0	7.0	7.0
Total	221.1	259.8	300.4	301.9	340.6	386.0	491.4	485.7	495.4	361.3
Asset Contribution	0.6	-	-	-	-	-	-	-	-	-

- 2015 capital expenditures were estimated to be \$411.1M in the October 2013 Customer Presentation

2015 – Top 5 Project O&M Drivers

(\$Thousands)

	[A] Project Name / Description	[B] Project Type	[C] 2015 Total
1	Projects resulting from NERC Alerts / Ratings Issues	Maintenance	\$ 2,663
2	Waukesha-Concord-St. Lawrence Rebuild	Maintenance	1,447
3	CIP v5	Compliance	1,246
4	Dyckseville-Sawyer	Maintenance	377
5	Bay Lake	Network	251
	Other Projects		6,160
Total			12,144

- The top 5 projects represent 49.3% of the 2015 total Project O&M

2015 – Top 5 Pre-cert Projects

(\$Thousands)

	[A] Project Name / Description	[B] From	[C] To	[D] Voltage	[E] 2015 Total
1	Cardinal Hickory Creek (Bluffs)	Dubuque	Cardinal	345	\$ 4,604
2	Bay Lake	North Appleton	Morgan	345	1,506
3	Y124 Boscobel-Lone Rock	Boscobel	Lone Rock	69	853
4	M-13 Kelly - Blackbrook	Kelly	Blackbrook	115	835
5	Spring Valley-N Lake Geneva	Spring Valley	N Lake Geneva	138	615
	Other Projects				2,151
Total					\$ 10,564

- The top 3 projects represent 65.9% of the 2015 total precertification expense

Questions

Appendix

Five-Year Outlook

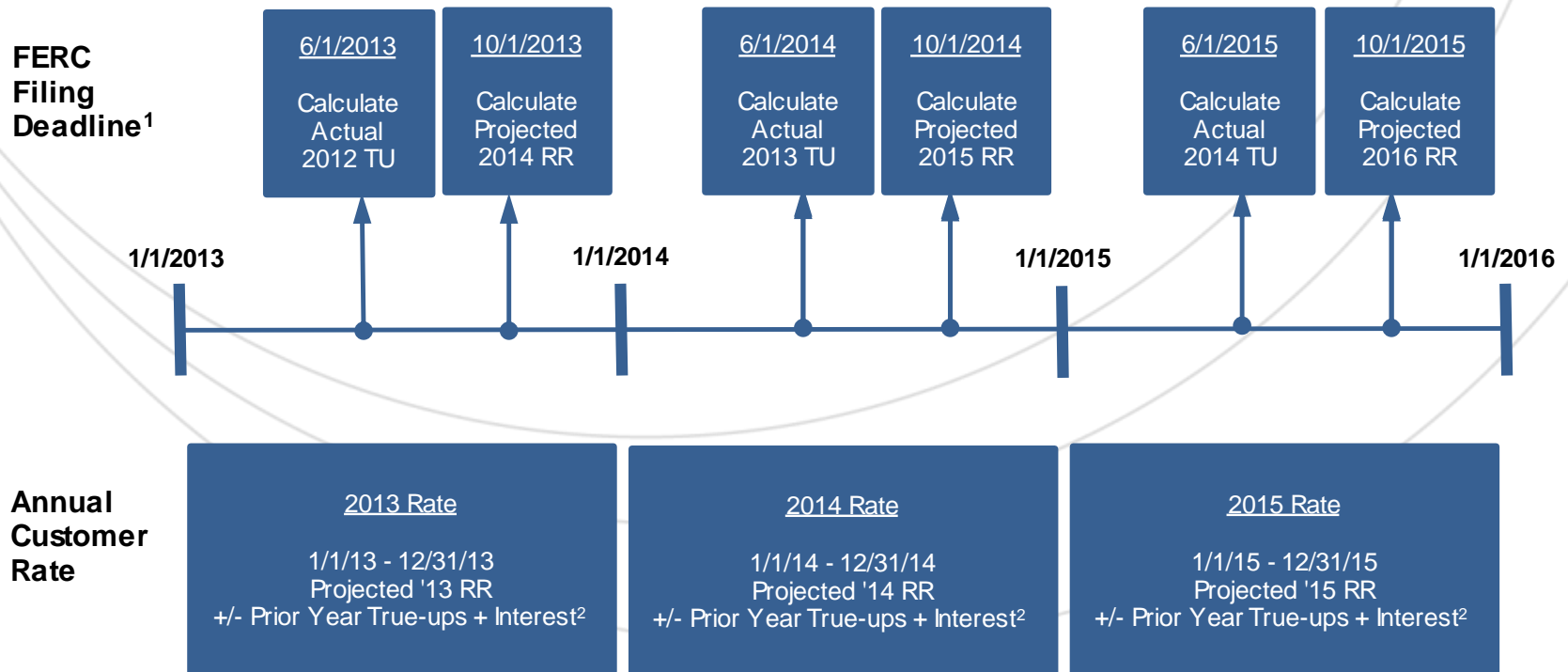
(\$Thousands)

	2014 6+6 Forecast		2015 Forecast		2016 Forecast		2017 Forecast		2018 Forecast	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	246,368	37.5%	259,101	37.8%	279,847	38.4%	301,772.30	39.1%	328,541.76	40.1%
(2) Income Taxes	103,641	15.8%	108,540	15.8%	117,190	16.1%	125,024	16.2%	135,257	16.5%
(3) Depreciation	123,815	18.9%	132,069	19.3%	139,251	19.1%	150,739	19.6%	156,281	19.1%
(4) Capital Costs	473,825	72.2%	499,710	72.8%	536,288	73.5%	577,535	74.9%	620,079	75.6%
(5) Operations and Maintenance Expense	138,174	21.0%	143,164	20.9%	148,179	20.3%	153,367	19.9%	158,739	19.4%
(6) Project O&M	10,987	1.7%	12,144	1.8%	9,722	1.3%	6,536	0.8%	6,851	0.8%
(7) Precertification Expense	16,950	2.6%	10,564	1.5%	14,432	2.0%	12,000	1.6%	12,000	1.5%
(8) Property and Other Taxes	16,702	2.5%	20,373	3.0%	20,965	2.9%	21,591	2.8%	22,238	2.7%
(9) Operating Expenses	182,813	27.8%	186,245	27.2%	193,299	26.5%	193,495	25.1%	199,828	24.4%
(10) Total Revenue Requirement	656,637	100.0%	685,956	100.0%	729,587	100.0%	771,030	100.0%	819,907	100.0%
Offsets										
(11) RECB	(86,623)		(94,232)		(99,690)		(104,685)		(113,437)	
(12) MVP	(10,361)		(10,495)		(16,287)		(28,755)		(40,735)	
(13) Other MISO Revenue	(24,799)		(24,805)		(24,844)		(24,883)		(24,922)	
(14) Other Operating Revenue	(1,395)		(1,300)		(1,300)		(1,300)		(1,300)	
(15) (Over)/Under Network Collection	4,884		(0)		-		-		-	
(16) 2012 True-up	2,064		-		-		-		-	
(17) 2013 True-up	(12,439)		-		-		-		-	
(18) 2013 True-up/TU	-		(4,812)		-		-		-	
(19) 2014 True-up	-		(5,042)		-		-		-	
(20) 2014 True-up/TU	-		-		-		-		-	
(21) Network Billed Revenue	527,969		545,270		587,465		611,406		639,514	

- The RECB (line 11) and MVP (line 12) amounts represent credits to ATC's total revenue requirement for ATC's expected portion of RECB and MVP revenues received from MISO.
- Each company should use their load ratio share multiplied by the Network Billed Revenues (line 21) 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