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# 2016 Budget

## Stakeholder Presentation

October 13, 2015

# Welcome & Overview

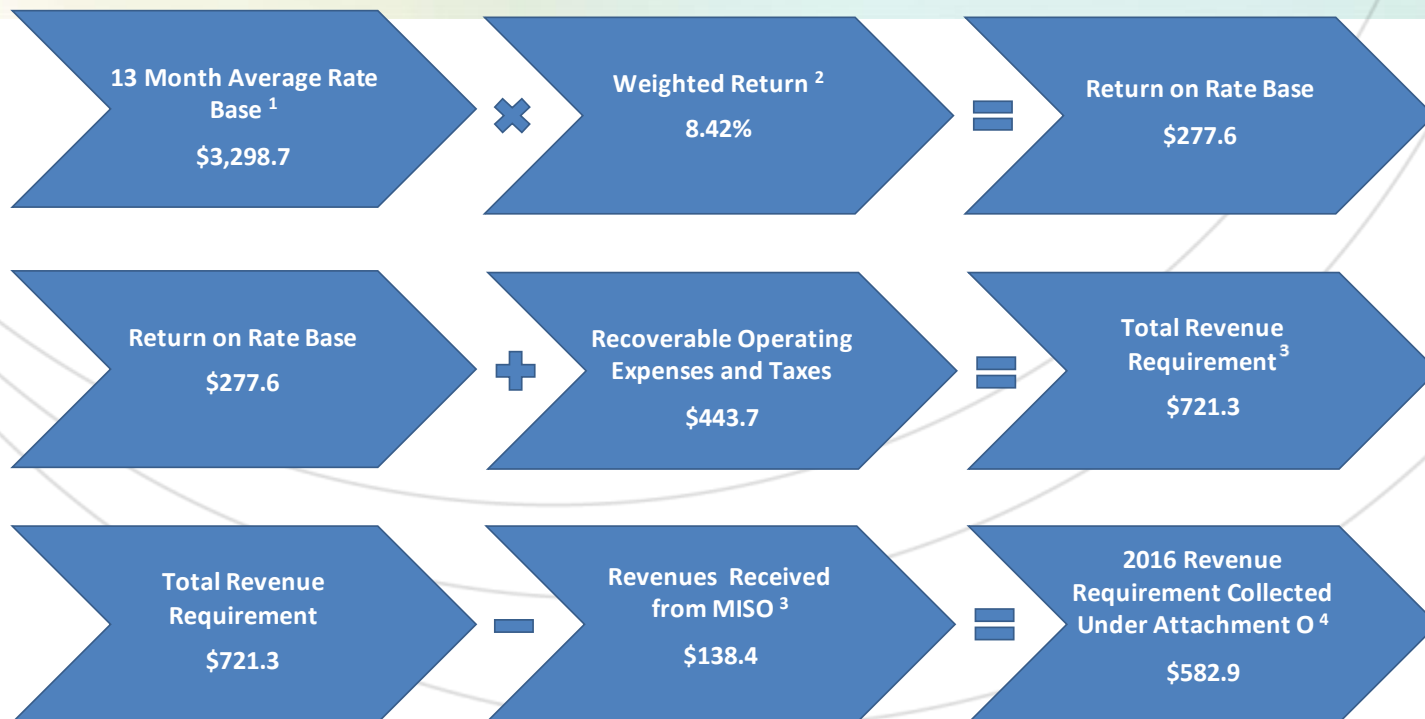
- Welcome - Randy Karls
- Budget Overview – Kevin Szalacinski
  - ATC – Network
  - MISO – Other charges
- Asset Management – Duane Schoon
- Capital Investment – Matt Weber
- Pre-certification – Matt Weber
- Q&A - All
- Summary & Close – Randy Karls

# Budget Highlights

- 2016 total revenue requirement is \$721.3M, a 5.2% increase over 2015
- Network billed revenue for 2016 is \$585.5M and is approximately \$2.0M lower than last year's projection
- 2016 O&M budget increase is 3.5%
  - Key drivers include:
    - Internal and contractor labor increases
    - Vegetation management
    - Telecommunications and software upgrades
- Budget reflects an ROE of 12.2%
  - Will be adjusted as part of refund process when the FERC 206 complaint proceeding is resolved

# 2016 Projected Network Revenue Requirement

(\$Millions)



<sup>1</sup> Includes CWIP and new assets placed in-service.

<sup>2</sup> Comprised of 50% Weighted Cost of Debt and 50% Allowed Return on Equity.

<sup>3</sup> This includes revenues collected under Schedule 26 (RECB), Schedule 26-A (MVP), Schedule 1, and Schedules 7&8 (Point-to-Point revenue)

<sup>4</sup> Actual billed revenue will be increased by \$2.6M for prior year true-ups

# Network Revenue Requirement

(\$Thousands)

	2015 6+6 Forecast	2016 Budget	2017 Forecast	2018 Forecast	2019 Forecast
Return on Rate Base	\$ 260,179	\$ 277,638	\$ 311,908	\$ 338,372	\$ 346,191
Income Taxes	107,972	116,326	129,744	139,361	141,738
Depreciation	133,066	140,232	148,801	157,590	170,340
Operating Expenses <sup>1</sup>	182,645	187,143	203,034	199,732	204,342
Offsets					
RECB (Schedule 26)	(92,886)	(97,870)	(109,176)	(116,843)	(119,987)
MVP (Schedule 26-A)	(7,487)	(13,243)	(28,473)	(37,588)	(43,088)
Point-to-Point (Schedule 7 & 8)	(8,857)	(9,000)	(9,000)	(9,000)	(9,000)
Load Dispatch (Schedule 1)	(16,597)	(17,062)	(17,574)	(18,101)	(18,644)
Other Operating Revenue	(1,455)	(1,300)	(1,300)	(1,300)	(1,300)
2015 True-up (Under collection)	(1,456)	-	-	-	-
<b>Network Revenue Requirement</b>	<b>555,124</b>	<b>582,865</b>	<b>627,964</b>	<b>652,224</b>	<b>670,592</b>
Network True-up Adjustments	(9,854)	2,645	1,481	-	-
<b>Network Billed Revenue</b>	<b>\$ 545,270</b>	<b>\$ 585,510</b>	<b>\$ 629,444</b>	<b>\$ 652,224</b>	<b>\$ 670,592</b>
<b>Network Billed Revenue (Oct 2014)</b>	<b>\$ 545,270</b>	<b>\$ 587,465</b>	<b>\$ 611,406</b>	<b>\$ 639,514</b>	<b>\$ -</b>
Network Billed Change from Oct 2014	\$ 0	\$ (1,955)	\$ 18,038	\$ 12,710	

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

# 2016 vs. 2015 O&M

(\$Millions)

<b>2015 O&amp;M Budget</b>	<b>\$ 143.6</b>
Labor & benefits	1.2
Contractor labor increases	0.7
Vegetation Management (volume component)	0.4
Telecommunications	1.0
Hardware / software system expansion and upgrades	0.7
Substation energy usage cost increases	0.5
Common facility billing increases	0.3
Fees, memberships, facilities & other	0.2
	<hr/>
<b>2016 O&amp;M Budget</b>	<b>\$ 148.6</b>

# Asset Management

# Vegetation Management Program

- Manage safety, reliability and compliance
  - NERC FAC-003 -Transmission Vegetation Management
- Historical spend:
  - \$11.5M (2012)
  - \$11.1M (2013)
  - \$13.2M (2014)
  - \$13.2M (2015 Budget)
  - \$14.1M (2016 Budget)
- 8,130 miles of Right of Way (ROW)
  - 460 miles of new ROW added to system over past 9 years
- 5-year cycle (typical for industry)
  - Mowing
  - Side-trimming
  - Hazard tree removal (Note: Emerald Ash Borer is starting to impact work)
  - Herbicide application



# Budget Risks

# Return on Equity Complaints

- Two complaints were filed – November 12<sup>th</sup>, 2013 & February 12<sup>th</sup>, 2015
- We anticipate FERC will issue an order on the first complaint in Q3 2016
  - Any potential refund would be between 11/12/13 and 2/11/15
- We anticipate FERC will issue an order on the second complaint in Q2 2017
  - Any potential refund would be between 2/12/15 and 5/11/16
- Any refund would be offset by 50 bps ROE for MISO membership effective 1/6/15
- ATC projects a reserve balance of ~ \$50M by year end 2015

# 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:
    - 2006-2014 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)*
    - 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 2016 RECB costs of \$82.1M within the ATC pricing zone compared to an estimate provided by MISO of \$88.2M
- ATC estimates 2017 RECB costs of \$100.5M within the ATC pricing zone. MISO estimates these costs to be \$93.7M

# Capital Investment

# 2016 – Top 10 Projects by Spending Level

(\$Millions)

	[A]	[B]	[C]	[D]	[E]
	Project Name / Description	2016 Total	Total Project	Reason	2016 Status
1	Badger Coulee Project T-Lines	\$ 117.4	\$ 302.5	Multi-Value Project	Construction
2	Green Bay - Morgan 345kV Prj-Constr Activity	81.8	298.9	Network Reliability	Construction
3	Holmes-Escanaba 138kV-Constr Activity	29.7	99.5	Network Reliability	Construction
4	Colley Road -Brick Church Rebuild Uprate	22.0	36.4	Network Reliability	Construction
5	Y17 Portage - Wautoma / Y16 Dam Heights - Portage Line Reblid	19.5	46.0	Asset Renewal	Construction
6	Y26 North Randolph - Ripon Reconfiguration	13.2	22.5	Network Reliability	Engineering
7	New 138kV line for new Creekview SS	10.1	15.5	Distribution	Engineering
8	Dyckesville - Sawyer 69kV Line Rebuild	9.6	19.2	Asset Renewal	Construction
9	Butte Des Morts - North Appleton Rebuild	9.2	11.6	Asset Renewal	Construction
10	Autrain 69kV Re-insulate-Asset Renewal (Gwinn - Munising)	5.3	8.3	Asset Renewal	Construction
11	All Other Transmission	247.2			
<b>TOTAL</b>		\$ 565.0			

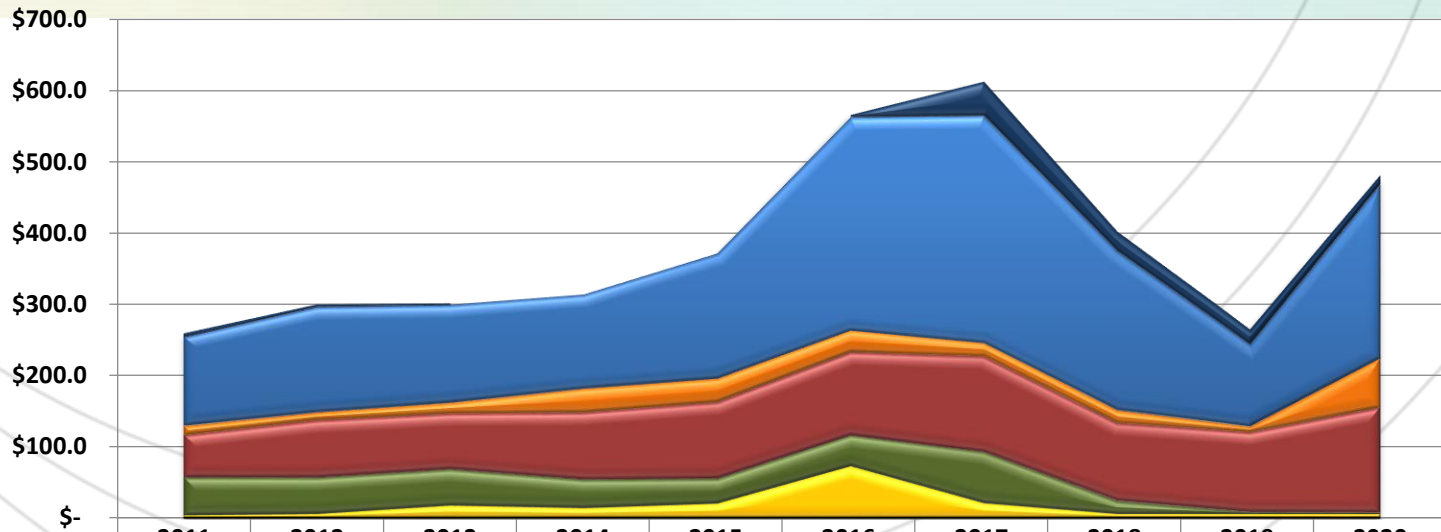
## Key Points

The top 10 projects represent \$317.8M or 56% of the 2016 total projected capital spending



# Capital History and Forecast by Category

(\$Millions)



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Generation	5.3	3.8	2.4	(0.0)	0.1	2.8	47.8	27.1	20.7	12.3
Network	124.7	148.3	137.5	132.1	175.6	299.0	318.6	223.7	116.0	244.2
Distribution	13.3	11.2	15.2	33.8	33.2	31.4	19.6	17.7	8.2	69.3
Asset Renewal	58.7	79.7	77.8	93.6	106.9	116.1	133.2	108.2	111.0	146.2
Other	52.6	50.5	50.2	39.3	34.6	43.1	71.1	18.5	2.6	2.0
Non-Transmission	5.0	7.0	18.6	15.1	21.1	72.6	21.7	7.0	7.0	7.0
<b>Total</b>	<b>259.8</b>	<b>300.4</b>	<b>301.9</b>	<b>313.9</b>	<b>371.5</b>	<b>565.0</b>	<b>611.9</b>	<b>402.2</b>	<b>265.5</b>	<b>481.1</b>
Asset Contribution	-	-	-	-	-	-	-	-	-	-

- 2016 capital expenditures were estimated to be \$491.4M in the October 2014 Customer Presentation

# 2016 – Top 5 Project O&M Drivers

(\$Thousands)

	[A]	[B]	[C]
	<b>Project Name / Description</b>	<b>Project Type</b>	<b>2016 Total</b>
1	Projects resulting from NERC Alerts / Ratings Issues	Maintenance	\$ 1,655
2	Line Uprate Programs	Network / Maintenance	661
3	Y32 Colley Road - Brick Church Rebuild Uprate	Network	295
4	M39-Rerate-138kV	Asset Renewals	281
5	Green Bay - Morgan 345kV Prj-Constr Activity	Network	273
6	All Others		5,639
<b>Total</b>			<b>\$ 8,804</b>

- The top 5 projects represent 36.0% of the 2016 total Project O&M



# 2016 – Top 5 Pre-cert Projects

(\$Thousands)

	[A]	[B]
Rank	Project Name / Description	2016 Total
1	Cardinal Hickory Creek	\$ 2,864
2	Northern Area Reliability Assessment - WI	2,150
3	T-T Interconnection Project	1,200
4	SE WI Interface Reliability Reinforcement	1,110
5	J88: Caldron Falls-Goodman	779
6	Remaining Projects (7)	1,759
<b>TOTAL</b>		<b>\$ 9,862</b>

- The top 4 projects represent 74.3% of the 2016 total precertification expense

# Questions

# Appendix

# Five-Year Outlook

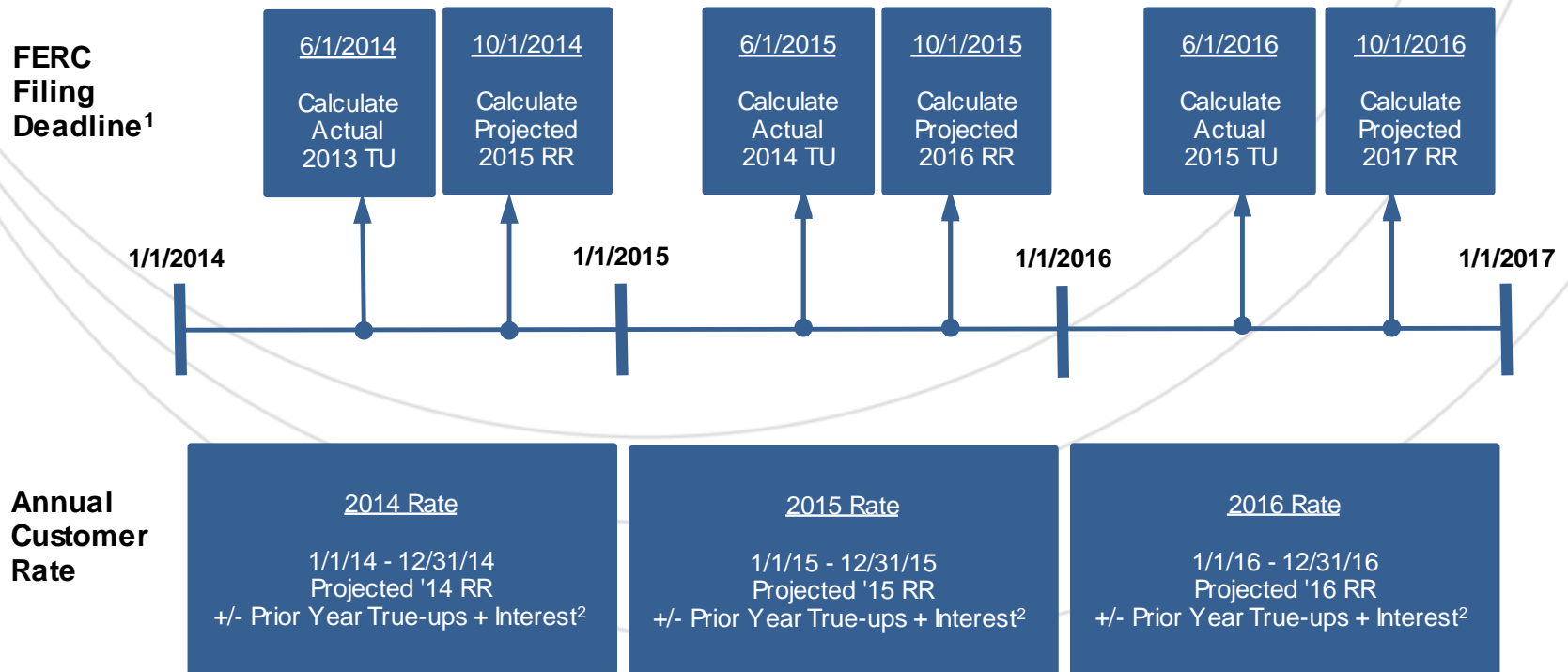
(\$Thousands)

		2015 6+6 Forecast		2016 Budget		2017 Forecast		2018 Forecast		2019 Forecast	
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1)	Return on Rate Base	260,179	38.0%	277,638	38.5%	311,907.62	39.3%	338,372.42	40.5%	346,191.38	40.1%
(2)	Income Taxes	107,972	15.8%	116,326	16.1%	129,744	16.4%	139,361	16.7%	141,738	16.4%
(3)	Depreciation	133,066	19.5%	140,232	19.4%	148,801	18.8%	157,590	18.9%	170,340	19.7%
(4)	Capital Costs	501,218	73.3%	534,196	74.1%	590,453	74.4%	635,324	76.1%	658,269	76.3%
(5)	Operations and Maintenance Expense	144,397	21.1%	148,128	20.5%	154,804	19.5%	160,222	19.2%	165,832	19.2%
(6)	Project O&M	10,765	1.6%	8,804	1.2%	8,230	1.0%	5,164	0.6%	3,486	0.4%
(7)	Precertification Expense	7,959	1.2%	9,862	1.4%	18,322	2.3%	12,000	1.4%	12,000	1.4%
(8)	Property and Other Taxes	19,524	2.9%	20,349	2.8%	21,678	2.7%	22,346	2.7%	23,025	2.7%
(9)	Operating Expenses	182,645	26.7%	187,143	25.9%	203,034	25.6%	199,732	23.9%	204,342	23.7%
(10)	<b>Total Revenue Requirement</b>	<b>683,863</b>	<b>100.0%</b>	<b>721,340</b>	<b>100.0%</b>	<b>793,486</b>	<b>100.0%</b>	<b>835,056</b>	<b>100.0%</b>	<b>862,611</b>	<b>100.0%</b>
<b>Offsets</b>											
(11)	RECB	(92,886)		(97,870)		(109,176)		(116,843)		(119,987)	
(12)	MVP	(7,487)		(13,243)		(28,473)		(37,588)		(43,088)	
(13)	Other MISO Revenue	(25,454)		(26,062)		(26,574)		(27,101)		(27,644)	
(14)	Other Operating Revenue	(1,455)		(1,300)		(1,300)		(1,300)		(1,300)	
(15)	Over/(Under) Network Collection	(1,456)		(0)		-		-		-	
(16)	2013 True-up	(4,812)		-		-		-		-	
(17)	2014 True-up	(5,042)		2,645		-		-		-	
(18)	2015 True-up	-		-		1,481		-		-	
(19)	<b>Network Billed Revenue</b>	<b>545,270</b>		<b>585,510</b>		<b>629,444</b>		<b>652,224</b>		<b>670,592</b>	

- 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