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2017 Budget

Stakeholder Presentation

October 11, 2016

Welcome & Overview

- Welcome – Randy Karls
- ROE Complaints – Bob McKee
- Budget Overview – Kevin Szalacinski
 - ATC – Network
 - MISO – Other charges
- Asset Management – John McNamara
- Capital Investment – Matt Weber
- Pre-certification – Matt Weber
- Q&A - All
- Summary & Close – Randy Karls



ROE Complaints

- **First complaint (filed 11/12/13)**
 - FERC on 9/28/16 order set 10.32% base ROE, 11.35% maximum ROE
 - Effective date of order, ATC's total ROE is 10.82%, including 50 bps adder for RTO membership
 - Refund period 11/12/13 to 2/11/15
- **Second complaint (filed 2/12/15)**
 - ALJ on 6/30/16 recommended 9.7% base ROE, 6.76% – 10.68% zone
 - Refund period 2/12/15 to 5/11/16
 - FERC order expected in the first half of 2017

Budget Highlights

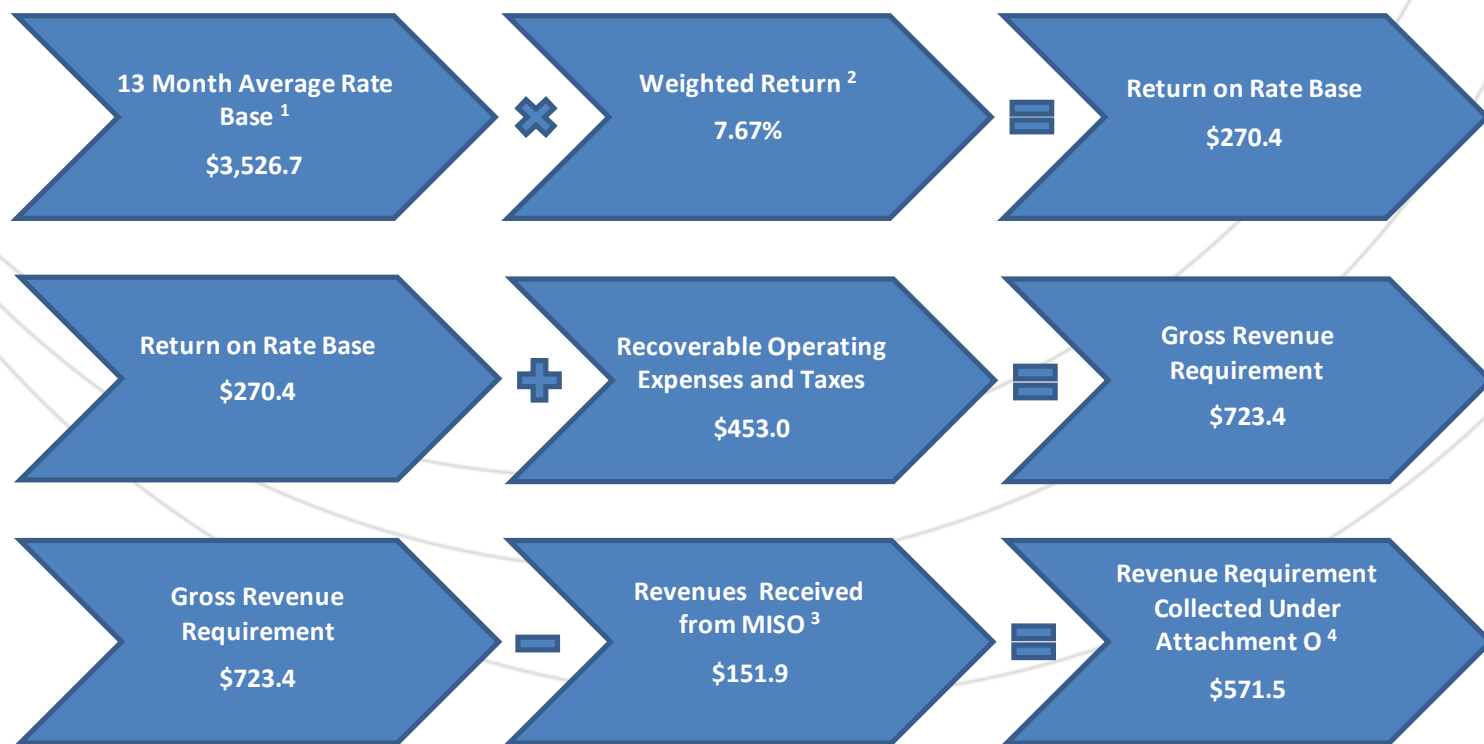
- Total revenue requirement for 2017 is \$723.4M compared to \$721.3M in 2016
 - 2017 reflects a ROE of 10.82% (including the RTO 50bp adder) ordered by FERC on 9/28/16
- Network billed revenue for 2017 is \$563.3M compared to \$585.5M in 2016
- 2017 O&M budget increase is 4.5%
Key drivers include:
 - Hardware/software system license expansion and maintenance
 - Compensation and benefits
 - Vegetation management
 - Contractor/Local Distribution Companies (LDC) labor increases

Key Budget Assumptions

- **Bonus depreciation**
 - Budget assumes 50% bonus depreciation is in effect
- **Northern Area Reliability Assessment (NARA)**
 - Assumes there is additional generation in the Upper Peninsula of Michigan and additional NARA projects are not required
 - No precertification expense budgeted for NARA in 2017

2017 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 This includes revenues collected under Schedule 26 (RECB), Schedule 26-A (MVP), Schedule 1 and other credits such as Point-to-Point revenues

⁴ Actual billed revenue will be decreased by \$8.2M for a prior year true-ups

Network Revenue Requirement

(\$Thousands)

	2016 6+6 Forecast	2017 Budget	2018 Forecast	2019 Forecast	2020 Forecast
Return on Rate Base ¹	\$ 273,241	\$ 270,394	\$ 277,732	\$ 283,382	\$ 296,215
Income Taxes	114,951	110,247	110,745	112,531	117,308
Depreciation	141,760	153,081	165,645	181,084	184,916
Operating Expenses ²	181,494	189,681	202,695	203,792	208,539
Offsets					
RECB (Schedule 26)	(97,625)	(103,236)	(109,639)	(111,282)	(108,607)
MVP (Schedule 26-A)	(11,736)	(21,896)	(33,392)	(37,893)	(36,923)
Point-to-Point (Schedule 7 & 8)	(8,684)	(9,000)	(9,000)	(9,000)	(9,000)
Load Dispatch (Schedule 1)	(16,040)	(16,500)	(16,995)	(17,505)	(18,030)
Other Operating Revenue	(1,498)	(1,300)	(1,300)	(1,300)	(1,300)
Over/(Under) collection	7,001	-	-	-	-
Network Revenue Requirement	582,865	571,471	586,490	603,808	633,119
Network True-up Adjustments	2,645	(8,159)	-	-	-
Network Billed Revenue	\$ 585,510	\$ 563,312	\$ 586,490	\$ 603,808	\$ 633,119
Network Billed Revenue (Oct 2015)	\$ 585,510	\$ 629,444	\$ 652,224	\$ 670,592	\$ -
Network Billed Change from Oct 2015 ³	\$ 0	\$ (66,132)	\$ (65,734)	\$ (66,785)	

Key Points

1. Return on rate base for 2017 reflects assumed 10.82% ROE for all of 2017. For 2018-20 reflects a 10.20% ROE, and assumes that FERC orders the ROE at the ALJ recommended level.
2. Includes O&M, Project O&M, Precertification and Taxes other than Income Taxes
3. Variance for 2017 mainly due to the impact of the lower FERC ordered ROE, lower operating expenses, lower capital spending and the impact of bonus depreciation. For 2018-19 the variance is primarily due to the lower assumed ROE and bonus depreciation.



2017 Proposed vs. 2016 O&M

(\$ in Millions)

2016 O&M Budget	\$ 148.6
Compensation and benefits (a)	1.3
Contractor/LDC labor increases	0.9
LDC system operator and common facility charges	0.4
Vegetation management	0.7
Structure painting	0.3
LiDAR & other ratings studies	0.4
Hardware/software system license expansion & maintenance	1.5
Training	0.5
Insurance, memberships, and other	0.7
2017 O&M Budget	\$ 155.3

(a) Net of compensation capitalized and costs to be billed to new development entities



Asset Management

Vegetation Management

- Balance safety, reliability and compliance
 - NERC FAC-003 (Transmission VM Programs >200kV)
- 8,300 miles of Right of Way (ROW)
 - Approximately 70% of ROWs are on a 5-year maintenance cycle
- Additional risk in these areas is managed through:
 - Summer vegetation aerial patrols (entire system)
 - Spring and Fall equipment aerial patrols (typically the entire system)
 - Ground patrols
 - Hazard tree removal
- Key drivers
 - Rate variance - \$0.5M
 - Contractor labor increase – 2.5% (contractual commitment)
 - Emerald Ash Borer - \$0.5M
 - Emerging vegetation management issue

Emerald Ash Borer (EAB)

The Basics of EAB

- How EAB kills trees:

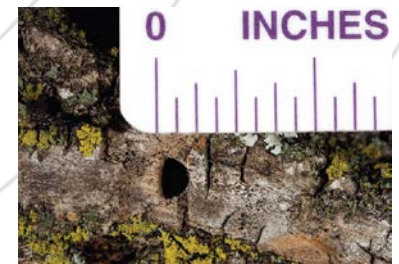
Adult beetle
lands on tree
and lays
eggs



Eggs hatch and become
worm-like larvae



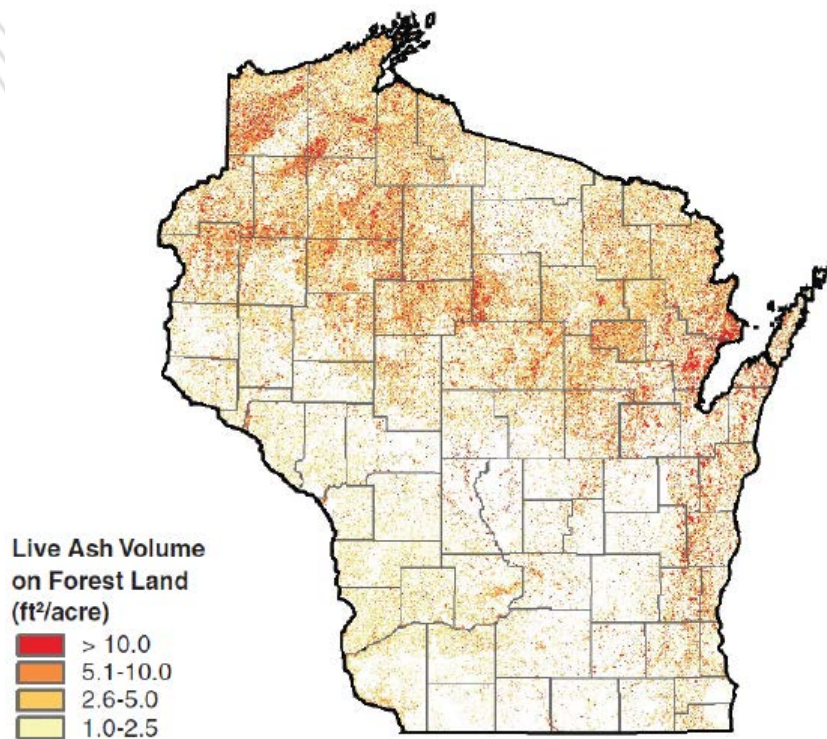
Larvae tunnel through tree's
water conducting tissue



Trees begin to
thin and
decline.



Wisconsin Ash Density



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:
 - <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)*
- Due to the recent order from FERC estimated charges for Schedule 26 and 26-A are not available at this time.

Capital Investment

2017 – Top 10 Projects by Spending Level

(\$Millions)

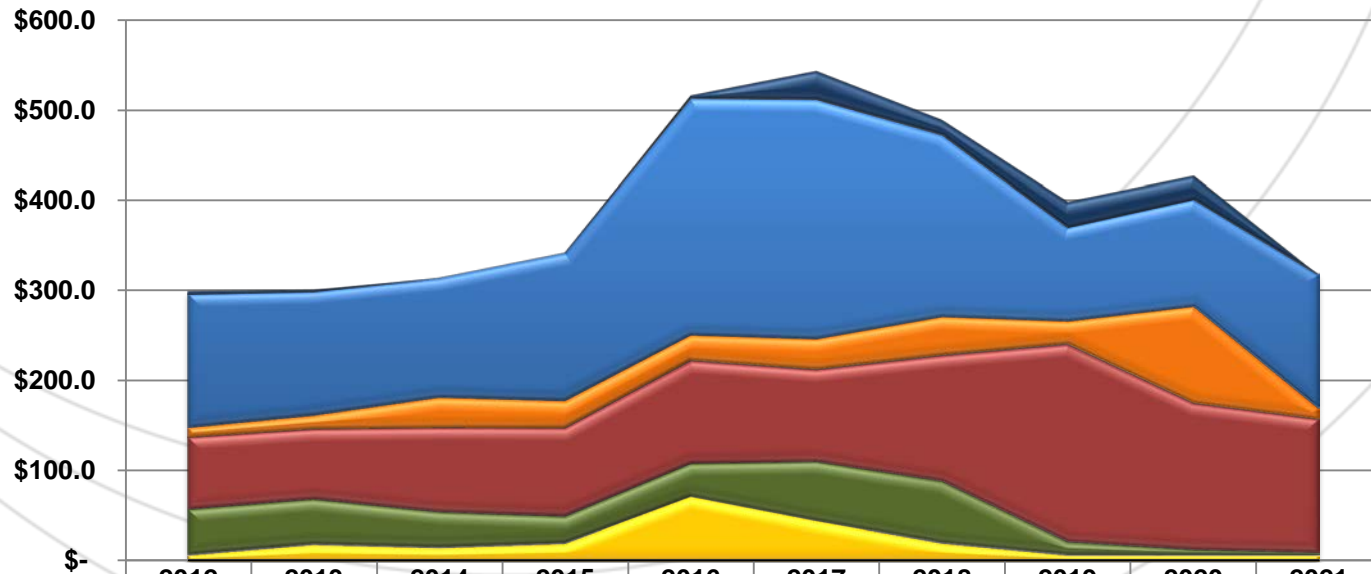
	[A]	[B]	[C]	[D]
	Project Name / Description	2017 Total	Total Project ²	Reason
1	Badger Coulee Project T-Lines	\$ 125.3	\$ 309.3	Multi-Value Project
2	Green Bay - Morgan 345kV Prj-Constr Activity	91.3	270.1	Network Reliability
3	Branch River Project	25.3	32.6	Generation
4	New 138kV line for new Creekview SS	17.4	23.7	Distribution
5	Y17 Portage - Wautoma / Y16 Dam Heights - Portage Line Reblid	14.3	49.5	Asset Renewal
6	M13-Reinforcement-Bunker Hill - Blackbrook	14.3	28.7	Network Reliability
7	Inland Line Rebuild (Seeney-Blaney)	11.5	14.3	Asset Renewal
8	Y32 Colley Road -Brick Church Rebuild Uprate	7.9	37.1	Network Reliability
9	811 Reconfigure - Oak Creek - Racine	7.8	17.6	Network Reliability
10	Spring Valley-N Lake Gen New 138kV	7.7	66.4	Network Reliability
11	All Other Transmission	220.3		
TOTAL		\$ 543.1		

Key Points

- The top 10 projects represent \$323M or 60% of the 2017 total projected capital spending
- Badger Coulee 2017 capital spending of \$125.3M reflects ATC's share of the project

Capital History and Forecast by Category

(\$Millions)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Generation	3.8	2.4	(0.0)	0.4	3.1	31.4	16.8	28.8	26.6	-
Network	148.3	137.5	132.1	164.0	262.9	265.5	201.9	104.8	119.6	148.4
Distribution	11.2	15.2	33.8	29.9	28.1	34.2	43.0	25.7	107.0	11.9
Asset Renewal	79.7	77.8	93.6	98.1	113.7	101.8	138.8	218.5	162.3	147.7
Other	50.5	50.2	39.3	30.1	37.3	65.6	68.6	14.4	5.5	2.4
Non-Transmission	7.0	18.6	15.1	19.5	71.0	44.6	20.1	7.0	7.0	7.0
Total	300.4	301.9	313.9	342.1	516.2	543.1	489.1	399.1	428.0	317.5
Asset Contribution	-	-	-	-	-	-	-	-	-	-

- 2017 capital expenditures were estimated to be \$611.9M in the October 2015 Customer Presentation



2017 – Top 5 Project O&M Drivers

(\$Thousands)

	[A]	[B]	[C]
	Project Name / Description	Project Type	2017 Total
1	Projects resulting from NERC Alerts / Ratings Issues	Asset Renewals	\$ 825
2	Inland Line Rebuild (Seeney-Blaney)	Asset Renewals	813
3	Green Bay - Morgan 345kV Prj-Constr Activity	Network Reliability	336
4	Arnold to Dead River Add OPGW	Operations	313
5	B106 115kV Rebuild Plover-Whiting	Asset Renewals	281
6	All Others		5,588
Total			\$ 8,156

- The top 5 projects represent 31.5% of the 2017 total Project O&M

2017 – Top 5 Pre-cert Projects

(\$Thousands)

	[A]	[B]
Column1	Project Name / Description	2017 Total
1	Cardinal Hickory Creek	\$ 2,374
2	J88: Caldron Falls-Goodman	860
3	Future Customer Relations	700
4	NAP-Sunset Point Rebuild	545
5	R44 69kV Wesmark-Rapids	316
6	Remaining Projects (8)	1,381
TOTAL		\$ 6,176

- The top 4 projects represent 72.5% of the 2017 total precertification expense



Questions

Appendix

Five-Year Outlook

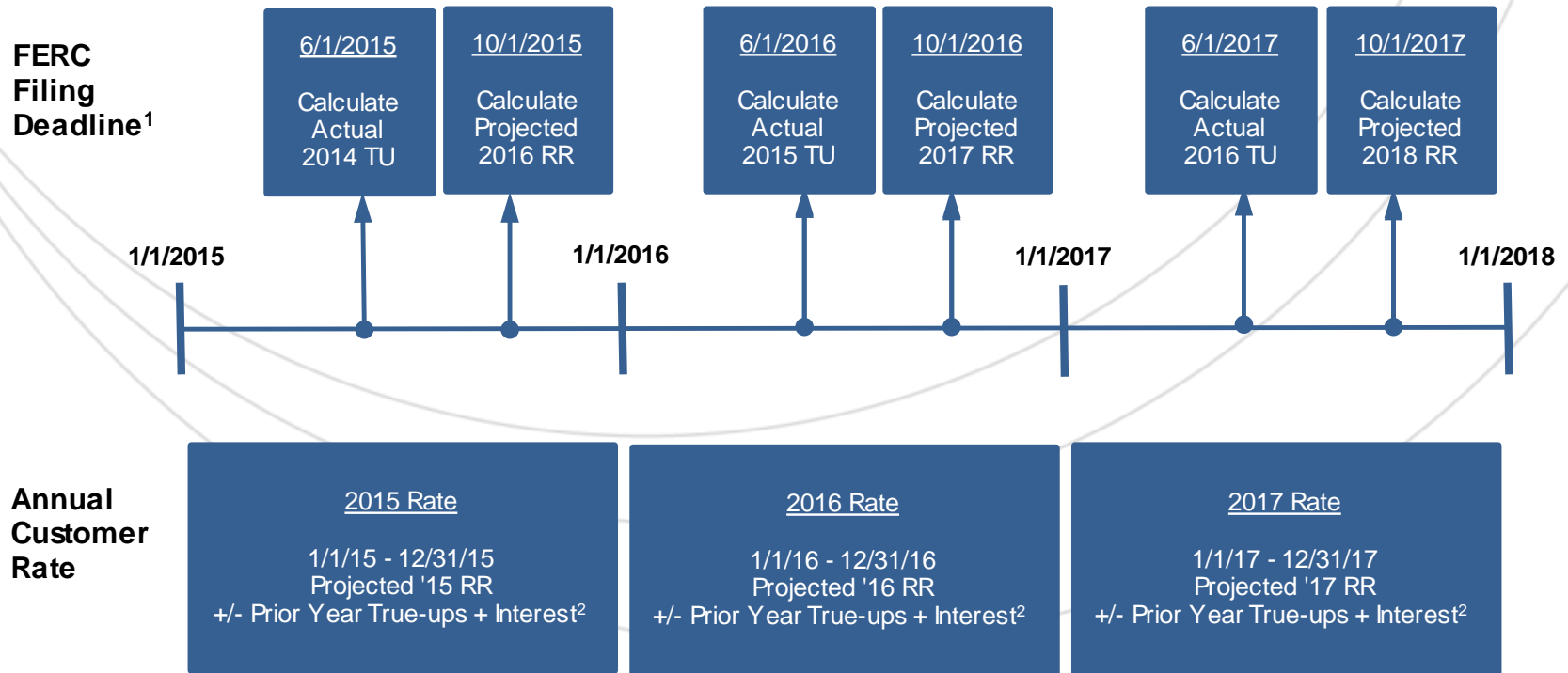
(\$Thousands)

	2016 Current Forecast		2017 Forecast		2018 Forecast		2019 Forecast		2020 Forecast	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	273,241	38.4%	270,394	37.4%	277,732	36.7%	283,382	36.3%	296,215	36.7%
(2) Income Taxes	114,951	16.2%	110,247	15.2%	110,745	14.6%	112,531	14.4%	117,308	14.5%
(3) Depreciation	141,760	19.9%	153,081	21.2%	165,645	21.9%	181,084	23.2%	184,916	22.9%
(4) Capital Costs	529,952	74.5%	533,722	73.8%	554,122	73.2%	576,996	73.9%	598,439	74.2%
(5) Operations and Maintenance Expense	148,478	20.9%	154,752	21.4%	160,168	21.2%	165,774	21.2%	171,576	21.3%
(6) Project O&M	8,523	1.2%	8,156	1.1%	8,511	1.1%	11,757	1.5%	9,299	1.2%
(7) Precertification Expense	5,448	0.8%	6,176	0.9%	12,788	1.7%	4,393	0.6%	5,135	0.6%
(8) Property and Other Taxes	19,045	2.7%	20,598	2.8%	21,228	2.8%	21,867	2.8%	22,529	2.8%
(9) Operating Expenses	181,494	25.5%	189,681	26.2%	202,695	26.8%	203,792	26.1%	208,539	25.8%
(10) Total Revenue Requirement	711,446	100.0%	723,403	100.0%	756,817	100.0%	780,788	100.0%	806,979	100.0%
Offsets										
(11) RECB	(97,625)		(103,236)		(109,639)		(111,282)		(108,607)	
(12) MVP	(11,736)		(21,896)		(33,392)		(37,893)		(36,923)	
(13) Other MISO Revenue	(24,724)		(25,501)		(25,996)		(26,505)		(27,031)	
(14) Other Operating Revenue	(1,498)		(1,300)		(1,300)		(1,300)		(1,300)	
(15) (Over)/Under Network Collection	7,001		(0)		-		-		-	
(16) 2014 True-up	2,645		-		-		-		-	
(17) 2015 True-up	-		(920)		-		-		-	
(18) 2016 True-up	-		(7,239)		-		-		-	
(19) Network Billed Revenue	585,510		563,312		586,490		603,808		633,119	

- 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