

Stakeholder Presentation 2023 Budget

PRESENTED BY

ATC Leadership

October 13, 2022



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Agenda

Topic	Presenter
Welcome and Introductions	Trevor Stiles
Budget Overview	Eric Lundberg
Capital Investment	Sarah Justus
Q&A	All
Summary & Close	Trevor Stiles

Budget highlights

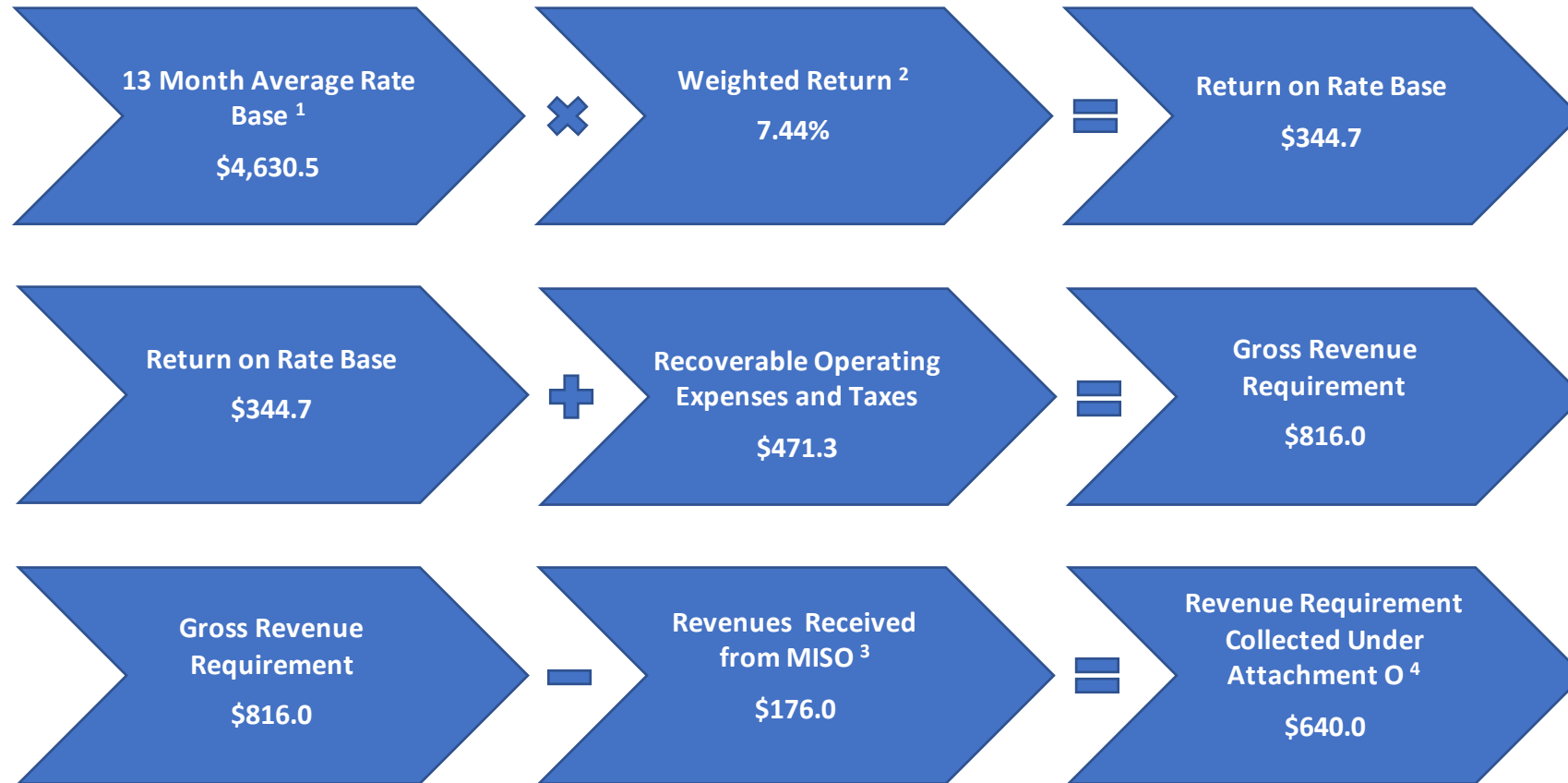
- Proposed O&M is \$145.6M; a 3.0% increase from the 2022 budget of \$141.4M
 - Continuation of Core Focus and Cost Management efforts
- Revenue requirement is \$816.0M; a 5.7% increase from the 2022 budget of \$772.2M
 - Increase due to capital additions to rate base and a higher weighted debt rate
- Network revenue is \$640.0M; a 5.1% increase compared to the 2022 budget of \$608.9M

2023 Key budget assumptions

- Return on equity (ROE)
 - Budget assumes 10.52% ROE including 50 bp adder
- Capital projects
 - No delays to Cardinal-Hickory Creek schedule
 - \$68M in generator interconnections, approximately 13% of total capital expenditures
- Asset maintenance
 - No major event or significant equipment failures
 - Continued execution of base maintenance and NERC compliance programs
- Financing and Taxes
 - \$200M in financing during 2023
 - No change to federal tax rate – 21%
 - Continued recovery of income taxes

2023 Projected network revenue requirement

(\$ in Millions)



¹ Includes eligible 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 decrease by \$6.6M for prior year true-ups

Network revenue requirement projection

(\$ in Millions)

	2022 Forecast	2023 Proposed	2024 Forecast	2025 Forecast	2026 Forecast
Return on Rate Base	322.9	344.7	370.2	393.9	431.9
Income Taxes	69.6	72.3	77.8	82.1	90.2
Depreciation	202.0	212.8	234.1	251.7	269.1
Operations & Maintenance	143.0	145.3	148.8	151.0	153.3
Other Operating Expenses	35.6	40.9	58.5	62.4	63.9
Total Revenue Requirement	773.0	816.0	889.5	941.2	1,008.3
Offsets					
RECB (Schedule 26)	(94.9)	(95.2)	(98.5)	(97.8)	(95.0)
MVP (Schedule 26-A)	(46.4)	(56.0)	(62.9)	(65.4)	(74.5)
Point-to-Point (Schedule 7 & 8)	(9.9)	(9.0)	(9.0)	(9.0)	(9.0)
Load Dispatch (Schedule 1)	(13.8)	(14.2)	(14.6)	(15.1)	(15.5)
Other Operating Revenue	(1.9)	(1.6)	(1.6)	(1.6)	(1.6)
Over/(Under) collection	2.7	(0.0)	(0.0)	(0.0)	(0.0)
Network Revenue Requirement	608.9	640.0	702.8	752.3	812.7
Network True-up Adjustments	(5.3)	(6.6)	-	-	-
Network Billed Revenue	603.6	633.4	702.8	752.3	812.7
Network Billed Revenue (Oct 2021)	603.6	634.4	676.9	699.9	
Network Billed Change from Oct 2021	(0.0)	(1.1)	25.9	52.4	

MISO regional charges



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Regional cost sharing impact on ATC zone

- The MISO estimated charges to the ATC pricing zone are updated every June and December
- MISO projections for Schedule 26 (RECB) and Schedule 26A (MVP) charges can be found on the MISO website (www.misoenergy.org):
 - Planning > MTEP > Schedule 26 and 26A Indicative Rates
 - The following is from the MISO website:

[Home](#) > [Planning](#) > [MTEP](#) > [Schedule 26 and 26A Indicative Reports](#)

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Schedule 26 and 26A Indicative Reports

MISO produces indicative forecasts of Schedule 26 and 26-A annual charges (by MISO Pricing Zone) for cost shared projects approved in the MTEP. These reports are typically updated annually in Q2. The posted reports reflect the FERC approved ROE value (plus any applicable adders) and corporate tax rate provided in Attachment O and GG at the time of publication. Prospective changes to the ROE will be applied only to reports produced after the respective FERC order(s) become effective. Values should not be relied upon for settlement or ratemaking purposes and are subject to change.

- ▶ [Schedule 26 Indicative Annual Charges](#)
- ▶ [Schedule 26A Indicative Annual Charges](#)

Budget Details



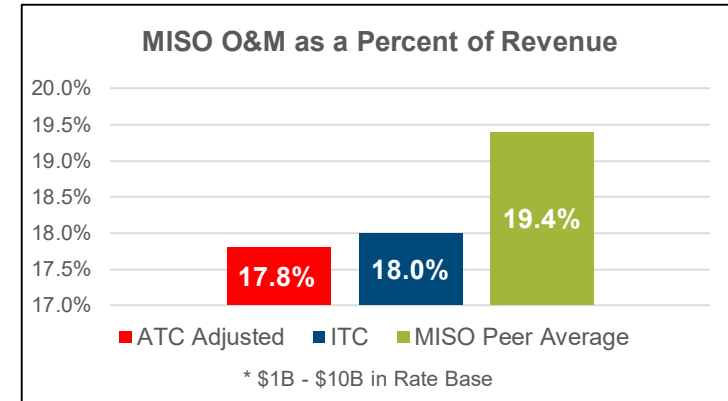
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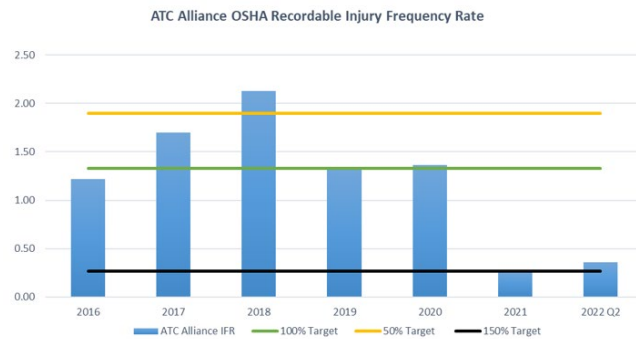
Core focus

- O&M Efficiency

- ATC's O&M is in the top third for O&M efficiency and compares very favorably to our MISO peer group and ITC
- ATC spends more per dollar on reliably operating and maintaining the system and less on administration and general (A&G) than our peer group
 - ◆ ATC A&G/Total O&M – 27%
 - ◆ ITC A&G/Total O&M – 47%
 - ◆ MISO Peer average A&G/Total O&M – 37%



ATC adjusted for tax-exempt, ROE and equity layer

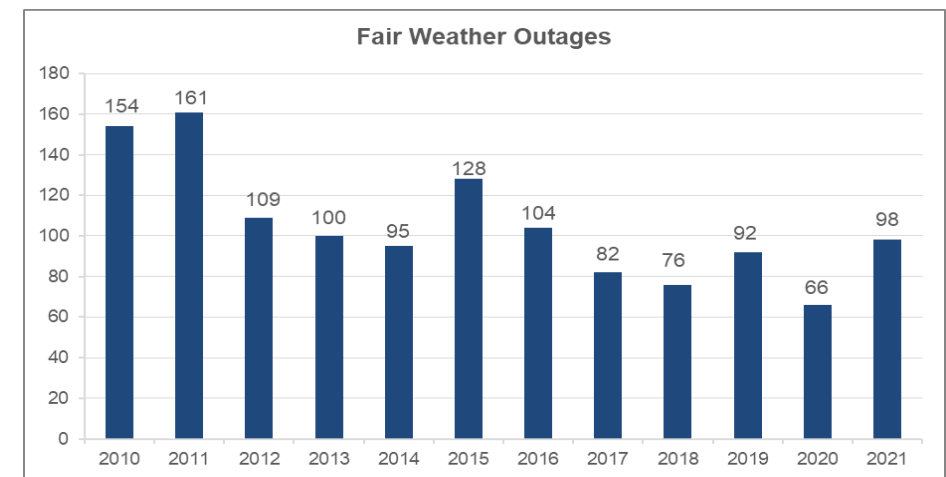


- Safety

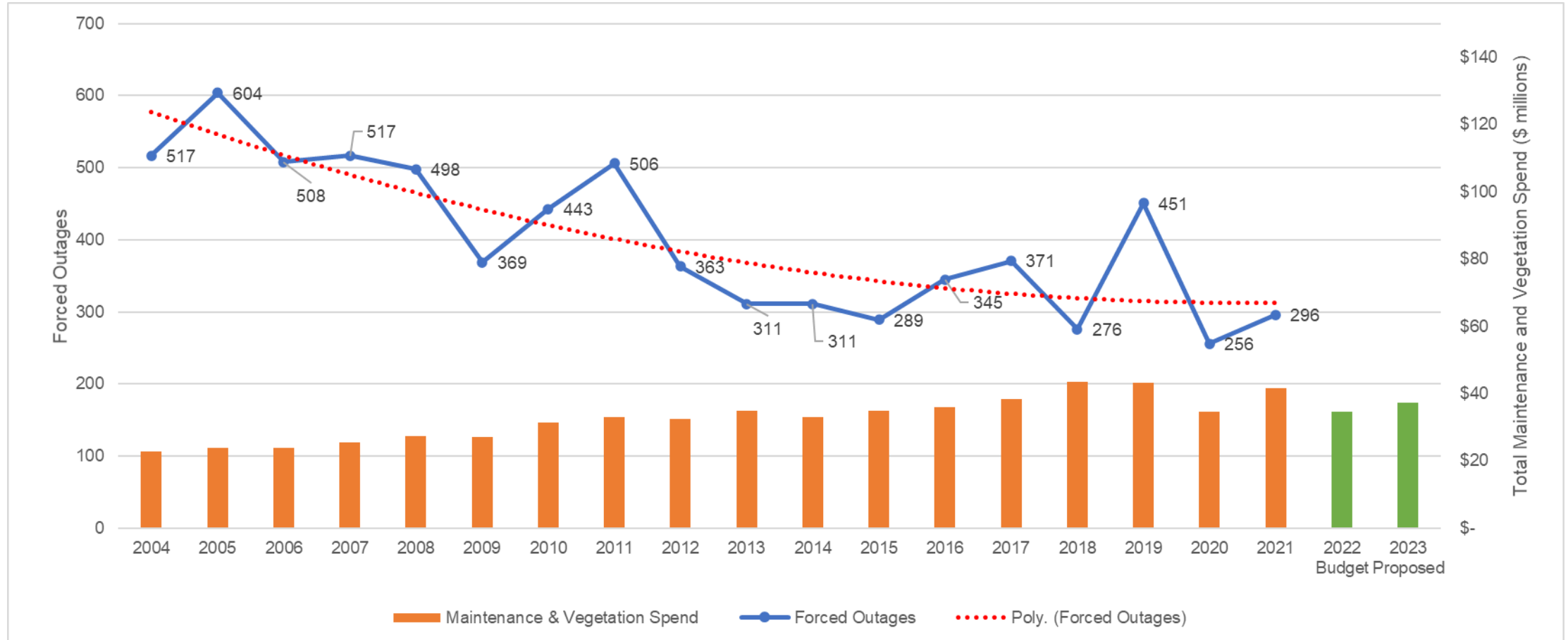
- Through the second quarter of 2022, ATC has incurred one recordable injury and zero recordables by all three vegetation management alliance contractors
- ATC's vegetation management contractors have worked more than 500 consecutive days without a recordable injury

- Reliability

- In 2021, ATC's TSAIDI and TSAIFI performance was better than our 5-year historical average
- Our low number of bulk power outages (200 kV and above) remains among the best in the industry



Cost effective reliability improvement



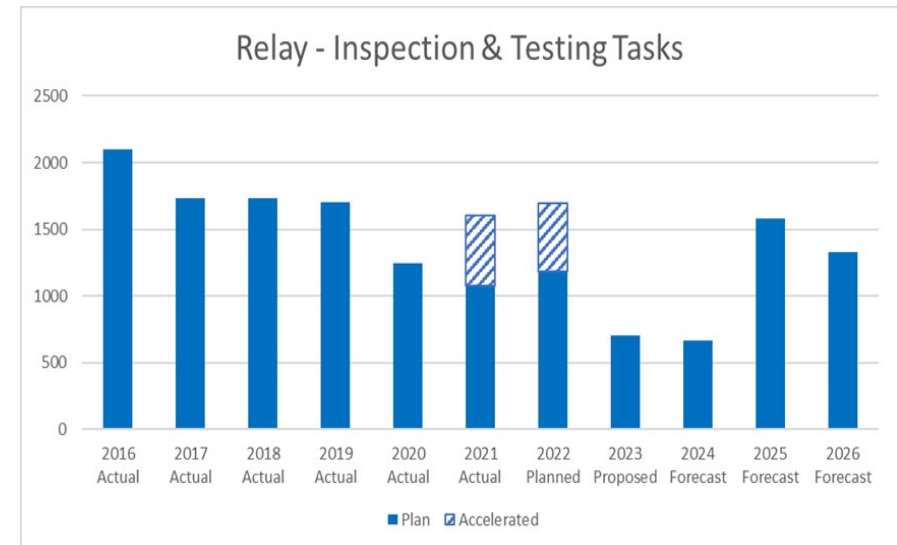
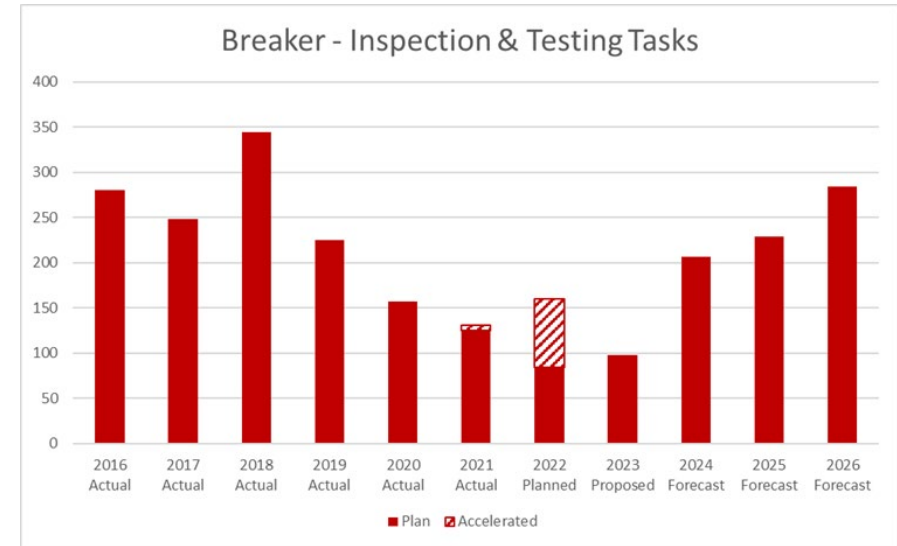
Note: 2018 and 2019 include the Straits and Blount events

In **2021**, ATC's TSAIDI and TSAIFI performance was better than our 5-year historical average

Substation maintenance program changes

Resultant work activities

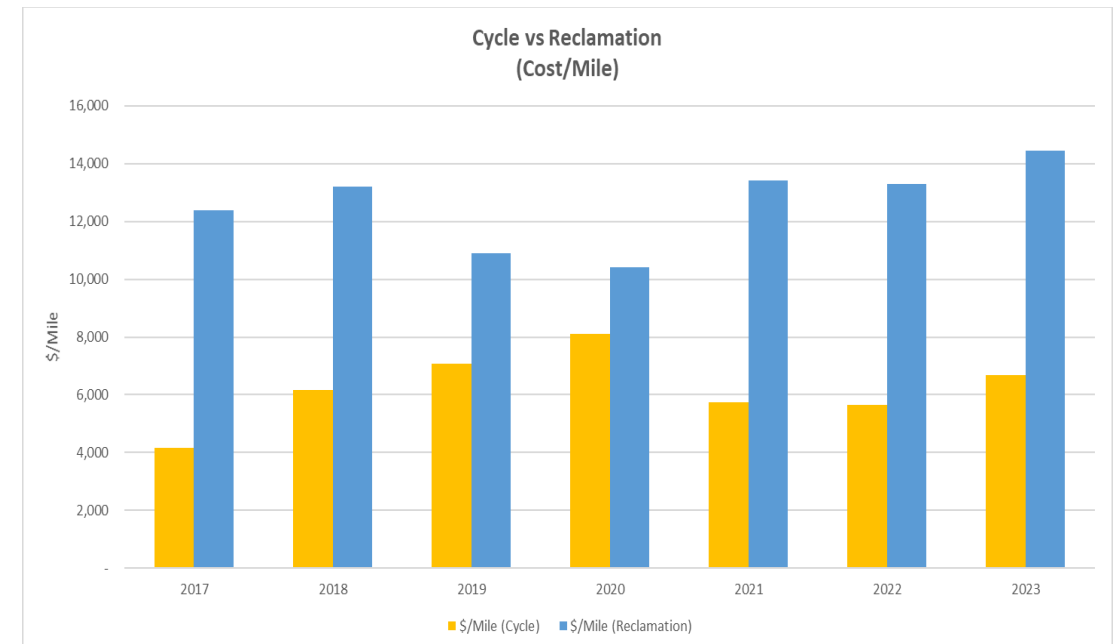
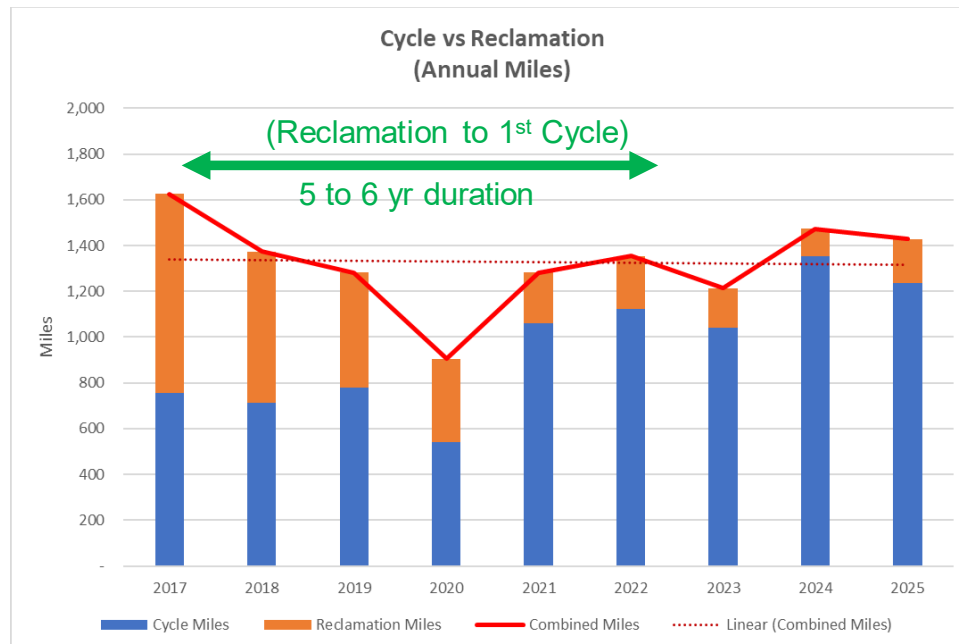
- Utilizing data analytics prudent cycle extensions have provided O&M reductions while maintaining reliability
 - Performance based extension from 8- to 10-year preventative maintenance cycles on non-Mitsubishi gas circuit breakers in 2020
 - Performance based extension from 10- to 15-year preventative maintenance cycles on Mitsubishi gas circuit breakers and microprocessor relays in 2019



Vegetation clearing

Cycle vs Reclamation

- Completed 2,000 miles of reclamation in 2017-2019, which are now coming due on 1st cycle after reclamation
- 2023 Plan:
 - Reclamation – 200 miles
 - Maintain reclamation program progress at reduced pace
 - 7,900 miles have been reclaimed since 2007 and 2,100 miles remaining
 - Cycle clearing - 1,100 miles (~50% less cost per mile than reclamation)



Capital Investment



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2023 Capital projects summary

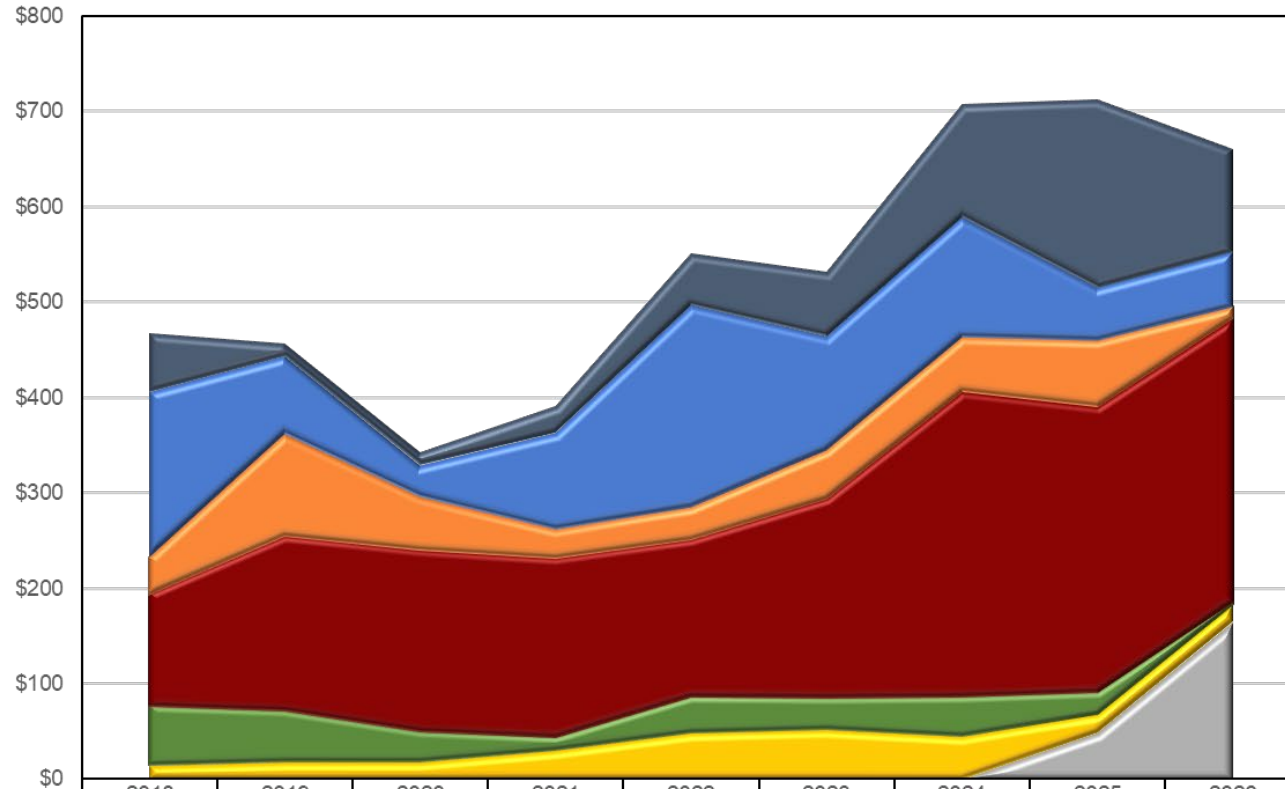
(\$ in millions)

	Project Name/Description	2023	Total Project	Reason
1	Cardinal Hill Valley New 345kV TL	\$ 42.1	\$ 235.5	Network Reliability
2	Mackinac McGulpin Replace Submarine Cables	22.2	101.8	Asset Renewal
3	Wesmark Rapids 69kV (R44) Rebuild	16.7	32.7	Asset Renewal
4	Marinette Marine Load Addition	15.2	22.1	Network Reliability
5	Howards Grove - Erdmann 138kV New T-line	13.7	31.7	Network Reliability
6	Winona Atlantic 69kV (Winona69) Rebuild	12.3	33.4	Network Reliability
7	Y49 Y18 69kV Rebuild	10.0	23.2	Asset Renewal
8	Marquette County Reactive Power	8.3	36.8	Network Reliability
9	Rock County Reliability Project	8.3	49.8	Network Reliability
10	Arcadian SS 345kV Bus Reconfigure	7.6	52.6	Asset Renewal
11	All Other Transmission Projects	375.6		
	Total	\$ 532.0		

Top 10 projects represent **\$156M** or **29%** of the 2023 total

Capital expenditures by category

(\$ in millions)



	2018	2019	2020	2021	2022	2023	2024	2025	2026
■ Generation	62	14	14	28	55	68	118	197	108
■ Network	172	80	33	100	211	119	126	55	58
■ Distribution	38	106	55	30	32	50	56	68	11
■ Asset Renewal	117	183	190	188	166	209	319	298	296
■ Other	63	55	33	15	38	34	42	24	3
■ Non-Transmission	15	18	18	31	49	53	46	20	20
■ Long Range Transmission Plan	-	-	-	-	-	-	-	49	164
Total	467	457	343	392	552	532	707	712	661

- Generator Interconnections, Asset Renewal and MISO Long Range Transmission Plan (LRTP) driving new capital peaks in 2024+
- Reflects the 2021 Generator Interconnections queue
- Does not include:
 - Pending affected system impact studies
 - Future Generator Interconnection queues
 - LRTP Tranche 2

Questions



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Appendix



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Five-Year Outlook

(\$ in Millions)

	2022		2023		2024		2025		2026	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1) Return on Rate Base	322.9	41.8%	344.7	42.2%	370.2	41.6%	393.9	41.9%	431.9	42.8%
(2) Income Taxes	69.6	9.0%	72.3	8.9%	77.8	8.8%	82.1	8.7%	90.2	8.9%
(3) Depreciation Expense	202.0	26.1%	212.8	26.1%	234.1	26.3%	251.7	26.7%	269.1	26.7%
(4) Capital Costs	594.4	76.9%	629.8	77.2%	682.1	76.7%	727.7	77.3%	791.2	78.5%
(5) Operations and Maintenance Expense	143.0	18.5%	145.3	17.8%	148.8	16.7%	151.0	16.0%	153.3	15.2%
(6) Project O&M	6.9	0.9%	9.4	1.2%	13.8	1.6%	16.9	1.8%	17.5	1.7%
(7) Precertification Expense	1.9	0.2%	4.0	0.5%	16.0	1.8%	16.0	1.7%	16.0	1.6%
(8) Property and Other Taxes	26.8	3.5%	27.5	3.4%	28.7	3.2%	29.5	3.1%	30.4	3.0%
(9) Operating Expenses	178.6	23.1%	186.2	22.8%	207.3	23.3%	213.4	22.7%	217.1	21.5%
(10) Total Revenue Requirement	773.0	100.0%	816.0	100.0%	889.5	100.0%	941.2	100.0%	1008.3	100.0%
Offsets										
(11) RECB Revenue	(94.9)		(95.2)		(98.5)		(97.8)		(95.0)	
(12) MVP Revenue	(46.4)		(56.0)		(62.9)		(65.4)		(74.5)	
(13) Other MISO Revenues	(23.7)		(23.2)		(23.6)		(24.1)		(24.5)	
(14) Other Revenue Sources	(1.9)		(1.6)		(1.6)		(1.6)		(1.6)	
(15) (Over)/Under Network Collection	2.7		(0.0)		(0.0)		(0.0)		(0.0)	
(16) 2020 True-up	(5.3)		(0.0)		(0.0)		(0.0)		(0.0)	
(17) 2021 True-up	(0.0)		(6.6)		(0.0)		(0.0)		(0.0)	
(18) Network Billed Revenue	603.6		633.4		702.8		752.3		812.7	

- The RECB (line 11) and MVP (line 12) amounts represent revenues received from MISO relating to ATC's regionally cost shared projects
- Each company should use their load ratio share multiplied by the Network Billed Revenue (line 18) above to arrive at an estimate of Schedule 9 (Network Service) expense for each year

Timing of true-ups

