



2010 Partners in Business METC AND ITC*Transmission*

Jeff Dorr

Manager, Stakeholder Relations



Agenda - Morning

- Introductions
- State of Michigan Activities
- Regulatory Update
- Load Forecast
- ITCTransmission and METC Capital Project Review
- Guest Speaker
- Jeff Dorr, Manager Stakeholder Relations
- Francie Brown, Director, State Governmental Affairs
- Charles Marshall, Regulatory Analyst
- Henry Schwab, Manager, Market Analysis
- John Andree, Manager, Planning
- George Erickcek W.E. Upjohn Institute

Agenda - Afternoon

- Lunch 12:00 to 1:30
- Attachment O Update –
METC & ITC Transmission Update
- Summary / Wrap Up

For more information visit our website www.itctransco.com

Our Project Philosophy - Windows Internet Explorer

http://www.itctransco.com/projects/projectphilosophy.html

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Our Project Philosophy

Our Projects Our Community Investors Partners In Business Newsroom Careers About Us

Our Project Philosophy

In developing system expansion, ITC has a number of goals:

- Maintaining safety
- Improving reliability
- Relieving congestion
- Reducing system losses

Our first focus is on replacing aging transmission facilities and equipment across our service territory in Michigan and other Midwestern states. Since the company's inception in 2003, ITC has invested nearly \$900 million in system upgrades and maintenance. This investment has resulted in increased reliability, a reduction in energy losses and has helped pave the way for the entrance of renewable resources.

At ITC, seeking the innovative solution to reliable, responsible, low-cost electricity is utmost priority.

Click here to download Planning Criteria Download

ITC-METC Planning Criteria.

ITCGP Planning Criteria

ITCMIDWEST Planning Criteria Above 100kV
ITCMIDWEST Planning Criteria Below 100kV

ITCT Annual Summer and Winter Peak Load Dates and Times

ITC Facility Connection Requirements

Our Project Philosophy

Current Projects

- ITC Transmission
- METC
- ITC Midwest
- ITC Great Plains

The Green Power Express

- Project Overview
- Conceptual Map
- Project Filings
- FAQs
- White Papers





State of Michigan Activities
Francie Brown
Director, State Governmental Affairs

Francie Brown

- Director, State Governmental Affairs
- Bachelor of Science degree in Anthropology and Art from Grand Valley State University
- Previously a state regulatory advocate and lobbyist for AT&T and has worked for law firm Dykema PLLC and State Representative James Mick Middaugh
- Lead ITC's regulatory and legislative efforts throughout its regional footprint.

Michigan Legislative Update

2010 Elections –

- Race for Governor- Rick Snyder (R) and Virg Bernero (D)
- Election of 110 House members and 38 Senators
- Democrats control the House, Republicans control the Senate
- General Election on November 2, 2010
 - Anti-incumbent mood – State and Congressional
 - Tea party
 - Mid-election year turnout is generally lower

Michigan Legislative Update

Michigan Budget dominates Session:

- \$250 Million hole in FY 2010 General Fund Budget
 - One-time fixes for the budget
 - Early retirement of state employees
 - Liquor reforms
 - Tax amnesty program
- Early retirement of public school employees netted about $\frac{1}{2}$ of the possible 47,000 eligible

Michigan Legislative Update

House Bills 4245 & 4284 –

Changes PAC Solicitation process

- Eliminates the annual signature requirement for employee contributions to company PAC
- Remains in the Senate Campaigns & Elections Committee

Michigan Legislative Update

House Bill 5302 & Senate Bill 792 – “Anti-Private Property Rights”

- Prohibits an employer from prohibiting an employee from bringing firearms and ammunition onto company property if locked in a vehicle trunk
- Continued opposition from a coalition of business, industry and utilities including the State Chamber and the Michigan Manufacturers Assn.

Michigan Legislative Update

House Bills 5906, 5907, 6063-6070 – Increases RPS and EE Standards

- Amends PA 295 of 2008 to increase:
 - RPS to 20% by 2020 and 30% by 2025
 - EE standard to 1.50% in 2014, 1.75% in 2015, and 2.00% in 2016
 - Natural gas EE standard to 1.00% in 2013, 1.25% in 2014, 1.50% in 2015, and 2.00% in 2016
- Bills remain in the House Energy and Technology Committee

Michigan Legislative Update

House Bill 6407 & Senate Bill 1456 – Preservation of Economic Development Rates

- Introduced September 1, 2010 and August 17, 2010 respectively
- Creates a new act to preserve certain economic development rates or contracts
- Provides for the adoption of certain rate-making principles
- Referred to the House and Senate Committees dealing with energy issues

Michigan Legislative Update

House Bill 6415 –

Zoning for Wind Turbine Towers

- Introduced by Representative Rick Jones
- Amends the Michigan Zoning Enabling Act
- Extends zoning jurisdiction 1.5 miles from the boundary of the local unit of government
- Changes the set back requirement for a wind tower located on the property of the end user of the electricity generated from the turbine
- Referred to the House Committee on Energy and Technology

Michigan Legislative Update

Senate Bills 1066 & 1067

- Introduced by Senator Birkholz (PA 295 sponsor)
- Work continues on bills to implement Great Lakes Offshore Wind Council's (GLOW) recommendations on off-shore turbine permitting and transmission.

Great Lakes Offshore Wind Council

- Charged with recommending criteria to identify the most and least favorable areas for offshore wind development
- Legislative recommendations
- Final report due in November 2010

Michigan Legislative Update

Senate Bills 1310-1314 -

Utility Theft and Assaulting a Utility Employee

- Introduced in April 2010 by bipartisan group of Senators
- Signed by the Governor on July 21, 2010; effective date July 28, 2010

Wind Energy Activities

As Previously Reported:

- The MPSC issued an order on 1/27/10 naming Region 4 (Thumb) a primary zone and Region 1 (Allegan County) as another zone. This designation allows the expedited siting process to be used in the areas.
- ITC submitted to the MPSC on 2/3/10 a 60-day notice of intent to file a transmission plan at MISO to support the wind zone development in Region 4.
- ITC submitted the transmission plan to the MISO on April 14, 2010 for out-of-cycle review.

Wind Energy Activities

Recent Activities:

- The Thumb Loop project was approved at MISO on August 19th, 2010 by the MISO Board of Directors.
- ITC filed a case (U-16200) for an expedited siting certificate for the Thumb Loop project at the MPSC on August 30th, 2010
- Prehearing Conference held on September 20, 2010
 - Interventions granted to Consumers Energy, Detroit Edison, MPPA and MMEA.
 - Schedule in the case has been set.

MPSC Cases of Note

Case No. U-16198

- The MPSC sought comments on PA 295 related to efforts to promote load management and reduce peak demand and recommendations for legislative action.
- The comments supported reviewing demand response programs but varied on the need for any legislative action.
- The MPSC's report due to the Legislature by December 31st, 2010.

MPSC Cases of Note

Case U-15899

- Order issued on July 27th restating voluntary negotiations on cost allocation unrelated to the authority for utilities to recover transmission costs.
(This was a petition for rehearing filed by the AG)

Case U-16406

- On August 10th, order issued approving an experimental electrical vehicle tariff for Detroit Edison.

MPSC Cases of Note

Case U-16077

- On July 7th, Commission Staff issued report on the EGAA for the proposed Holland Board of Public Works power plant.

Case U-16196

- Commission is requesting comments on separation of Distribution and Generation within electric utilities
- Report due to the Legislature by October 2010

Other Regulatory Items of Note

- Several Energy Optimization plans have been reconciled
- Renewable energy contracts approved between Detroit Edison and Consumers Energy and various parties.
- Some contracts were for Renewable Energy Credits (REC's) while others were for both REC's and the associated energy.



Regulatory Update

Charles Marshall
Regulatory Analyst

Charles Marshall

- Regulatory Analyst, Regulatory Strategy
- B.S. Electrical Engineering from Michigan Technological University
- Masters of Business Administration from University of Michigan
- Project engineer at ITC
- Substation design engineer at ITC
- Currently an analyst for regulatory matters at FERC and the Midwest ISO and advocates for policies that support development of a reliable and robust transmission system that fosters competitive energy markets

Regulatory Update

- FERC's Notice of Proposed Rule Making (NOPR)
 - Transmission Planning
 - State and federal policy
 - Interregional planning
 - Cost Allocation
 - Alignment of planning and cost allocation
 - US Court of Appeals 7th Circuit
 - Midwest ISO's; SPP's
 - Right of First Refusal
 - Discrimination Concerns
 - Selecting who builds
 - Rate Recovery
 - Central Transmission and Primary Power

Regulatory Update

- Midwest ISO's Cost Allocation Filing
 - Development of Multi Value Project (MVP) category
 - Retained 100 or 90 percent participant funding of network upgrade for Generator Interconnection Projects (GIP)
 - ITC Companies to retain existing GIP network upgrade policy
 - Collection of revenue via energy (MWh) vs. the traditional demand (MW)

Regulatory Update

- Midwest ISO's 890 Compliance
 - Clarifying the required “contractual commitments” that apply to generation and demand-side resource alternatives
- ITC Midwest Depreciation Rates
 - Composite rate of 3.23% was updated to 2.73%
 - Estimated reduction in annual revenue requirement of \$4.7 MM
- Energy Storage Devices
 - Function of asset
 - Uses of asset (Jurisdictional)
 - Classification of asset (Transmission, Generation, Distribution, Demand-Response)
 - Accounting treatment of asset
- Attachment GG True Up
 - The 2011 rate will include the true up from 2009
- Phase Angle Regulator (PARS)
 - NYISO: Loop flow case
 - Cost allocation





2011 ITC/METC Forecasts For Attachment 0

Henry Schwab



Henry Schwab

- Manager, Load Forecasting
- Prior to ITC, 30 years experience with Detroit Edison, in Market Research and Load Research Forecasting
- Responsible for load forecasting and economic forecasting function

Model structure is similar

- ITC and METC models are short term and incorporate:
 - Weather factors
 - Calendar terms
 - Economic terms
- Model variables differ somewhat
 - Different economic drivers
 - Weather drivers appropriate for geographic area

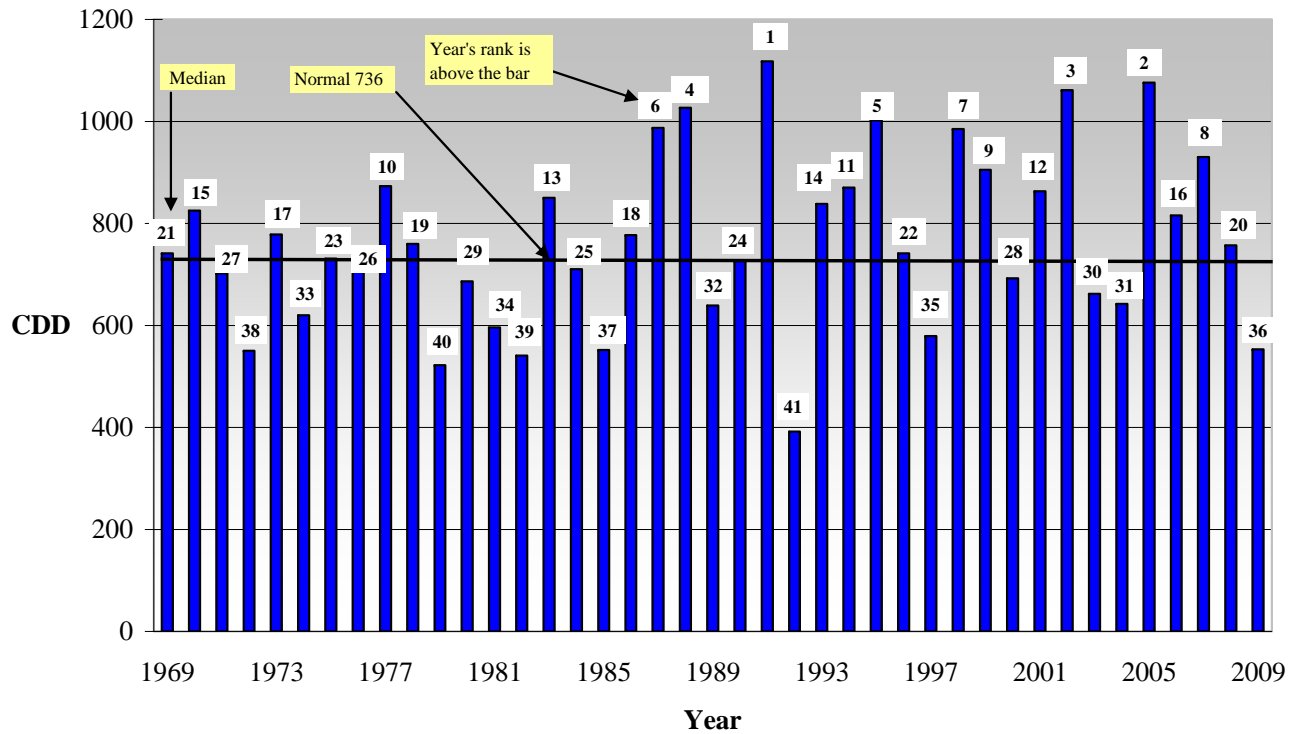


Short Term Models Tend To Respond More To Weather

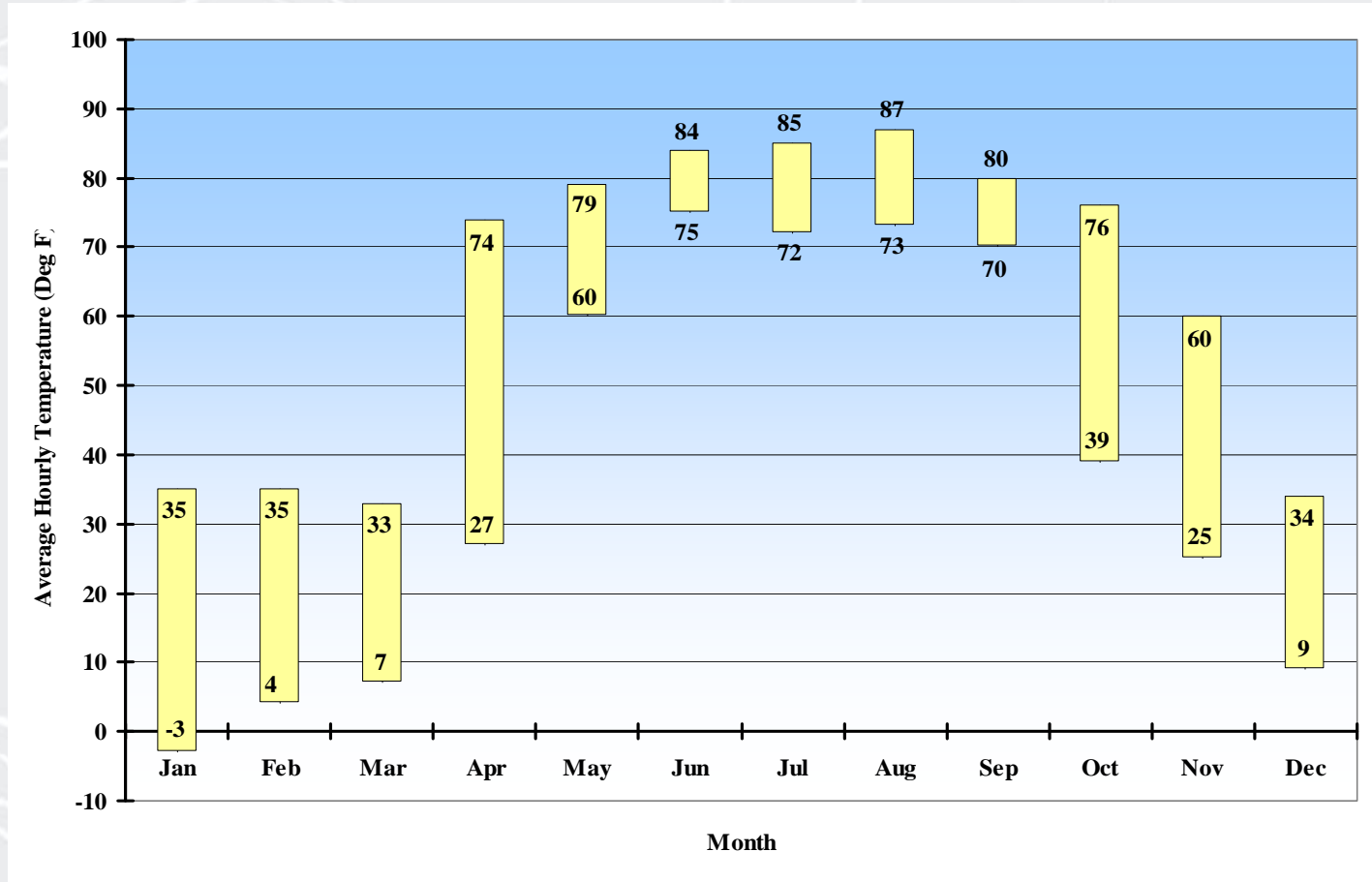
- Other variables, e.g., economics, don't vary much from year to year
- Weather, however, can vary far more in relative terms

Detroit Metro Airport 1969-2009

Cooling Degree Days (CDD) 65°F Base



Range Of Average Hourly Temperature On Days Of ITC Monthly Peaks, 1995-2009



Model Structures

ITCT Model:

Estimation period: 2004-2009

Economic Factors: Manufacturing Employment, Retail Sales

Weather Factors: HDD60_b, CDD60_b

(June 2006 not used – peak day was on weekend)

METC Model:

Estimation period: 2003-2009

Economic Factors: Real Personal Income

Weather Factors: HDD60_b, CDD65_b

(June 2006 not used – peak day was on weekend)

- Economic factors are for SMSAs in the geographic area
- Weather factors were developed from appropriate locations

2011 ITCT Billing Demand Forecast

ITCT 2011 Forecast			
Month	Max MW	Wyandotte	Network MW
Jan	7,211	-3	7,208
Feb	7,088	-9	7,079
Mar	7,053	-6	7,047
Apr	6,514	-17	6,497
May	8,050	-11	8,039
Jun	10,738	-12	10,726
Jul	10,409	-10	10,399
Aug	10,882	-11	10,871
Sep	9,399	-5	9,394
Oct	6,542	-6	6,536
Nov	6,864	-7	6,857
Dec	7,195	-4	7,191
Annual	97,944	-100	97,844

- The adjustment for Wyandotte is minimal
- Total billing demand is slightly more than 97.8 GW
- 2010 total maximum demand is tracking ~ 400 MW year-to-date (through August) compared to weather adjusted actual, or 0.6%

2011 METC Billing Demand Forecast

2011 METC Forecast	
Month	Network MW
Jan	5,911
Feb	5,954
Mar	5,910
Apr	4,966
May	5,692
Jun	7,895
Jul	7,930
Aug	8,299
Sep	6,948
Oct	5,617
Nov	5,996
Dec	6,442
Total	77,559

- Entitlements (not displayed) are expected to be over 5,900 MW
- Total billing demand is 77.6 GW
- 2010 total maximum demand is tracking ~ 60 MW year-to-date (through July) compared to weather adjusted actual, or 0.1%

Uncertainties

Economic Uncertainties:

Federal Tax Policy

Mid Term Elections

Potential Double Dip Recession, or

Depressed economic growth first 6 months of 2011

Weather Uncertainties:

Warmer or Colder?

NOAA = Warmer

Old Farmer's Almanac/Farmer's Almanac = Colder



Questions?



ITC Transmission & METC Capital Project Review

John Andree

Manager, ITCT/METC Planning

John Andree

- Manager of ITCTransmission/METC Planning
- Graduated from Michigan Tech with a BSEE in 1989, and an MSEE in 2005; MBA from Wayne State in 2003
- Worked for Wolverine Power Cooperative (in Cadillac MI) from 1991 until 1996 in their Engineering group
- Worked for Detroit Edison from 1996 until 2003 in the System Optimization Group and then the Transmission Planning Group
- Registered Engineer in the State of Michigan



Topics

- 2010 ITC Assessment Work
- MidwestISO MTEP11
- ITC *Transmission* Projects
- METC Projects
- Status of 2010 MTEP Projects
- Next Steps

2010 ITC Assessment Work

- Near Term: 2015 Study Year
- Long Term: 2020 Study Year
- Peak & Off Peak Studies
- Sensitivities
 - Ludington Generating and Pumping (various levels)
 - Various Import Levels in and out of Canada
 - 70/30 & 50/50 Load Forecasts Used
 - With and without Wind Zone Thumb Project
- Thermal and Voltage Analysis
- Identify System Constraints – based on the ITC Planning Criteria which has its basis in ‘Good Utility Practice’ but now is based on mandatory NERC Planning Standards.
- Previously approved MTEP projects restudied for continued need
- Most severe constraints identified for inclusion in 2011 MTEP

Midwest ISO MTEP11

- Cases Midwest ISO will be using to analyze the systems
- 2 Year Out Model
 - Peak and Shoulder Peak
- 5 year Out Model
 - Peak and Shoulder Peak
- 10 Year Out Model
- Light Load Model
- Midwest ISO will also be setting up and studying sensitivity cases as appropriate for different study areas to evaluate projects for MTEP11.
- Set Schedule for project review in SPM and Technical Task Force meetings for Michigan

Where ITC is at

- Planning – Has identified potential issues on the grid using the current forecasts and identified potential proposals to solve the issues.
- Engineering – Has identified infrastructure issues with the system and programs to resolve these issues.
- Proposed projects within the appropriate time horizon will be submitted to Midwest ISO for consideration to be moved to Appendix A in MTEP11.

ITC Transmission - 2011 MTEP



Distribution Connections

- Dexter - 120/13.2kV Substation in Dexter Twp.
- Lima - 120/40kV Substation in Lima
- Detroit Wastewater - 120/13.8kV Substation in Detroit
- Distribution Interconnection Blanket for smaller scale interconnection projects yet to be identified

ITC Transmission – 2011 MTEP



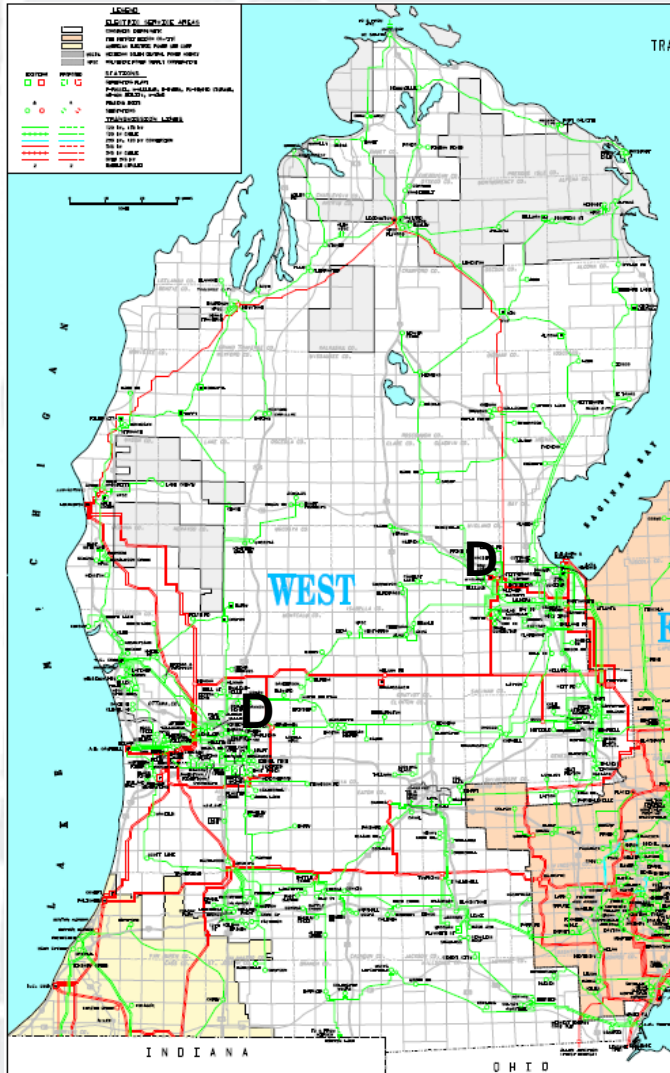
Capacity/System Reinforcement

- Fermi 120kV Capacitor
- Southfield – Sunset 120kV Rebuild

ITC *Transmission* – 2011 MTEP

- Infrastructure Improvement
- Breaker Replacement Program
- Cato GIS equipment rebuild
- NERC Relay Loadability Compliance
- Potential Device Replacement Program
- Relay Betterment Program
- Wood Pole Replacement Program

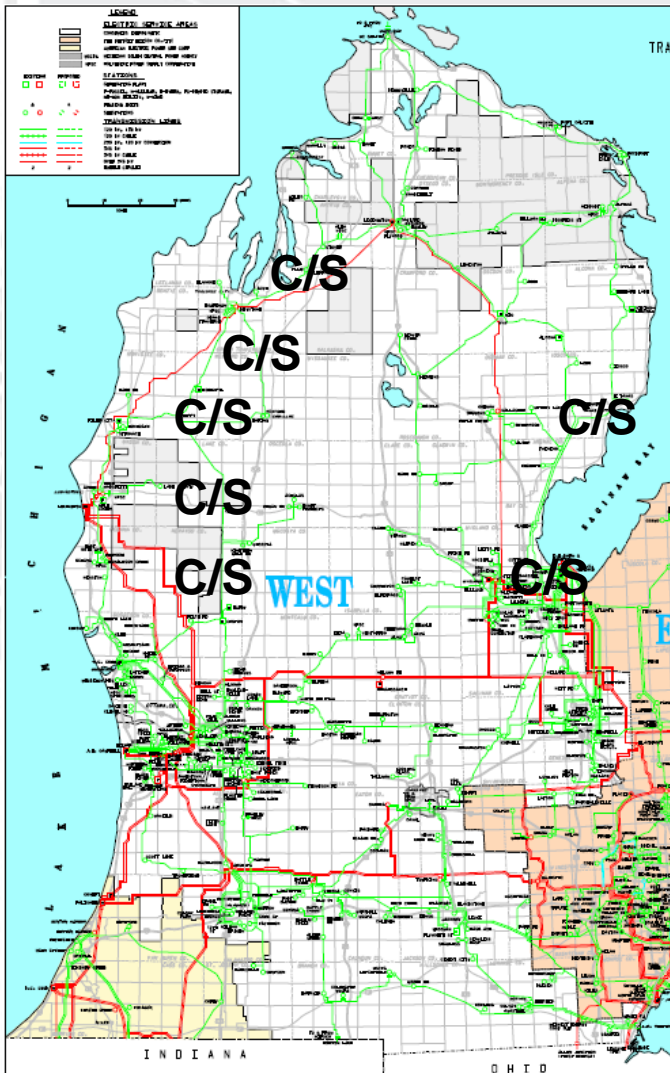
METC – 2011 MTEP



Distribution Connections

- Discovery Way – Relay changes for 138kV Circuit Switcher in Midland
- Ratigan – Tap Pole and switches for 138/24.9kV Substation in Cannon Twp
- Distribution Interconnection Blanket for smaller scale interconnection projects yet to be identified

METC – 2011 MTEP



Capacity/System Reinforcement

- Chase - Mecosta 138kV rebuild
- Cottage Grove – East Tawas 138kV rebuild
- Croton – Nineteen Mile 138kV rebuild
- Karn – Cottage Grove (Karn) relay replacement
- Keystone – Hodenpyl 138kV rebuild
- Plum - Stover 138kV rebuild
- Tippy – Wexford (Tippy) terminal equipment replacement
- 138kV Sag Clearance Program

METC – 2011 MTEP

- Infrastructure Improvement
- Battery Replacement Program
- Breaker Replacement Program
- NERC Relay Loadability Compliance
- Potential Device Replacement Program
- Power Plant Controls Relocation Program
- Relay Betterment Program
- Spill Prevention Control and Countermeasure (SPCC) Program
- Riggsville Station Rebuild
- Wood Pole Replacement Program

ITC Transmission Status of 2010 MTEP Projects

- Belle River – Greenwood – Pontiac 345kV Cut into Jewell: Move to Appendix B
- Michigan Thumb Wind Zone: Move to Appendix A
- St. Antoine – Essex #2 120kV Underground Cable: Move to Appendix B
- All Distribution Interconnections: Move to Appendix A
- All Infrastructure Improvement Projects: Move to Appendix A

METC Status of 2010 MTEP Projects

- David Jct. – Hubbardson Jct - Bingham 138kV Sag Limit Remediation: Move to Appendix A
- Livingston – Riggsville 138kV Rebuild:
 - Livingston – Vanderbilt: Move to Appendix A
 - Vanderbilt – Riggsville: Move to Appendix B
- McGulpin Shunt Reactor: Move to Appendix A
- 138kV SAG Clearance Program: Move to Appendix A
- All Distribution & Transmission Interconnections: Move to Appendix A
- All Infrastructure Improvement Projects: Move to Appendix A

Next Steps

- MTEP 2011 Schedule posted by the Midwest ISO for rest of 2010
 - The list of projects and project justification documentation was submitted to the Midwest ISO by Sept 15
 - Preliminary plans to be posted by the Midwest ISO by Sept 20
 - Initial comments by stakeholders due Nov 5
 - 1st SPM Meeting no later than Dec 30
- ITC Assessments will be completed by Oct 31
- Focused Area Studies ongoing for Northern Michigan Area



LUNCH BREAK



***ITC*Transmission & METC**
2011 Attachment 0 Rate Presentation

Meeting Purpose

The purpose of today's meeting is to review the 2011 Attachment O formula rates, the input projections, and cost details for *ITC Transmission* and Michigan Electric Transmission Company (METC).

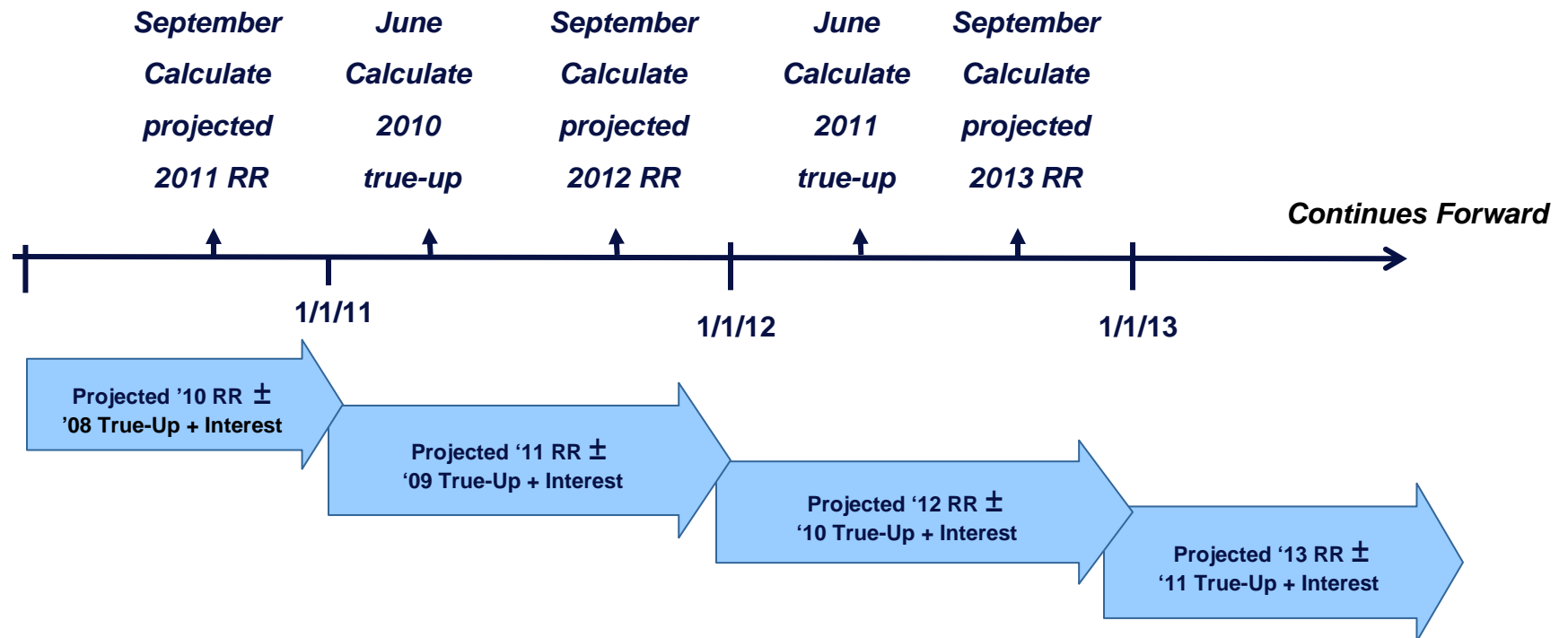
The proposed network rates will be effective January 1 through December 31, 2011. The rates were calculated using the Midwest ISO Tariff Attachment O using projected net revenue requirement and projected load.

The timeline for calculating both the Attachment O Projected Rate and the True-up will be followed by a detailed description of the *ITC Transmission* and the METC projected 2011 rates in turn.



Forward Looking Attachment O Timeline

Forward Looking Attachment O Timeline



The Rates are posted on OASIS: Projected on September 1st and True-up on June 1st.



2011 Planned Capital Additions

The development of the annual Rate Base begins with a forecast of planned capital additions. The ITC *Transmission* and METC Planned Capital Addition slides identify expected line and substation construction projects as they are currently known.

The dates and schedules, and even the projects themselves, identified represent our best estimates for projects to be initiated and completed. Please be aware that many factors could alter those schedules, including regulatory approvals, construction resources, availability of materials, weather, and other unforeseen events.

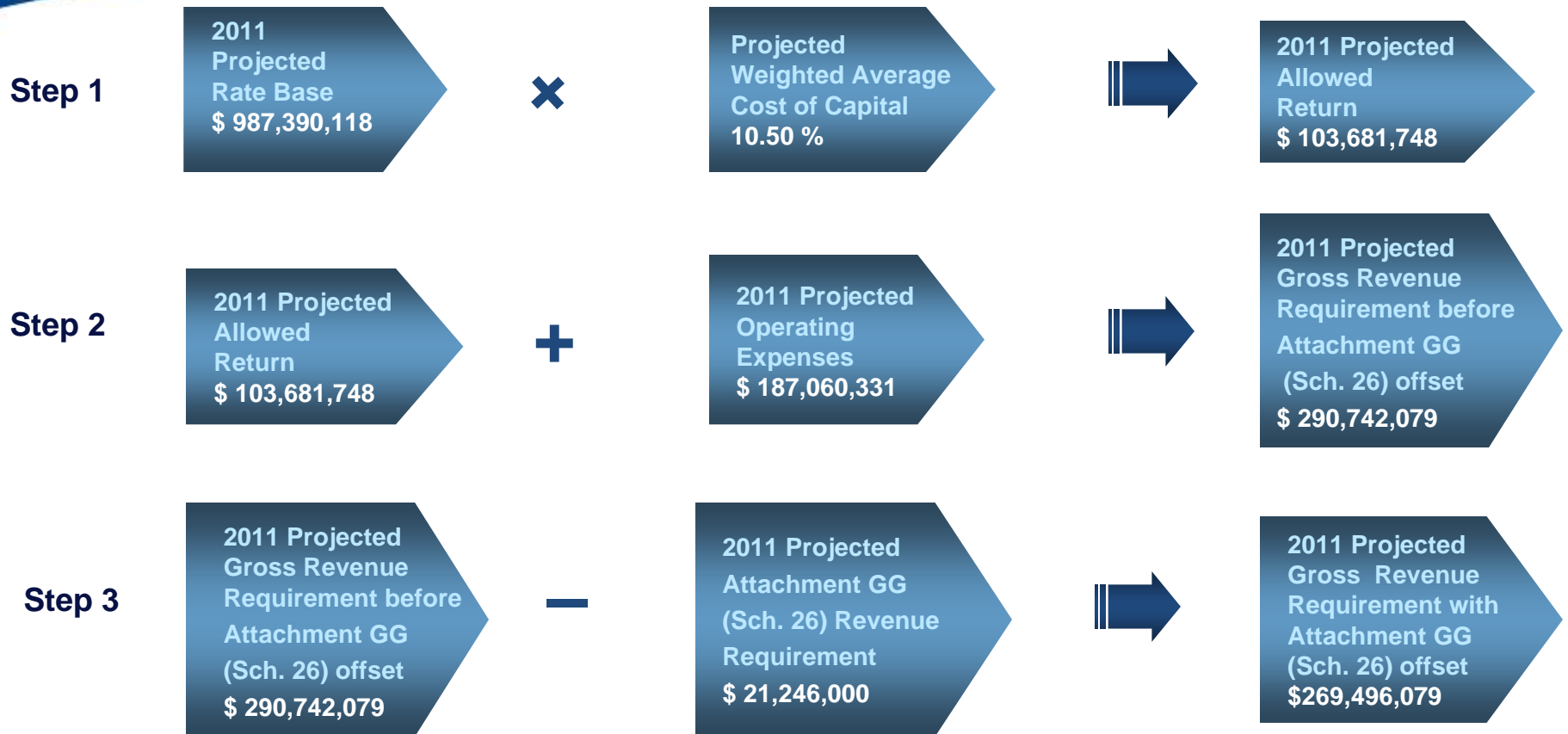




***ITC*Transmission**
2011 Projected Attachment 0 Rate

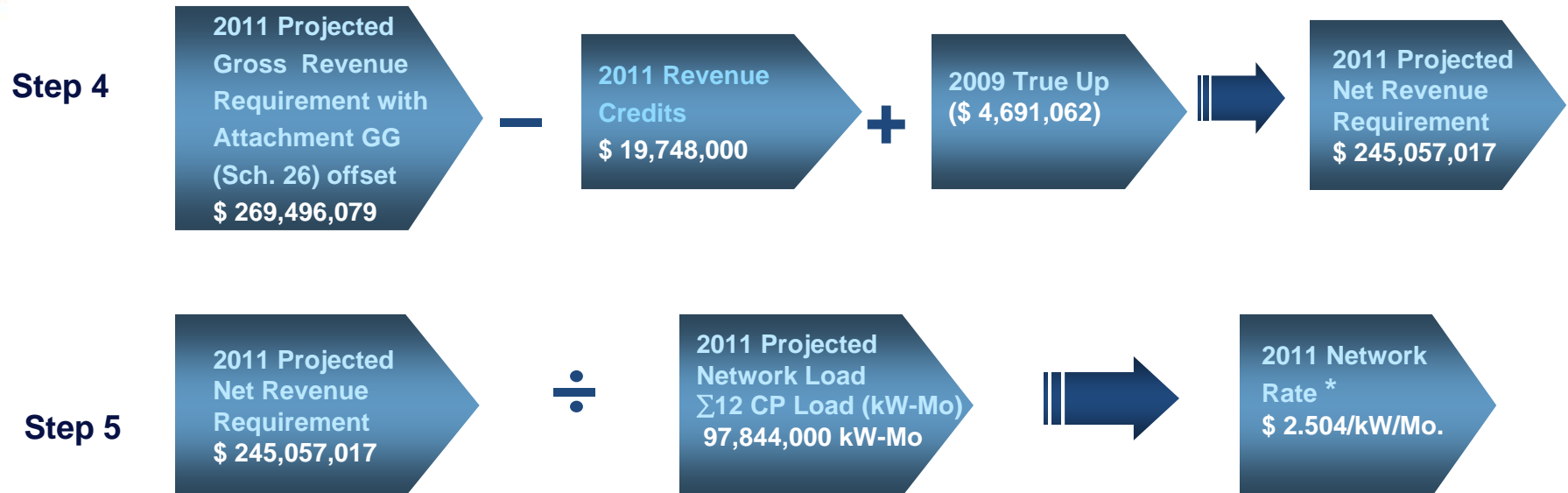
ITC Transmission Attachment O

Using Attachment O to Derive the 2011 Billing Rate



ITC Transmission Attachment O

Using Attachment O to Derive the 2011 Billing Rate



* This represents only the ITC Transmission portion of the joint zone network rate. Schedules 1 & 26 are billed separately by Midwest ISO.

2011 ITC Transmission Planned Capital Additions

MISO Project ID#	Forecasted Projects	Construction Start Date	In-Service Date	Plant Additions*
<u>Reliability-Infrastructure Improvements</u>				
1861, 2519, 2918	Breaker Replacements (2010 - 2013)		Ongoing	\$ 8,534,836
2533, 2534, 2922	Wood Pole Replacement Program (2010 - 2013)		Ongoing	2,928,349
	Normal and Emergency Retirement Unit Changeouts		Ongoing	2,367,314
1865, 2521, 2921	Relay Betterment Program (2010 - 2013)		Ongoing	1,988,135
2527, 2528, 2920	Potential Device Replacement (2010 - 2013)		Ongoing	289,865
	Battery Replacement Program		Ongoing	137,111
	Surge Arrester Replacement Project		Ongoing	114,990
2530, 2531	Power Plant Control-St. Clair PP 120kV Yard	Jan '10	Dec '11	1,094,862
	River Rouge Switchyard Disconnect	Feb '11	Dec '11	845,668
<u>General Plant</u>				
	Vehicles, Tools & Equipment		Ongoing	\$ 4,113,956
	General Facilities		Ongoing	1,716,565
	Security		Ongoing	1,183,838
	Information Technology		Ongoing	1,775,757
	PeopleSoft Upgrades	Feb '11	Jul '11	2,897,596
	New TMS Hardware for MI	Feb '11	Aug '11	7,350,427

*Includes previous years' expenditures for multi-year projects.



ITC Transmission Step 1 – Establish Rate Base

Rate Base Item	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Gross Plant in Service	\$ 1,603,189,000	\$ 1,550,836,000	\$ 52,353,000	Additions to plant (details on the capital additions page)
Less Accumulated Depreciation	603,576,000	586,655,000	16,921,000	Additional year of depreciation expense
Net Plant in Service	999,613,000	964,181,000	35,432,000	
Deferred Taxes	(101,717,000)	(94,838,000)	(6,879,000)	Higher deferred tax liability attributable to property additions
Revenue Deferral	-	4,973,000	(4,973,000)	Fully amortized in 2011 - year end balance is \$0
ADIT Deferral	33,836,000	36,866,000	(3,030,000)	Amortization of balance
Materials & Supplies	40,687,092	37,341,885	3,345,207	2011 reflects current inventory levels
Land Held for Future Use	6,723,000	6,723,000	-	
Prepayments	995,000	650,000	345,000	2011 includes additional prepayments to vendors for IT contracts, etc.
Computed Working Capital	7,253,026	7,194,959	58,067	Increase in recoverable O&M expenses
Total Rate Base	\$ 987,390,118	\$ 963,091,844	\$ 24,298,274	

ITC Transmission Step 1 – Establish Cost of Capital & Allowed Return

Cost of Capital	Ratio	Cost	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Equity	60%	13.88%	8.33%	8.33%	0.00%	
Debt	40%	5.43%	2.17%	2.05%	0.12%	Higher interest rates on refinanced revolver
Rate of Return			10.50%	10.38%	0.12%	

Allowed Return	
Rate Base	\$ 987,390,118
x Return (above)	10.50%
= Allowed Return	\$ 103,681,748

ITC Transmission Step 2 – Determine Operating Expenses & Gross Rev. Requirement

Operating Expense Items	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Operation & Maintenance Expense	\$ 32,009,000	\$ 30,337,000	\$ 1,672,000	2011 better reflects engineering and IT maintenance costs (included in G&A in 2010)
Plus Administrative & General Expense	26,015,206	27,222,673	(1,207,467)	2011 reflects reduction for engineering and IT maintenance costs coupled with lower allocation of corporate expenses
Depreciation Expense	38,088,000	37,093,000	995,000	Higher depreciable asset base
Amortized Revenue Deferral	4,973,000	11,934,000	(6,961,000)	2011 reflects last 5 months of amortization
ADIT Adjustment	3,030,000	3,030,000	-	
Taxes Other Than Income Taxes	30,020,000	28,781,000	1,239,000	Increase in property taxes due to higher asset base
Income Taxes	52,925,125	52,373,505	551,620	Greater rate base
Total Operating Expenses	\$ 187,060,331	\$ 190,771,178	\$ (3,710,847)	

Gross Revenue Requirement

Allowed Return	\$ 103,681,748
+ Total Operating Expenses	187,060,331
= Gross Revenue Requirement before Attachment GG (Sch. 26) offset	<u>\$ 290,742,079</u>



ITC Transmission Step 3 – Establish Gross Revenue Requirement with Sch. 26 offset

Schedule 26 Offset	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Total Attachment GG (Schedule 26) offset	\$ 21,246,000	\$ 22,125,461	\$ (879,461)	2011 projections based on full year impact of 2010 projects in-service, MTEP '09 regionally shared projects and previous MTEP '07 & '08 regionally shared projects

Gross Revenue Requirement with Schedule 26 Offset	
Gross Revenue Requirement before Attachment GG (Sch. 26) offset	\$ 290,742,079
- Attachment GG (Sch. 26) offset	21,246,000
= Gross Revenue Requirement with Attachment GG (Sch. 26) offset	\$ 269,496,079

ITC Transmission Step 4 – Establish Net Revenue Requirement

Revenue Credit Item	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Point to Point	\$ 4,067,000	\$ 2,643,000	\$ 1,424,000	2011 projections based on increase in PTP revenue ITC Transmission is experiencing in 2010
Rental Revenue	15,681,000	15,657,000	24,000	
Total Revenue Credits	\$ 19,748,000	\$ 18,300,000	\$ 1,448,000	

2009 Attachment O True-up Calculation	True-up Explanation
Actual Net Revenue Requirement	\$ 230,843,102
Actual Network Revenues	235,228,912
True-up Principal Under/(Over) Recovery before Interest	\$ (4,385,810)
Monthly Interest Rate	0.0029
Number of Months	24
True-up Interest	\$ (305,252)
True-up Principal and Interest	\$ (4,691,062)

Payable is due to lower recoverable operating expenses and a lower cost of debt which resulted in a lower return on rate base; partially offset by lower load

Net Revenue Requirement	
Gross Revenue Requirement with Attachment GG (Sch. 26) offset	\$ 269,496,079
- Revenue Credits	19,748,000
+ True-up	(4,691,062)
= Net Revenue Requirement	\$ 245,057,017



ITC Transmission Step 5 – Establish Billing Rate

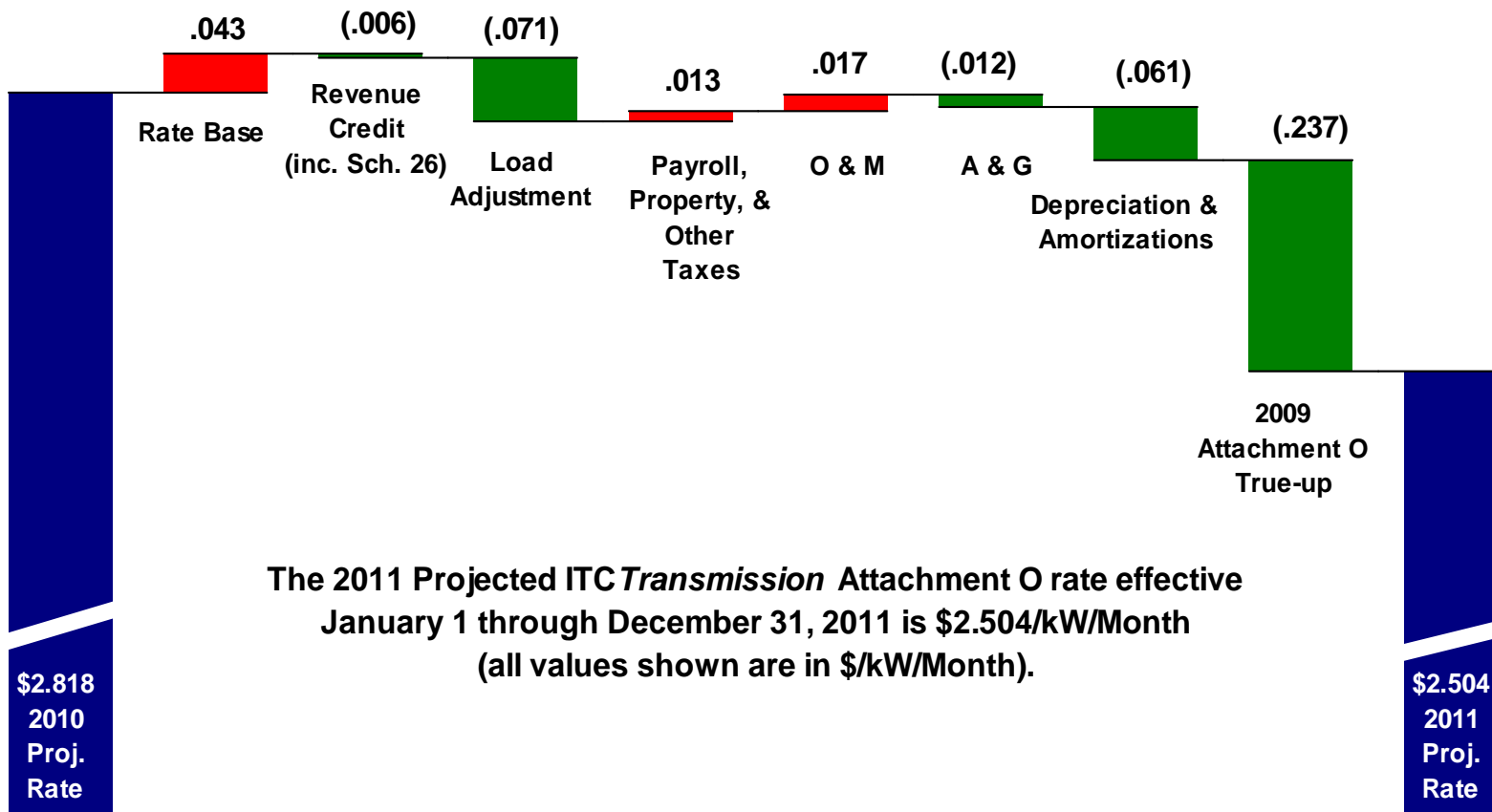
Coincident Peak Loads	2011 Projected Load	2010 Projected Load	Increase/ (Decrease)	Explanation
Sum of Monthly Coincident Network Peak Loads (in kW-Mo)	97,844,000	95,388,000	2,456,000	Based on internal short term peak demand forecast model

ITC Transmission 2011 Network Rate Calculation	
Net Revenue Requirement	\$ 245,057,017
÷ Σ 12 CP Load (kW-Mo)	97,844,000
= ITC Transmission 2011 Network Rate (per kW-Mo)	<u>\$ 2.504</u>

- This represents only the ITC Transmission portion of the joint zone billing rate. The final rate paid by customers is determined by MISO.
- Schedules 1 & 26 are billed separately by MISO.



2011 ITC *Transmission* Year Over Year Change in Rate



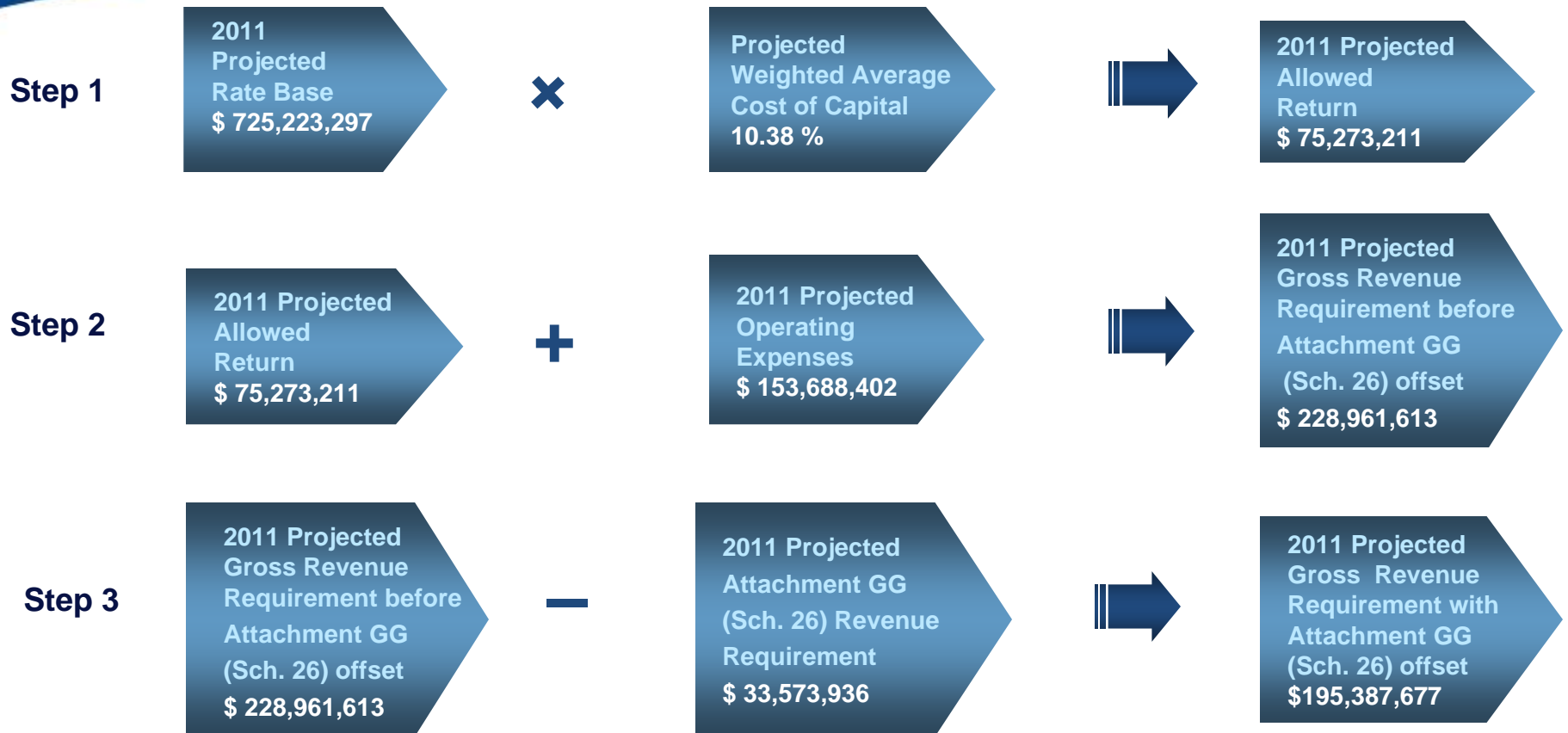


METC

2011 Projected Attachment 0 Rate

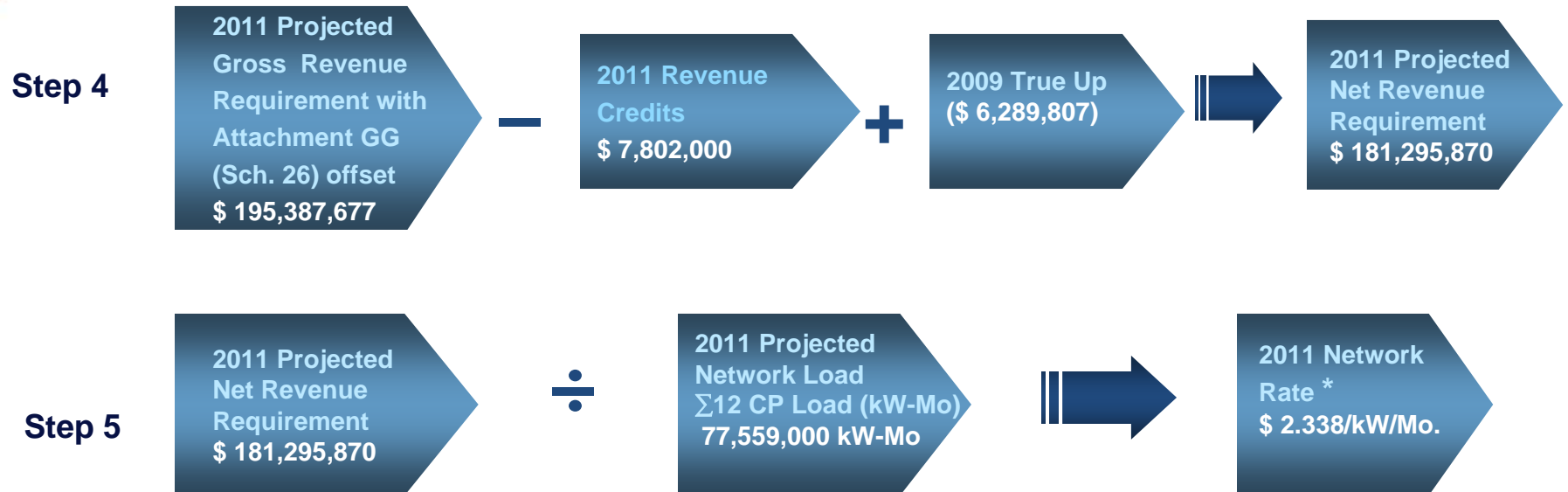
METC Attachment O

Using Attachment O to Derive the 2011 Billing Rate



METC Attachment 0

Using Attachment 0 to Derive the 2011 Billing Rate



* This represents only the METC portion of the joint zone network rate. Schedules 1 & 26 are billed separately by Midwest ISO.

2011 METC Planned Capital Additions

MISO Project ID#	Forecasted Projects	Construction Start Date	In-Service Date	Plant Additions*
<u>Reliability-System Capacity Improvements</u>				
988	Simpson-Batavia 138kV Line	Mar '09	Dec '11	\$ 30,704,277
1796	Alameda-Twinning 138kV Rebuild	Mar '10	Dec '11	22,819,200
2500	Murphy 2nd 345/138kV Transformer	Feb '10	Jun '11	20,134,361
1827, 1833, 2909	138kV Sag Clearance (2010 - 2013)	Apr '09	Jun '11	3,461,046
2917	David Jct-Bingham Sag Remediation	Feb '11	Jun '11	1,216,860
2489	Tippy-Keystone Terminal Equipment Replacement	Jan '11	Jun '11	60,215
<u>Reliability-Infrastructure Improvements</u>				
2515	Genoa Oakland Tihart 138kV Structure Replacement	Jan '10	Aug '11	\$ 18,871,627
1806	Delhi-Island Rd. 138kV Rebuild	Jan '10	Jun '11	14,931,953
1810	East Tawas-Iosco 138kV Rebuild	May '10	Dec '11	9,818,854
	Riggsville Equipment Replacement	Jan '11	Jun '11	3,988,896
2505, 2522, 2907	Power Plant Control Relocations (2010 - 2013)	Jun '11	Dec '11	3,304,417
	Type KPF Pole Top Switch Replacements	May '11	Jun '11	88,649
1822, 2498, 2904	Breaker Replacement Program (2010 - 2013)		Ongoing	8,820,557
1824, 2499, 2908	Relay Betterment (2010 - 2013)		Ongoing	6,105,022
2509, 2510, 2910	Wood Pole Replacement Program (2010 - 2013)		Ongoing	4,585,749
	Spill Prevention Control/Countermeasure Compliance Upgrade		Ongoing	2,960,874
	Normal and Emergency Retirement Unit Changeouts		Ongoing	2,633,475
2504, 2906	Potential Device Replacement Program (2010 & 2012, 2013)		Ongoing	1,151,316
2503, 2903	Battery Replacement Program 2010 & 2012, 2013)		Ongoing	434,055
	Surge Arrester Replacement Project		Ongoing	114,126



2011 METC Planned Capital Additions, cont.

MISO Project ID#	Forecasted Projects	Construction Start Date	In-Service Date	Plant Additions*
<u>Customer Connections</u>				
3073	Traverse City Light & Power East Substation	Jan '11	Dec '11	\$ 4,913,791
2483	Maines Road	Mar '11	Apr '11	176,385
2484	Scenic Lake	Mar '11	Apr '11	176,385
	Scott Lake-Argenta Pole Top Switch Replace	Jan '11	Feb '11	168,872
2911	Faussett	Mar '11	May '11	177,651
2478	Capital Avenue	Jun '11	Jun '11	178,188
1841	Eagles Landing	Apr '11	Jun '11	178,188
2498	Pearline	May '11	Jul '11	186,979
2904	Ryno Tap	May '11	Jul '11	186,979
2498	Discovery Way	Feb '11	Apr '11	172,075
<u>General Plant</u>				
	Vehicles, Tools & Equipment		Ongoing	\$ 4,255,709
	Information Technology		Ongoing	583,112
	General Facilities		Ongoing	583,112
	Security		Ongoing	583,112

*Includes previous years' expenditures for multi-year projects.



METC Step 1 – Establish Rate Base

Rate Base Item	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Gross Plant in Service	\$ 1,054,548,000	\$ 916,012,000	\$ 138,536,000	Additions to plant (details on the capital additions pages)
Less Accumulated Depreciation	338,553,000	322,716,000	15,837,000	Additional year of depreciation expense
Net Plant in Service	715,995,000	593,296,000	122,699,000	
Deferred Taxes	(115,810,000)	(88,710,000)	(27,100,000)	Higher liability attributable to property additions and depletion of NOL
Regulatory Amortizations	91,671,000	97,826,000	(6,155,000)	Amortization of ADIT Adder and Revenue Deferral
Materials & Supplies	23,212,282	21,035,429	2,176,853	Higher inventory balances to support capital program
Land Held for Future Use	-	-	-	
Prepayments	906,000	3,432,000	(2,526,000)	Transformers moved out of prepaids to capital
Computed Working Capital	9,249,015	8,775,028	473,987	Increase in recoverable O&M expenses
Total Rate Base	\$ 725,223,297	\$ 635,654,457	\$ 89,568,840	

METC Step 1 – Establish Cost of Capital & Allowed Return

Cost of Capital	Ratio	Cost	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Equity	60%	13.38%	8.03%	8.03%	0.00%	
Debt	40%	5.88%	2.35%	2.37%	(-.02%)	Lower interest rate on fixed debt issuance in early 2010, partially offset by higher interest rates on refinanced revolver
Rate of Return			10.38%	10.40%	(-.02%)	

Allowed Return	
Rate Base	\$ 725,223,297
x Return (above)	10.38%
= Allowed Return	<u>\$ 75,273,211</u>

METC Step 2 – Determine Operating Expenses & Gross Revenue Requirement

Operating Expense Items	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Operation & Maintenance Expense	\$ 48,351,000	\$ 47,375,000	\$ 976,000	2011 better reflects engineering and IT maintenance costs (included in G&A in 2010)
Plus Administrative & General Expense	25,641,124	22,825,222	2,815,902	2011 reflects higher allocation of corporate expenses, partially offset by reduction for engineering and IT maintenance costs
Plus Depreciation Expense	21,819,000	17,443,000	4,376,000	Higher depreciable asset base
Plus Regulatory Amortizations	6,155,000	6,155,000	-	
Taxes Other Than Income Taxes	15,272,000	14,095,000	1,177,000	Increase in property taxes
Plus Income Taxes	36,450,278	31,349,577	5,100,701	Greater rate base
Total Operating Expenses	\$ 153,688,402	\$ 139,242,799	\$ 14,445,603	

Gross Revenue Requirement	
Allowed Return	\$ 75,273,211
+ Total Operating Expenses	153,688,402
= Gross Revenue Requirement before Attachment GG (Sch. 26) offset	<u>\$ 228,961,613</u>



METC Step 3 – Establish Gross Revenue Requirement with Sch. 26 offset

Schedule 26 Offset	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Total Attachment GG (Schedule 26) offset	\$ 33,573,936	\$ 30,353,496	\$ 3,220,440	2011 projections based on full year impact of 2010 projects in-service, the addition of a new project in 2011, MTEP '09 regionally shared projects and previous MTEP '07 & '08 regionally shared projects

Gross Revenue Requirement with Schedule 26 Offset	
Gross Revenue Requirement before Attachment GG (Sch. 26) offset	\$ 228,961,613
- Attachment GG (Sch. 26) offset	33,573,936
= Gross Revenue Requirement with Attachment GG (Sch. 26) offset	\$ 195,387,677

METC Step 4 – Establish Net Revenue Requirement

Revenue Credit Item	2011 Projected Amount	2010 Projected Amount	Increase/ (Decrease)	Explanation
Point to Point	\$ 7,424,000	\$ 6,748,000	\$ 676,000	2011 projections based on increase in PTP revenue METC is experiencing in 2010
Rental Revenue	378,000	296,000	\$ 82,000	Increase in rental revenue for shared facilities
Total Revenue Credits	\$ 7,802,000	\$ 7,044,000	\$ 758,000	

2009 Attachment O True-up Calculation	True -up Explanation
Actual Net Revenue Requirement	\$155,418,209
Actual Network Revenues	\$161,298,732
True-up Principal Under/(Over) Recovery before Interest	(\$5,880,523)
Monthly Interest Rate	0.0029
Number of Months	24
True-up Interest	(\$409,284)
True-up Principal and Interest	(\$6,289,807)

Net Revenue Requirement	
Gross Revenue Requirement with Attachment GG (Sch. 26) offset	\$195,387,677
- Revenue Credits (above)	\$ 7,802,000
+ True-up (above)	(\$6,289,807)
= Net Revenue Requirement	\$181,295,870



METC Step 5 – Establish Billing Rate

Coincident Peak Loads	2011 Projected Load	2010 Projected Load	Increase/ (Decrease)	Explanation
Sum of Monthly Coincident Network Peak Loads (in kW-Mo)	77,559,000	75,996,000	1,563,000	Based on internal short term peak demand forecast model

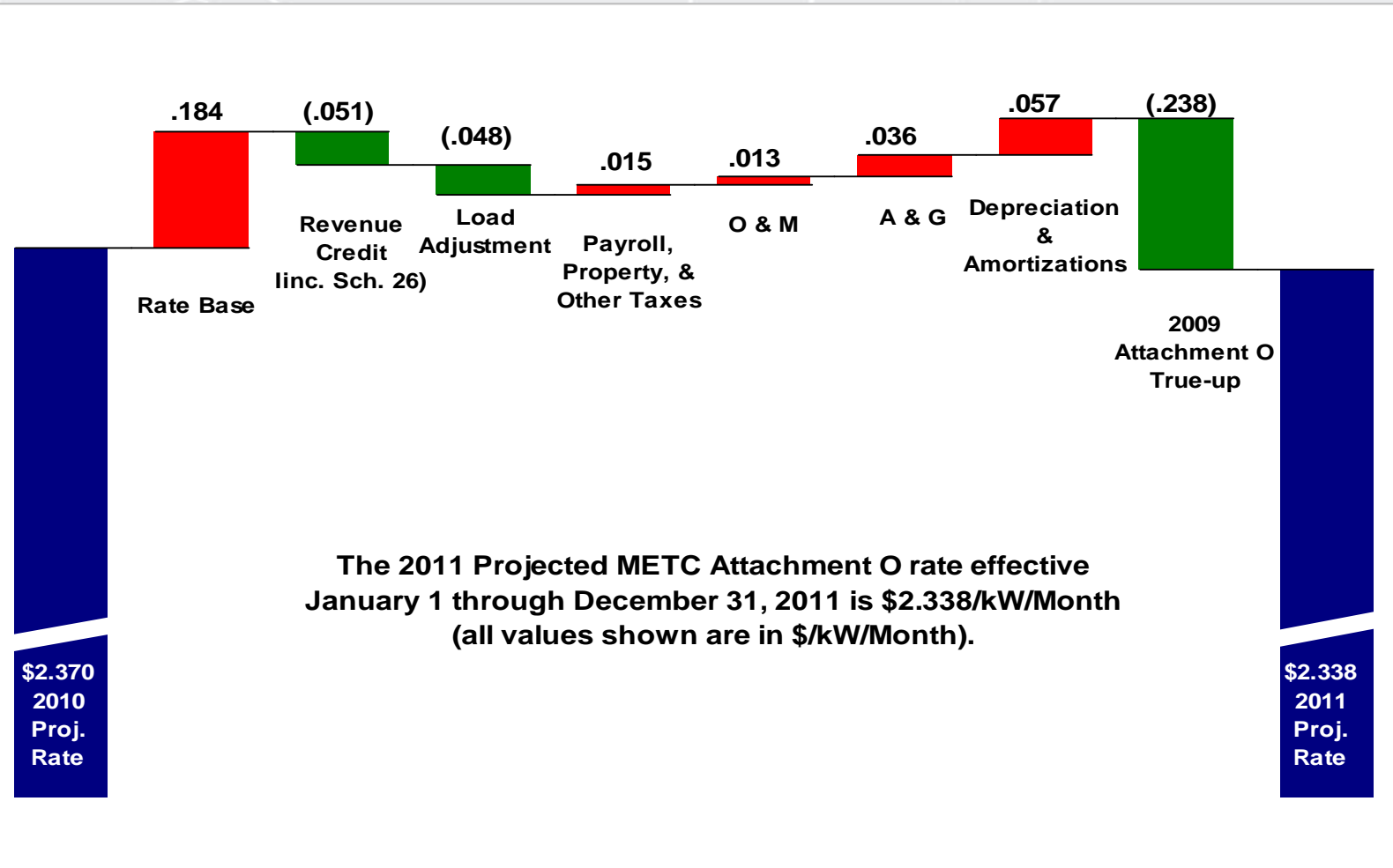
METC 2011 Network Rate Calculation	
Net Revenue Requirement	\$ 181,295,870
÷ \sum 12 CP Load (kW)	77,559,000
= METC 2011 Network Rate (per kW-Mo)	\$ 2.338

- This represents only the METC portion of the joint zone billing rate. A preliminary calculation of the METC joint billing zone rate is \$2.561/kW-Mo. The final rate paid by customers is determined by MISO.
- Schedules 1 & 26 are billed separately by MISO.



2011 METC

Year Over Year Change in Rate



Questions

If there are any questions regarding the 2011 Attachment O rate, please submit them in writing to: Purvi Patel (ppatel@itctransco.com)(248-946-3465)

All questions and their answers will be distributed by email to the person who asked, and all attendees at this meeting. They will also be posted on the OASIS website.

- <http://oasis.midwestiso.org/oasis/ITC>
- <http://oasis.midwestiso.org/oasis/METC>

Contact information:
Jeff Dorr
248-946-3482 or
jdorr@itctransco.com

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