



## **Partners in Business Meeting 2007 True Up Adjustment**

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**June 26, 2008**



# Agenda

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- Opening Remarks
- True Up Summary
- Details of the Variances
- Q & A

# Meeting Purpose

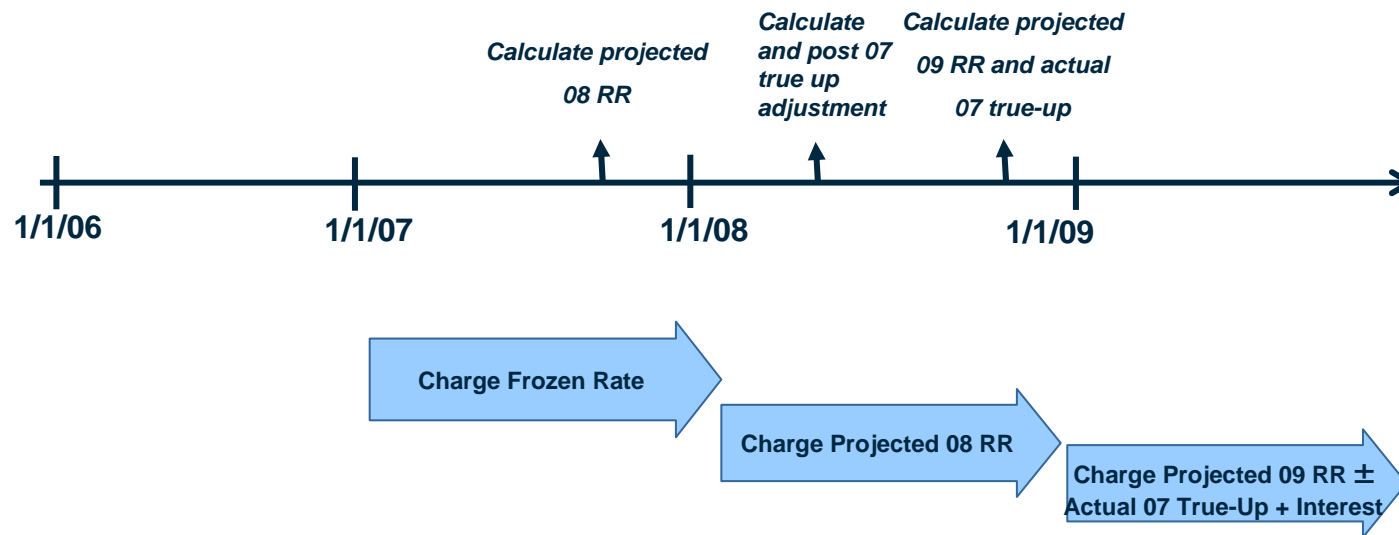
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- On May 30, 2008, the 2007 Attachment O True Up Adjustment for METC was posted to the OASIS site:  
<http://oasis.midwestiso.org/documents/metc/METC%202007%20True%20Up.pdf>
- The purpose of today's meeting is to review with you the true up adjustment that will be reflected in the 2009 rate.

# Forward Looking Attachment O

## ■ Forward Looking Attachment O Timeline (2007 Example)

- **January 2007 – December 2007**
  - Apply 2007 billing rate to monthly peak load (June 2006 rate based on cost year 2005)
- **June 1, 2008**
  - Post 2007 True Up Adjustment
- **September 1, 2008**
  - Calculate 2009 billing rate based on projected 2009 net RR and 2007 true-up with interest (comparing actual 2007 billed revenues to actual 2007 net RR)
- **January 2009 – December 2009**
  - Apply 2009 billing rate based on projected 2009 net RR +/- 2007 true-up with interest



# True Up Adjustment

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- Actual Transmission revenues associated with transactions included in the Divisor on page 1, line 15 of Exhibit B-4 of this Tariff for the previous year will be compared to Net Revenue Requirement (page 1, line 7, of Exhibit B-4 of this Tariff) calculated in accordance with METC's Attachment O Exhibit B-4 of this Tariff for the previous year using METC's FERC Form No. 1 for that same year to determine any over or under recovery ("True-up Adjustment").

Actual Net Revenue Requirement =	\$149,940,116
Actual Transmission Revenues =	<u>\$129,276,196</u>
True Up Adjustment (Over)/Under Recovery =	\$ 20,663,920
Preliminary Monthly Interest Rate	0.49%
Preliminary Interest	\$ 2,430,077
Preliminary True-Up Adjustment Under (Over) Recovery including interest	\$ 23,093,997

# True Up Adjustment – Interest Calculation

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- Interest on any over recovery of the net revenue requirement shall be determined based on the Commission’s regulations at 18 C.F.R § 35.19a. Interest on any under recovery of the net revenue requirement shall be determined using the interest rate equal to METC’s actual short-term debt costs capped at the applicable FERC refund interest rate.
  - Since METC under collected, the interest rate will be equal to the actual short term debt costs capped at the applicable FERC refund interest rate.
- The interest payable shall be calculated using the average of the interest rates used to calculate the time value of money for the twenty-four (24) months during which the over or under recovery in the net revenue requirement exists. The interest rate to be applied to the over or under recovery in the net revenue requirement will be determined using the average rate for the nineteen (19) months preceding August of the current year.

# True Up Adjustment – Interest Calculation

Year Month	METC Revolving Credit Agreement Rate Note 1	METC Revolving Credit Agreement Rate adjusted for months with zero balance Note 2	Note Reference	METC Revolving Credit Agreement Rate adjusted for months with zero balance Monthly Rate	FERC Refund Rate Note 3	METC Interest Rate on Over- Recovery
2008 Jul						
2008 Jun						
2008 May						
2008 Apr	0.0329	0.0329		0.0027	0.0056	0.0027
2008 Mar	0.0384	0.0384		0.0032	0.0066	0.0032
2008 Feb	0.0358	0.0358		0.003	0.0062	0.003
2008 Jan	0.0431	0.0431		0.0036	0.0066	0.0036
2007 Dec	0.0536	0.0536		0.0045	0.0070	0.0045
2007 Nov		0.0558 Note 2		0.0047	0.0068	0.0047
2007 Oct		0.0558 Note 2		0.0047	0.0070	0.0047
2007 Sep	0.0558	0.0558		0.0047	0.0068	0.0047
2007 Aug	0.0596	0.0596		0.005	0.0070	0.005
2007 Jul	0.0577	0.0577		0.0048	0.0070	0.0048
2007 Jun	0.0572	0.0572		0.0048	0.0068	0.0048
2007 May		0.0747 Note 2		0.0062	0.0070	0.0062
2007 Apr		0.0747 Note 2		0.0062	0.0068	0.0062
2007 Mar		0.0747 Note 2		0.0062	0.0070	0.0062
2007 Feb	0.0747	0.0747		0.0062	0.0063	0.0062
2007 Jan	0.0749	0.0749		0.0062	0.0070	0.0062
2006 Dec	0.0661	0.0661		0.0055	0.0069	0.0055
2006 Nov		0.0661 Note 2		0.0055	0.0067	0.0055
2006 Oct		0.0661 Note 2		0.0055	0.0069	0.0055
Total (Note 4)					0.0932	
Count						19
Average monthly rate						0.0049

Note 1: Weighted-average interest rate of METC borrowings under revolving credit agreement at month-end. For description of revolving credit facilities, see METC 2007 Form 1, page 123.10,

Note 2: Interest rate for months with zero revolver credit agreement balance at month-end based on most recent prior month if data is available or most recent following month if data is not available.

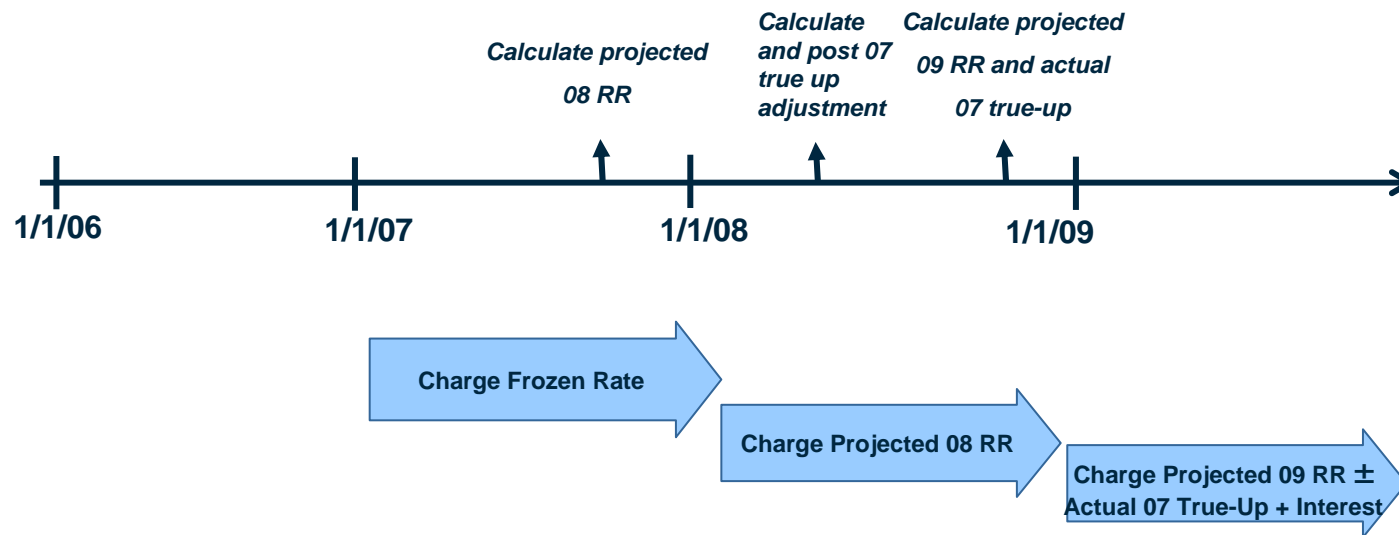
Note 3: FERC refund interest rate 18 CFR 35.19a [<http://www.ferc.gov/legal/acct-matts/interest-rates.asp>]

Note 4: Preliminary interest rate based on 19 months October 2006 through April 2007; final interest rate will be based on 19 months January 2007 through July 2007.

# Forward Looking Attachment O

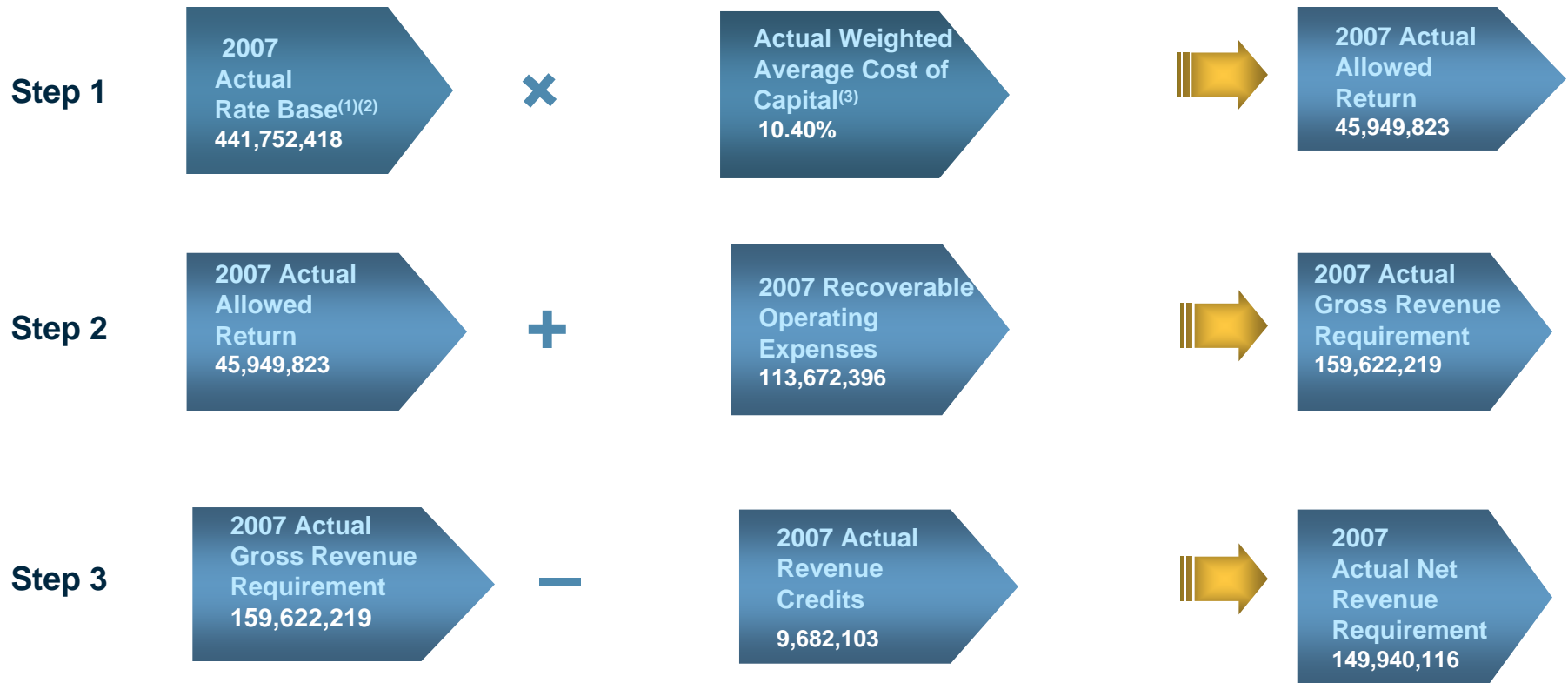
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# Attachment O

## Using Attachment O to Derive the 2007 Actual Net Revenue Requirement



(1) Includes new in-service property, plant and equipment additions in rate base  
(2) Includes the Revenue Deferral in rate base  
(3) Weighted average cost of capital based in part on FERC accepted return on equity

## Step 1A – Establish Rate Base

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Rate Base Item	2007 Actual	
	Amount	Explanation
Gross Plant in Service	\$ 626,330,127	reflects 13 month average
Less Accumulated Depreciation	<u>(278,822,144)</u>	reflects 13 month average
Net Plant in Service	347,507,983	
Deferred Taxes	(37,308,829)	Tax effect of plant additions
Regulatory Asset	55,000,000	per rate settlement
ADIT Regulatory Asset	61,291,272	per rate settlement
Materials & Supplies	6,401,864	inventory to support capital work
Land Held for Future Use	-	
Prepayments	1,096,300	insurance and other pre-pays
Change in Working Capital	<u>7,763,828</u>	1/8 of O&M per Attachment O
Total Rate Base	<u>\$ 441,752,418</u>	

# 2007 Major Project Additions to Rate Base

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## 2007 Projected Major Projects

N/A

## 2007 Actual Major Projects

System Capacity Improvements  
American Bumper David 138kV

Infrastructure Improvements  
Wood Pole Replacement Program  
New Breaker Upgrade Program

Customer Connections  
HSC Solar  
Sinclair (Baraga Substation)

General Plant  
Vehicles, Tools & Equipment  
Warehouses

**2007 ADDITIONS TO RATE BASE**  
**\$62 million**

## Step 1B – Establish Rate of Return & Allowed Return

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	Ratio	Cost	2007 Actual WACC *
Equity	60%	13.38%	8.05%
Debt	40%	5.91%	2.36%
Rate of Return			10.40%

\* Cost of capital figures are rounded to the nearest 0.01%

### Calculation

	Actual
Rate Base	\$ 441,752,418
x Return	10.40%
= Allowed Return	\$ 45,949,823

## Step 2A – Determine Recoverable Operating Expenses

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Expense Item	2007 Actual		Explanation
	Amount		
Operating & Maintenance Expense	\$ 42,821,232		(see next slide)
Plus Administrative & General Expense	19,289,391		reflects recoverable A&G expenses per FERC Form 1
Plus Depreciation Expense	17,618,574		plant related depreciation
Plus Regulatory Deferral Amortization	2,750,000		per rate settlement
Plus ADIT Amortization	3,405,071		per rate settlement
Plus Payroll Taxes	716,615		function of personnel
Plus Plant Related Taxes	7,931,752		taxes related to plant in service; includes MSBT and municipal taxes
Plus Income Taxes	19,139,761		function of income
Total Recoverable Operating Expenses	<u>\$ 113,672,395</u>		

# 2007 Operating and Maintenance Activity

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- **Additional spending on vegetation management**
  - Hot spotted the entire system which amounted to more than 1000 individual cases requiring cutting
- **Overhead lines maintenance**
  - Increased repairs on wood and steel structures (hardware, insulators, etc.)
  - More time spent investigating every line outage, both sustained and momentary and performing root cause analysis
- **Facilities – major increases to time & money spent on:**
  - Trenway/pier replacements
  - Station grading
  - Roof, control house & fence repair
- **Increased preventive station maintenance including:**
  - Bus & disconnect inspections and repairs
  - Circuit breakers (more in-depth inspections performed)
  - Relay periodics – more in-depth work needed due to NERC standards.

## Step 2B – Establish Gross Revenue Requirement

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### Calculation

	<b>Actual</b>
Allowed Return	\$ 45,949,823
+ Total Recoverable Operating Expenses	113,672,395
= Gross Revenue Requirement	\$ 159,622,218

## Step 3A – Establish Net Revenue Requirement

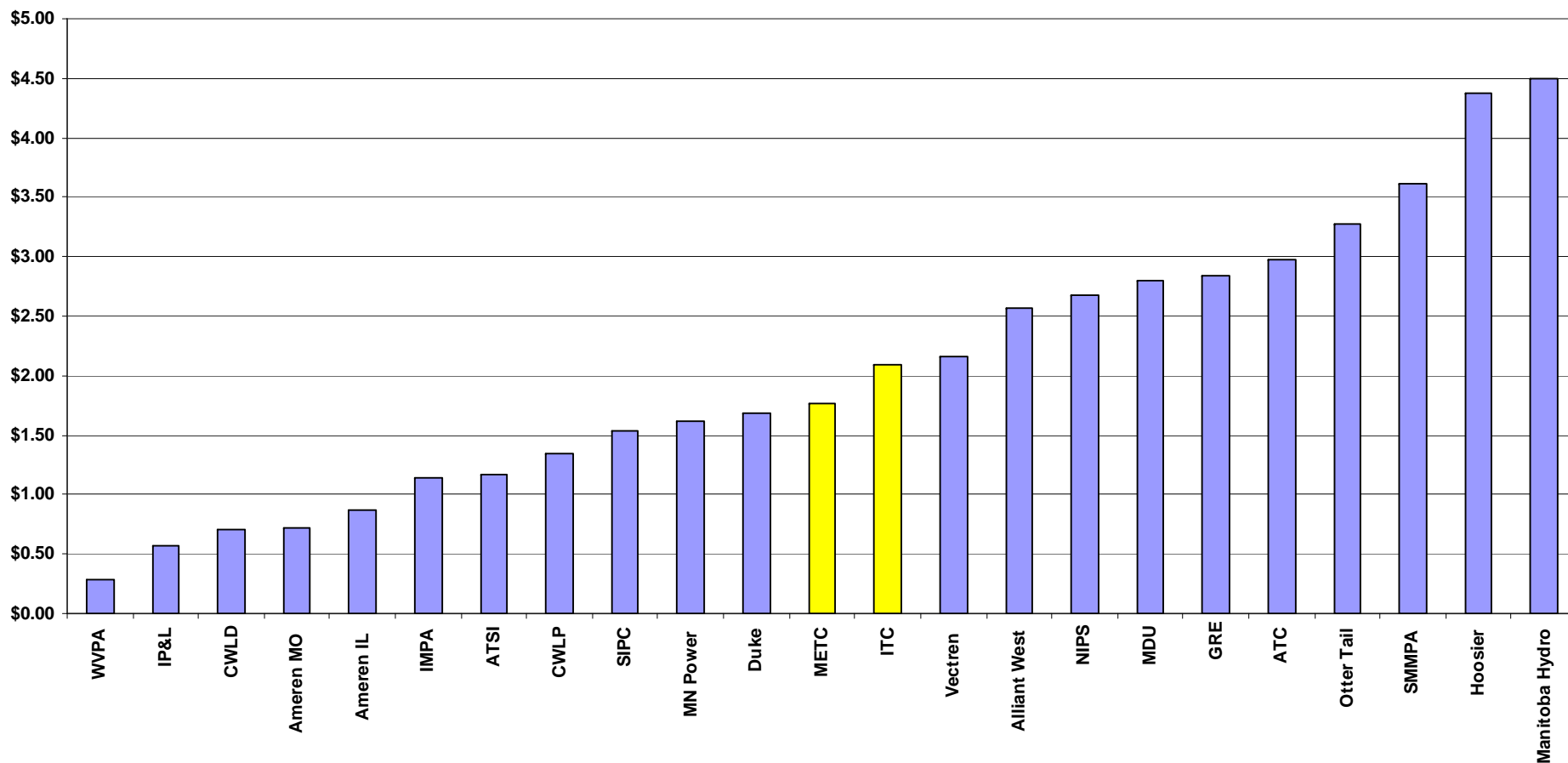
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<b>Credit Item</b>	<b>2007 Actual Amount</b>	<b>Explanation</b>
Point to Point	\$ 9,449,983	actual point to point revenues received from MISO.
Rental Revenue	232,120	rental revenue from other business units for shared facilities
Total Revenue Credits	<u>\$ 9,682,103</u>	

### Calculation

	<b>Actual</b>
Gross Revenue Requirement	\$ 159,622,218
- Revenue Credits	(9,682,103)
= Net Revenue Requirement	\$ 149,940,115

# MISO Transmission Owners – 2007 Cost Year



# Conclusions & Questions

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- If there are any questions regarding the true up, please contact Purvi Patel [ppatel@itctransco.com](mailto:ppatel@itctransco.com) or 248-946-3465.
- All questions and their answers will be distributed by email to the person who asked, and all attendees at this meeting. Also, they will be posted on the OASIS website and the Partners in Business website at <http://www.itctransco.com/app.php?sec=10&id=39>”