



2008 True Up Adjustment – METC
June 1, 2009

Meeting Purpose

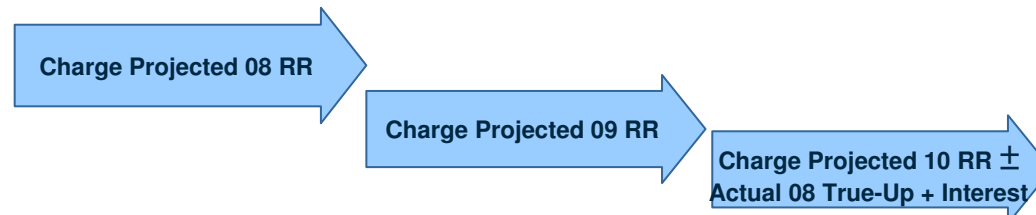
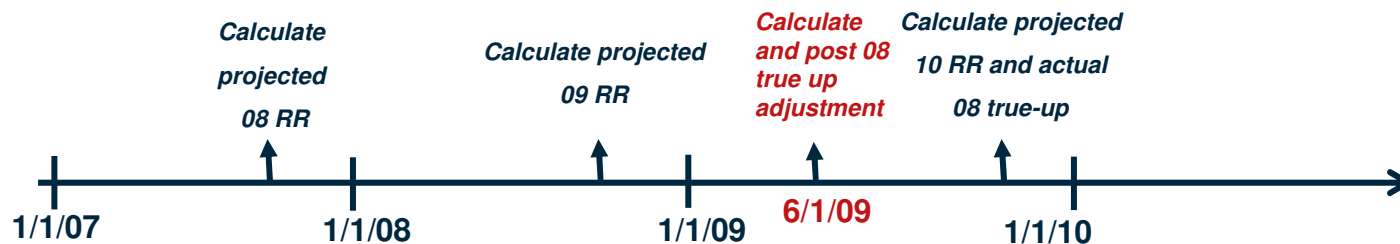
- On June 1, 2009, the 2008 Attachment O True Up Adjustment for METC was posted to the OASIS site:

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

Forward Looking Attachment O

■ Forward Looking Attachment O Timeline (2008 Example)

- **August 2007**
 - Calculate 2008 billing rate based on projected 2008 Net Revenue Requirement (“RR”)
- **September 1, 2007**
 - Post rate on OASIS
- **January 2008 – December 2008**
 - Apply 2008 billing rate to monthly peak load
- **June 1, 2009**
 - **Post 2008 True Up Adjustment**
- **September 1, 2009**
 - Calculate 2010 billing rate based on projected 2010 net RR and 2008 true-up with interest (comparing actual 2008 billed revenues to actual 2008 net RR)
- **January 2010 – December 2010**
 - Apply 2010 billing rate based on projected 2010 net RR +/- 2008 true-up with interest



True Up Adjustment

Requirement

Actual Transmission revenues associated with transactions included in the Divisor on page 1, line 15 of METC's Attachment O of the MISO Tariff for the previous year will be compared to Net Revenue Requirement (page 1, line 7, of METC's Attachment O of the MISO Tariff) calculated in accordance with METC's Attachment O the MISO 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").

Implementation

Actual Net Revenue Requirement =	\$165,195,657
Actual Transmission Revenues =	<u>\$153,530,443</u>
True Up Adjustment (Over)/Under Recovery =	\$ 11,665,214
Preliminary Monthly Interest Rate	0.26%
Preliminary Interest	\$ 727,909
Preliminary True-Up Adjustment Under (Over) Recovery including interest	\$ 12,393,123

True Up Adjustment – Interest Calculation

- 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 recovered, the interest rate will be based on METC’s 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	METC Revolving Credit Agreement Rate adjusted for months with zero balance Monthly Rate	FERC Refund Rate Note 3	METC Interest Rate on Under Recovery
2009 July					
2009 June					
2009 May					
2009 Apr	0.0079	0.0079	0.0007	0.0028	0.0007
2009 Mar	0.0088	0.0088	0.0007	0.0038	0.0007
2009 Feb	0.0083	0.0083	0.0007	0.0034	0.0007
2009 Jan	0.0169	0.0169	0.0014	0.0038	0.0014
2008 Dec	0.0205	0.0205	0.0017	0.0042	0.0017
2008 Nov	0.0193	0.0193	0.0016	0.0041	0.0016
2008 Oct	0.0406	0.0406	0.0034	0.0042	0.0034
2008 Sept	0.0303	0.0303	0.0025	0.0044	0.0025
2008 Aug	0.0296	0.0296	0.0025	0.0045	0.0025
2008 Jul	0.0296	0.0296	0.0025	0.0045	0.0025
2008 Jun	0.0298	0.0298	0.0025	0.0056	0.0025
2008 May	0.0298	0.0298	0.0025	0.0057	0.0025
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	0.0030	0.0062	0.0030
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	0.0047	0.0068	0.0047
2007 Oct		0.0558	0.0047	0.0070	0.0047
Total (Note 4)				0.0968	0.0491
Count				19	19
Average monthly rate				0.0051	0.0026
Times 12				12	12
Annual rate				0.0612	0.0312

Note 1: Weighted-average interest rate of METC borrowings under revolving credit agreement at month-end.
For description of revolving credit facilities, see METC 2008 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 are not available.

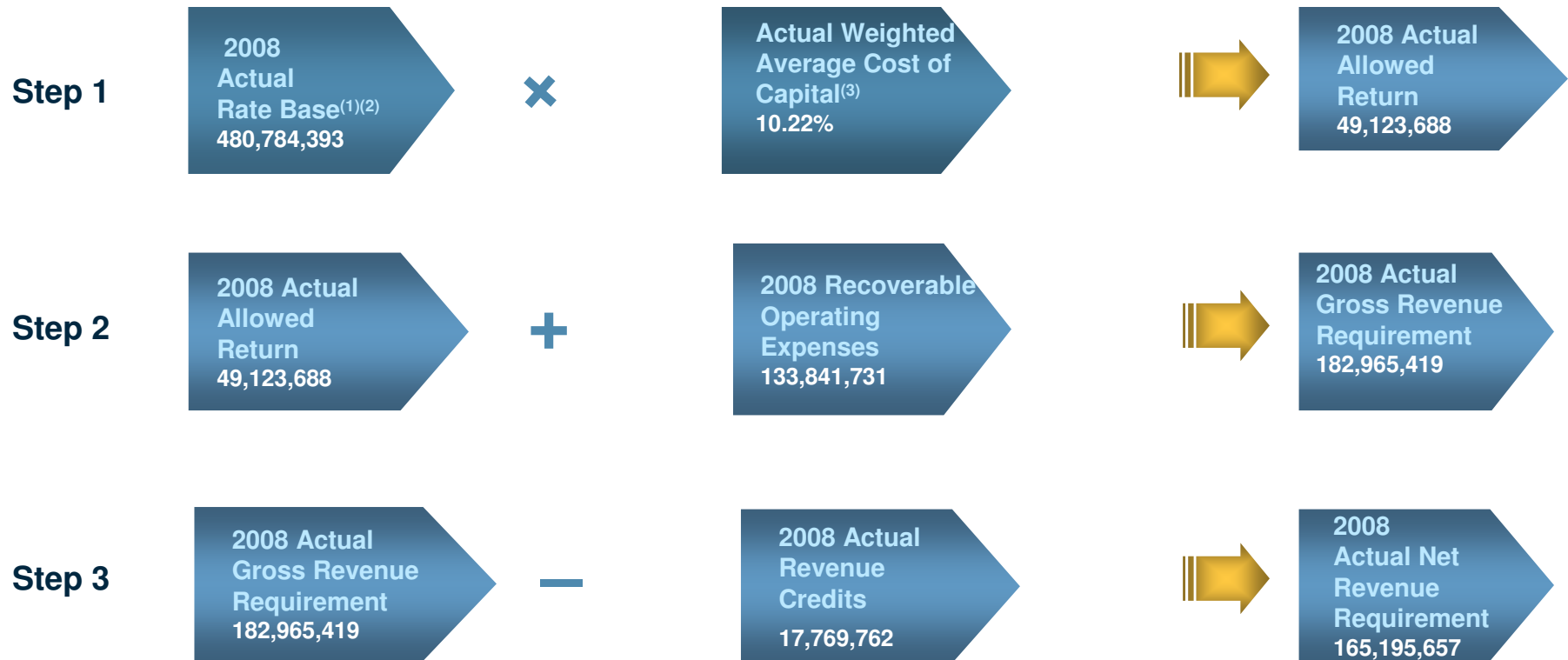
Note 3: FERC refund interest rate 18 CFR 35.19a [<http://www.ferc.gov/legal/acct-matts/interest-rates.asp>]

Note 4: Preliminary interest rate based on 19 months October 2007 through April 2009;
final interest rate will be based on 19 months January 2008 through July 2009.



Attachment O

Using Attachment O to Derive the 2008 Actual Net Revenue Requirement



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

Step 1A – Establish Rate Base

Rate Base Item	2008 Actual Amount	2008 Projected Amount	Increase/ (Decrease)	Explanation
Gross Plant in Service	\$ 687,215,589	\$ 677,815,000	\$ 9,400,589	\$29mm more of plant additions in 2008, mostly in latter part of year
Less Accumulated Depreciation	<u>294,233,548</u>	<u>293,912,000</u>	<u>321,548</u>	
Net Plant in Service	392,982,041	383,903,000	9,079,041	
Deferred Taxes	(47,719,740)	(54,423,000)	6,703,260	December 2007 DTL lower than projected due to NOL deferred tax asset not in forecast
Revenue Deferral	52,250,000	52,250,000	-	
ADIT Deferral	57,886,201	57,886,000	201	
Materials & Supplies	14,770,049	8,082,575	6,687,474	Higher inventory balances to support capital program
Land Held for Future Use	-	-	-	
Prepayments	1,364,305	1,411,000	(46,695)	
Change in Working Capital	<u>9,251,538</u>	<u>9,879,752</u>	<u>(628,214)</u>	1/8 of recoverable O&M and G&A
Total Rate Base	<u>\$ 480,784,395</u>	<u>\$ 458,989,327</u>	<u>\$ 21,795,068</u>	

2008 Major Projects Additions to Rate Base

2008 Projected Major Projects

System Capacity Improvements

138kV Capacitors at Croton and Bard
Tallmadge Station Transformer Addition

Infrastructure Improvements

Ludington Reactor Replacement
Terminal Equipment Upgrade Program
138kV Sag Clearance
Goss Station
METC Communication and Relaying Upgrade
Transformer Monitoring Program
Power Plant Control Relocation
Relay NERC/8A Compliance
Wood Pole Replacement Program
Misc. NRUC/ERUC

General Plant

Vehicles, Tools & Equipment

2008 PROJECTED ADDITIONS

\$66MM

2008 Actual Major Projects

System Capacity Improvements

Tallmadge Station Transformer Addition
Hemlock Semiconductor
Keystone Clearwater 138kV Upgrade

Infrastructure Improvements

Ludington Reactor Replacement
138kV Sag Clearance
Goss Station
METC Communication and Relaying Upgrade
Wood Pole Replacement
Misc. NRUC/ERUC
Breaker Replacement Program
Relay Betterment

General Plant

Vehicles, Tools & Equipment

2008 ACTUAL ADDITIONS

\$95MM

Step 1B – Establish Rate of Return & Allowed Return

	Ratio	Cost	2008 Actual WACC	2008 Projected WACC	Increase/ (Decrease)	Explanation
Equity	60%	13.38%	8.03%	8.03%	-0.01%	
Debt	40%	5.48%	2.19%	2.40%	-0.21%	Lower interest rate on revolving credit facility
Rate of Return			10.22%	10.44%	-0.22%	

	Actual	Projected	Increase/(Decrease)
Rate Base (slide 3)	\$ 480,784,395	\$ 458,989,327	\$ 21,795,068
x Return (see above)	10.22%	10.44%	
= Allowed Return	\$ 49,123,689	\$ 47,900,698	\$ 1,222,991

Step 2A – Determine Recoverable Operating Expenses

Expense Item	2008 Actual Amount	2008 Projected Amount	Increase/ (Decrease)	Explanation
Operating & Maintenance Expense	\$ 49,899,101	\$ 44,903,000	\$ 4,996,101	Actual includes \$5mm of Non-Field O&M (projected in G&A)
Plus Administrative & General Expense	24,113,200	34,135,016	(10,021,816)	Projections include \$5mm of Non-Field O&M; in addition, actuals are lower due to compensation and rent expense
Plus Depreciation Expense	20,459,380	15,402,000	5,057,380	Higher plant balances as well as the forecasted composite depreciation rate was lower than actual composite depreciation rate due in part to higher plant balances of shorter-lived assets
Plus Amortized Revenue Deferral	2,750,000	2,750,000	-	
Plus ADIT Adjustment	3,405,071	3,405,000	71	
Plus Taxes Other Than Income Taxes	9,353,281	9,548,000	(194,719)	Primarily driven by lower payroll taxes due to lower compensation
Plus Income Taxes	23,861,698	22,838,298	1,023,400	Higher income
Total Recoverable Operating Expenses	<u>\$ 133,841,730</u>	<u>\$ 132,981,314</u>	<u>\$ 860,416</u>	

Step 2B – Establish Gross Revenue Requirement

	Actual	Projected	Increase/(Decrease)
Allowed Return (slide 10)	\$ 49,123,689	\$ 47,900,698	\$ 1,222,991
+ Total Recoverable Operating Expenses (slide 11)	133,841,730	132,981,314	860,416
= Gross Revenue Requirement	\$ 182,965,419	\$ 180,882,012	\$ 2,083,407

Step 3A – Establish Net Revenue Requirement

Credit Item	2008 Actual Amount	2008 Projected Amount	Increase/ (Decrease)	Explanation
Point to Point	\$ 16,773,599	\$ 11,078,000	\$ 5,695,599	Point to point revenues higher than projected and Schedule 26 revenues higher than projected
Rental Revenue	996,163	-	996,163	Higher rental revenues for third party leases
Total Revenue Credits	<u>\$ 17,769,762</u>	<u>\$ 11,078,000</u>	<u>\$ 6,691,762</u>	

	Actual	Projected	Increase/(Decrease)
Gross Revenue Requirement (slide 12)	\$ 182,965,419	\$ 180,882,012	\$ 2,083,407
- Revenue Credits (see above)	(17,769,762)	(11,078,000)	(6,691,762)
= Net Revenue Requirement	\$ 165,195,657	\$ 169,804,012	\$ (4,608,355)

True Up

- **The actual net revenue requirement at METC in 2008 was \$4.6mm less than projected**
 - **However, load was 6,800MW less than projected, resulting in an under collection of revenues and the resulting true-up receivable.**

Questions

- If there are any questions regarding the true up, please submit in writing to Purvi Patel ppatel@itctransco.com.
- All questions and their answers will be distributed by email to the person who asked. Also, they will be posted on the OASIS website at <http://oasis.midwestiso.org/oasis/METC>.