



2009 True Up Adjustment – METC

Presentation Purpose

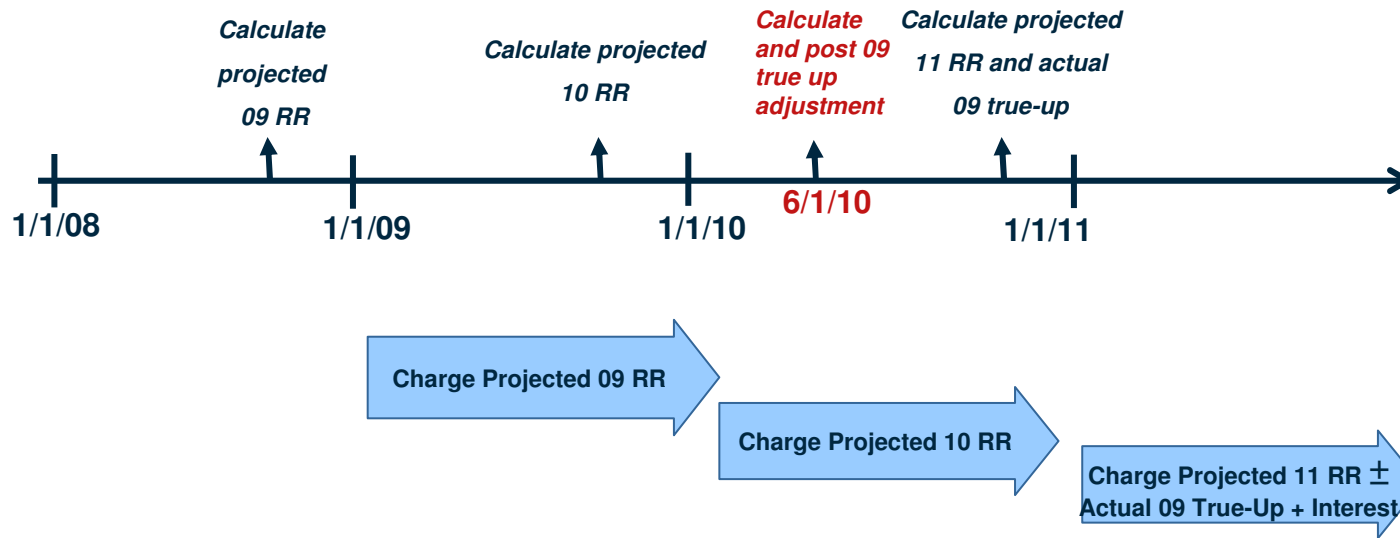
- On June 1, 2010, the 2009 Attachment O True Up Adjustment for METC was posted to the OASIS site:

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

Forward Looking Attachment O

■ Forward Looking Attachment O Timeline (2009 Example)

- **August 2008**
 - Calculate 2009 billing rate based on projected 2009 Net Revenue Requirement (“RR”)
- **September 1, 2008**
 - Post rate on OASIS
- **January 2009 – December 2009**
 - Apply 2009 billing rate to monthly peak load
- **June 1, 2010**
 - **Post 2009 True Up Adjustment**
- **September 1, 2010**
 - Calculate 2011 billing rate based on projected 2011 net RR and 2009 true-up with interest (comparing actual 2009 billed revenues to actual 2009 net RR)
- **January 2011 – December 2011**
 - Apply 2011 billing rate based on projected 2011 net RR +/- 2009 true-up with interest



True Up Adjustment

Requirement

Actual Transmission revenues associated with transactions included in the Divisor on page 1, line 15 of Exhibit B-4 of the MISO Tariff for the previous year will be compared to Net Revenue Requirement (page 1, line 7, of Exhibit B-4 of the MISO Tariff) calculated in accordance with METC's Attachment O Exhibit B-4 of 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 =	\$	155,418,209 ¹
Actual Transmission Revenues =	\$	<u>161,298,732</u>
True Up Adjustment (Over)/Under Recovery =	\$	(5,880,523)
Preliminary Monthly Interest Rate		0.29%
Preliminary Interest	\$	409,284
Preliminary True-Up Adjustment Under (Over)		
Recovery including interest	\$	(6,289,807)

(1) Actual Net Revenue Requirement for purposes of True Up calculation does not include the previous true up amount of \$22,846,030

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 over collected, the interest rate will be based on the Commission’s regulations at 18 C.F.R § 35.19a.
- 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

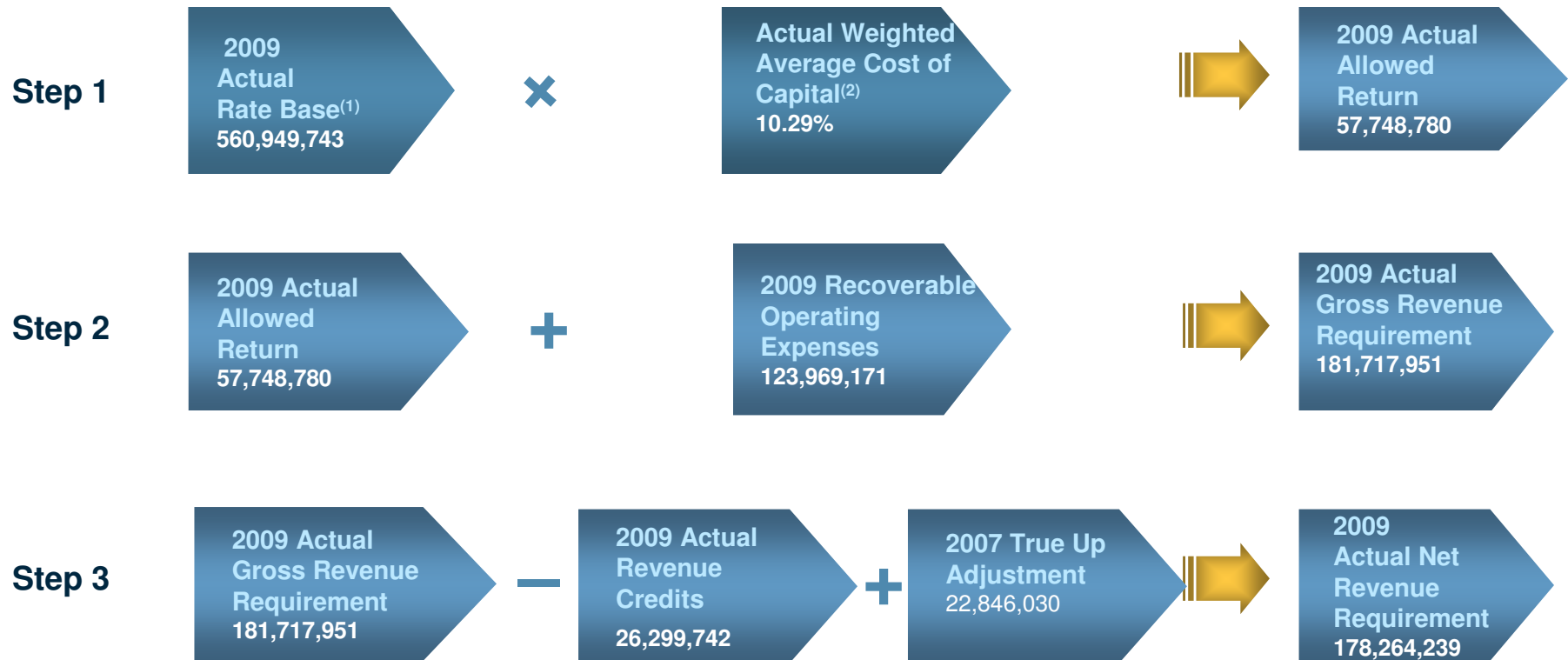
Year Month	FERC Refund Rate Note 1
2010 Jul	
2010 Jun	0.0027
2010 May	0.0028
2010 Apr	0.0027
2010 Mar	0.0028
2010 Feb	0.0025
2010 Jan	0.0028
2009 Dec	0.0028
2009 Nov	0.0027
2009 Oct	0.0028
2009 Sep	0.0027
2009 Aug	0.0028
2009 Jul	0.0028
2009 Jun	0.0028
2009 May	0.0029
2009 Apr	0.0028
2009 Mar	0.0038
2009 Feb	0.0034
2009 Jan	0.0038
Total (Note 2)	0.0524
Count	18
Average monthly rate	0.0029

Note 1: FERC refund interest rate 18 CFR 35.19a [<http://www.ferc.gov/legal/acct-matts/interest-rates.asp>]

Note 2: Preliminary interest rate based on 18 months ending June 2010;
final interest rate will be based on 19 months January 2009 through July 2010.

Attachment O

Using Attachment O to Derive the 2009 Actual Net Revenue Requirement



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

Step 1A – Establish Rate Base

Rate Base Item	2009 Actual Amount	2009 Projected Amount	Increase/ (Decrease)	Explanation
Gross Plant in Service	\$ 807,311,924	\$ 815,024,000	\$ (7,712,076)	Due to timing of transfers to rate base
Less Accumulated Depreciation	<u>307,183,662</u>	<u>317,224,000</u>	<u>(10,040,338)</u>	13-month average lower than projected due to impacts of 2009 Depreciation Study and timing of transfers to rate base
Net Plant in Service	500,128,262	497,800,000	2,328,262	
Deferred Taxes	(72,124,908)	(56,402,000)	(15,722,908)	Higher deferred tax liabilities due primarily to higher tax depreciation than forecasted, due in part to 50% federal income tax bonus depreciation in 2009
Revenue Deferral	49,500,000	49,500,000	-	
ADIT Deferral	54,481,130	54,481,130	-	
Materials & Supplies	19,909,876	19,880,094	29,783	
Land Held for Future Use	-	-	-	
Prepayments	1,127,493	676,000	451,493	
Change in Working Capital	7,927,890	9,982,972	(2,055,083)	1/8 of recoverable O&M and G&A
Total Rate Base	<u>\$ 560,949,743</u>	<u>\$ 575,918,196</u>	<u>\$ (14,968,453)</u>	

2009 Major Projects Additions to Rate Base

Reliability-System Capacity Improvements

Croton/Bard 138kV Capacitors
Hemlock Semi Conductor Phase 3
138kV Sag Clearance

Reliability-Infrastructure Improvements

Breaker Replacement Program
Relay Betterment Projects
Miscellaneous – Reliability
Wood Pole Replacement Project
SCADA Redirect Project
Storm Restoration

Customer Connections

Plum Station Interconnection

General Plant

Facilities
Security Improvements
Vehicles Tools & Equipment

2009 Actual Additions to Rate Base \$119MM

Step 1B – Establish Rate of Return & Allowed Return

	Ratio	Cost	2009 Actual WACC	2009 Projected WACC	Increase/ (Decrease)	Explanation
Equity	60%	13.38%	8.03%	8.02%	0.00%	
Debt	40%	5.67%	2.27%	2.48%	-0.21%	Lower interest rate on revolving credit facility
Rate of Return			10.29%	10.50%	-0.21%	

	Actual	Projected	Increase / (Decrease)
Rate Base	\$ 560,949,743	\$ 575,918,196	\$ (14,968,453)
x Return	10.29%	10.50%	
= Allowed Return	\$ 57,748,780	\$ 60,483,841	\$ (2,735,061)

Step 2A – Determine Recoverable Operating Expenses

Expense Item	2009 Actual Amount	2009 Projected Amount	Increase/ (Decrease)	Explanation
Operating & Maintenance Expense	\$ 41,860,246	\$ 34,767,000	\$ 7,093,246	Actual includes \$15.4mm of Non-Field O&M (projected in G&A) partially offset by lower field O&M of \$8.3mm due to cost mitigation efforts
Plus Administrative & General Expense	21,562,871	45,096,777	(23,533,906)	Projections include \$20.7mm of Non-Field O&M; in addition, actuals are lower due to lower outside services and compensation from expense mitigation efforts
Plus Depreciation Expense	16,343,976	23,942,000	(7,598,024)	Lower primarily due to 2009 depreciation study results as well as lower than projected depreciable asset base
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	10,960,385	12,612,000	(1,651,615)	Lower property taxes than originally projected
Plus Income Taxes	27,086,622	28,566,308	(1,479,686)	Lower income
Total Recoverable Operating Expenses	<u>\$ 123,969,171</u>	<u>\$ 151,139,085</u>	<u>\$ (27,169,914)</u>	

Step 2B – Establish Gross Revenue Requirement

	Actual	Projected	Increase/(Decrease)
Allowed Return	\$ 57,748,780	\$ 60,483,841	\$ (2,735,061)
+ Total Recoverable Operating Expenses	123,969,171	151,139,085	(27,169,914)
= Gross Revenue Requirement	\$ 181,717,951	\$ 211,622,926	\$ (29,904,975)

Step 3A – Establish Net Revenue Requirement

Credit Item	2009 Actual Amount	2009 Projected Amount	Increase/ (Decrease)	Explanation
Point to Point	\$ 9,973,445	\$ 10,917,000	\$ (943,555)	Lower due to lower revenues from PTP reservations
Schedule 26	16,030,053	18,512,000	(2,481,947)	Lower due to actual capital expenditures associated with RECB projects
Rental Revenue	296,244	-	296,244	Higher rental revenues for shared warehouse assets
Total Revenue Credits	<u>\$ 26,299,742</u>	<u>\$ 29,429,000</u>	<u>\$ (3,129,258)</u>	

	Actual	Projected	Increase/(Decrease)
Gross Revenue Requirement	\$ 181,717,951	\$ 211,622,926	\$ (29,904,975)
- Revenue Credits	(26,299,742)	(29,429,000)	3,129,258
+ 2007 True Up Adjustment	22,846,030	22,846,030	-
= Net Revenue Requirement	\$ 178,264,239	\$ 205,039,956	\$ (26,775,717)

2009 METC True Up Summary

2009 Projected Net Revenue Requirement	\$ 205,039,956
2009 Actual Net Revenue Requirement	<u>\$ 178,264,239</u>
Actual Net Revenue Requirement Over/(Under) Projection	\$ (26,775,717)
Revenue Shortfall Due to Lower Load ⁽¹⁾	<u>\$ 20,895,194</u>
Total True-up Receivable/(Payable)	\$ (5,880,523)

(1) Lower revenues were primarily a result of higher sales projections than actually occurred (\$21.7m) combined with other revenue adjustments.

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>