

Questions for 2009 True Up Adjustment - Attachment O:

ITC – Pg. 8 Establish Rate Base

- 1. Please explain why the 2009 Actual Material & Supplies expense was significantly higher than the projected amount? The explanation provided was that higher overall inventory balances combined with higher Attachment O allocation.**

The inventory balances assumed in the 2009 rate projection reflected the actual inventory balance as of June 2008 which represented the best available information we had at the time the rate was set. We applied the transmission allocation factor to this June 2008 inventory balance to establish the estimated inventory balance in rate base.

The actual December 31, 2009 inventory balance included spare transformers (approximately \$9 million) that were not anticipated when the forecast was established.

- 2. Why were the majority of prepayments not anticipated in projections? Please provide detailed support for what prepayments were included in the Actual amount.**

The prepaid balance assumed in the 2009 rate projection reflected insurance prepayment balances only. Prepayments on other items such as IT contracts were not included in the projection (approximately \$1 million). In addition, prepayments on transformers were not included in the projection used to establish rates for 2009 as they are inherently unpredictable and depend on the terms vendors are prepared to offer. We typically make prepayments on transformers when they are accompanied by discounts on the total cost of the transformer. However, these opportunities are evaluated on a case by case basis and only adopted if the economics prove beneficial for the customer. Given that we do not have access to the terms vendors are willing to provide for such prepayments at the time we set the rate, we do not include these items in the projections.

The December 31, 2008 prepayment balance included \$6.6 million associated with transformers. There was no transformer related prepaid balances at December 31, 2009.

For detailed support on actual prepayments see Schedule A.

Pg. 9 2009 Major Project additions to Rate Base

- 3. Please provide a list of the projected 2009 Major Project additions to Rate Base. In the past you have provide a comparison of projected to actual.**

Reliability-System Capacity Improvements

Projected

B3N ITC-Hydro One Interconnection (Bunce Creek)

Actual

Prizm Station (GM Milford Proving) DCX Axle Plant (Marysville)

Reliability-Infrastructure Improvements

Projected

120 kV Gas Cable Termination Replacements
Breaker Replacement Program
Capacitor Bank Replacement Program
Potential Device Replacement Program
New 120kV Synchronizing Sites
Power Plant Relocations
Relay Replacements
Wood Pole Replacement Program
Misc NRUC/ERUC
Breaker Replacements

Actual

Relay Replacement Projects
Breaker Replacement Program
Miscellaneous – Reliability
HPGF Termination Replacement Project

Customer Connections

Projected

Oakwood May
Hurst Substation
G503 - Noble Wind Farm Oct
Durant

Actual

G503 Wind Farms & TARS Generator Interconnect

Facilities

Projected

General Facilities Ongoing
Belleville Warehouse Improvements
Stephens Station Improvements

Security

Projected

General Security
Majestic Substation Security
Blackfoot Substation Security
Hunters Creek Substation Security
Genoa Station Security Lark Substation Security
Atlanta Substation Security
Baxter Substation Security
Resource Substation Security

General Plant

Projected

Vehicles, Tools & Equipment

General Information Technology
HCM Peoplesoft Project
Actual
Security Improvements
Vehicles Tools & Equipment
Information Technology Projects

2009 Projected Additions to Rate Base \$90MM

2009 Actual Additions to Rate Base \$84MM

Pg. 11 Determine Recoverable Operating Expenses

4. Please provide details of what type of mitigation efforts were implemented in 2009 that resulted in the decrease in actual A&G expenses.

ITC implemented a variety of expense mitigation effort in 2009, including

- Delaying certain employee hires;
- Establishing a self insurance program for transmission assets;
- Reducing the use of third party vendors for legal, consulting, etc.
- Freezing salaries for director-level employees and above
- Lowering salary increases for below director-level employees
- Aggressively renegotiating supply contracts

5. What are Non-field O&M expenses? Could you also explain how you accounted for the Non-field O&M and G&A, it appears that these are offset and are not doubled counted? But why were they included in G&A versus O&M in the first place?

Non-field O&M reflects internal O&M charges for ITC employees (e.g., engineering and IT). In contrast, all of our Field O&M expenses reflect O&M charges related to third party contractors working in the field.

For the 2009 rate projections, non-field O&M was incorrectly included in the G&A line in Attachment O (page 3, line 3). These expenses were not double counted and were recovered in the exact same manner as they would have been had they been projected in the O&M line of Attachment O (page 3, line 1).

In the 2010 rate projection, we included non-field O&M in the O&M line in Attachment O (page 3, line 1) and did not include it in the G&A line (page 3, line 3),

6. Do you expect that Depreciation expense for future years will be closer to projected since the 2009 Depreciation Study has been completed?

Yes, depreciation expense in future projections should be closer to actual results. That being said, there are other variables that can impact the variance between projections and actuals,

including capital transfers to service, asset classes associated with those transfers (e.g., short-lived or long-lived), etc.

Pg. 13 Establish Net Revenue Requirement

7. Are you expecting that revenues for PTP reservations will continue to decline?

Since we have noticed mostly a decline in PTP revenues (see below), we will continue to forecast a decline for next year.

ITC – Annual Revenues for Point to Point Service

2007 – \$ 9.8 mm

2008 - \$8.0 mm

2009 - \$ 3.9 mm

METC – Annual Revenues for Point to Point Service

2007 – \$ 9.3 mm

2008 - \$11.2 mm

2009 - \$ 9.9 mm

8. How are rental revenues calculated? Why were they higher than expected for shared facilities with ITC Transmission affiliates?

The method for calculating inter-company rental revenues was previously explained in the answers to the MPSC questions on the 2009 projected rate [http://oasis.midwestiso.org/documents/itc/2009_Attachment_O_Questions_from_the_MPSC.pdf]. As explained there, the calculations are based on a methodology that was developed and used by Detroit Edison and Consumers Energy to calculate the annual fixed costs to charge Consumers for its usage of the former Michigan Electric Power Coordination Center (MEPCC) facility. When Detroit Edison and Consumers sold their transmission systems to ITC Transmission and METC, the same cost identification methodology was maintained for the control center and also adopted for the headquarters and shared warehouses. This methodology was retained because it identifies the appropriate components of fixed costs for facilities and has been scrutinized in the past and deemed an acceptable approach. Thus, we apply the same methodology to all fixed cost facilities regardless of use.

The method used to identify the charges is an annual calculation based on the value of various asset groups for the headquarters, control room operations, and shared warehouses such as land, building, information technology software and equipment. For these assets we calculate each of the following costs: depreciation, insurance, property taxes, Michigan business tax, federal income tax and a blended return on the fixed assets. The total of these components is the annual fixed charge.

The 2009 rental revenue projections were based on preliminary asset totals for the new ITC headquarters building. The new headquarters facility was not occupied until April 1, 2008 and final fixed asset data was not available until later in the year after the projections for

2009 had been completed. This resulted in a higher than projected rental revenues of \$1.6mm. In addition, the 2009 rental revenue projection mistakenly did not include the appropriate actual revenue credits for shared warehouse facilities (\$0.9mm).

METC Questions

– Pg. 8 Establish Rate Base

- 1. Why were the almost 40% of prepayments not anticipated in projections? Please provide detailed support for what prepayments were included in the Actual amount.**

The prepaid balance assumed in the 2009 rate projection reflected insurance prepayment balances. Prepayments on other items such as IT contracts were not included in the projection (\$0.5mm).

Pg. 8 & 9 2009 Major Project additions to Rate Base

- 2. Please provide a list the projected 2009 Major Project additions to Rate Base. In the past you have provide a comparison of projected to actual.**

Reliability-System Capacity Improvements

Projected

Midland Project
Felch Road - Croton Rebuild
Brickyard - Felch Rebuild
Leoni - Beecher Sag Limit Remediation
138kV Sag Clearance

Actual

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

Reliability-Infrastructure Improvements

Projected

Breaker Replacement Program
Battery Replacement Program
Potential Device Replacement Program
METC Communication and Relaying Upgrade
Transformer Monitoring Program
Relay Replacement Projects
Wood Pole Replacement Project
Misc. NRUC/ERUC

Actual

Breaker Replacement Program

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

Customer Connections

Projected

WPSC Gray Rd Interconnection
Eagles Landing Station
Chester Tie
Tirrell Rd Pole Switch

Actual

Plum Station Interconnection

Facilities

Projected
General Facilities

Security

Projected

Karn Substation Security
Keystone Substation Security
Gaines Substation Security
Campbell 138kv Security
Battle Creek Substation Security
Campbell 345kv Security
Vergennes Substation Security

General Plant

Projected

Vehicles, Tools & Equipment
Information Technology

Actual

Facilities
Security Improvements
Vehicles, Tools & Equipment

2009 Projected Additions to Rate Base \$90MM

2009 Actual Additions to Rate Base \$119MM

- 3. Please provide the timing of the transfers to Rate Base since this was a factor in the differences between Gross Plant in Service and Accumulated Depreciation.**

	Transfers to Rate Base	
January	\$	4,775,046
February	\$	5,490,717
March	\$	6,635,539
April	\$	4,854,713
May	\$	7,308,385
June	\$	3,855,841
July	\$	38,116,518
August	\$	11,321,805
September	\$	6,575,960
October	\$	14,071,491
November	\$	4,946,015
December	\$	10,938,097
Grand Total	\$	118,890,126

Pg. 11 Determine Recoverable Operating Expenses

- 4. Please provide details of what type of mitigation efforts were implemented in 2009 that resulted in the decrease in actual A&G expenses.**

See ITC answer # 4

- 5. What are Non-field O&M expenses? Could you also explain how you accounted for the Non-field O&M and G&A, it appears that these are offset and are not doubled counted? But why were they included in G&A versus O&M in the first place?**

See ITC answer #5 above

- 6. Do you expect that Depreciation expense for future years will be closer to projected since the 2009 Depreciation Study has been completed?**

Yes, depreciation expense in future projections should be closer to actual results. That being said, there are other variables that can impact the variance between projections and actuals including capital transfers to service, asset classes associated with those transfers (e.g., short-lived or long-lived), etc.

Pg. 13 Establish Net Revenue Requirement

- 7. Are you expecting that revenues for PTP reservations will continue to decline?**

See ITC answer #7 above

- 8. How are rental revenues calculated? Why were they higher than expected for shared warehouse assets?**

See ITC answer to #8 for how rental revenues are calculated.

The 2009 rental revenue projection mistakenly did not include appropriate revenue credits for shared warehouse facilities (\$0.3mm).

Schedule A - 2009 Detailed Prepayment Support

2009 Prepaid Other & Insurance Ending Balance ITCOP & METOP

Description	Amount	Amount
	Allocated & Amortized to ITCOP	Allocated & Amortized to METOP
24 month emergency care support	\$ 20,016.91	\$ 15,145.06
3 Yr Complete Care Plus	\$ 45,396.32	\$ -
3 Yr Maintenance Fee	\$ 131,380.98	\$ 99,404.01
Administration Fees	\$ 1,875.00	\$ 1,875.00
Analytical services	\$ 33,491.74	\$ 26,308.39
ANNUAL ADMIN FEES AND EXPENSES	\$ -	\$ 6,249.98
Annual Administration Fees	\$ 12,199.92	\$ -
Annual donation	\$ 43,780.00	\$ 34,390.00
Annual License of PSS	\$ 22,370.75	\$ 22,370.75
Annual Membership Fee	\$ 5,116.80	\$ 5,116.80
Annual Professional Service Fee	\$ 1,459.37	\$ 1,146.37
Annual Sponsorship	\$ 4,013.17	\$ 3,152.42
Annual Subscription Fee	\$ 10,011.02	\$ 7,863.85
CAPE Package Mtc.	\$ 2,587.50	\$ 2,587.50
Equipment Rental & Software Maintenance	\$ 20,118.80	\$ -
FERC Basic Service	\$ 6,117.17	\$ 4,805.13
Generator Warranties	\$ 4,234.41	\$ 3,326.16
Lease Payment Pole Yard	\$ -	\$ 12,000.00
Maintenance agreement (3 year)	\$ 563.12	\$ 286.83
Membership Dues	\$ 3,739.50	\$ 2,937.47
Platinum Support	\$ 44,104.17	\$ -
PowerBase Maintenance Fees	\$ 8,559.76	\$ 6,723.81
PowerFlow Data License	\$ 1,821.26	\$ 1,430.59
Promod Analysis Tool 1 yr lease	\$ 2,407.93	\$ 1,891.48
Quest Recovery Manager	\$ 1,050.72	\$ 825.36
Software License & Subscription	\$ 5,184.05	\$ -
Software maintenance	\$ 166,906.69	\$ 129,875.41
Support Services -3YR w TAM	\$ 79,499.96	\$ -
US MACRO Key Rates/software maintenace	\$ 2,707.08	\$ 2,126.44
VSAT/PSAT user support	\$ 3,364.14	\$ 2,545.35
Grand Total Prepaid Other	\$ 684,078.24	\$ 394,384.16

Description	Amount	Amount
	Allocated & Amortized to ITCOP	Allocated & Amortized to METOP
Account Services Fee	\$ 14,775.72	\$ 11,606.64
Annual MI SLT for Property	\$ 640.91	\$ 503.38
Annual Premium	\$ 32,992.72	\$ 25,916.41
Auto Liability Annual Premium	\$ 6,580.03	\$ 5,168.71
Aviation	\$ 19,413.70	\$ 15,249.81
Boiler & Machinery Annual Premium	\$ 15,687.80	\$ 12,323.10
Commercial Property Annual Premium (Includes IA, IL, MN SLT)	\$ 36,419.09	\$ 28,607.91
Consulting Fee to Willis	\$ 14,593.30	\$ 11,463.30
Crime	\$ 2,125.56	\$ 1,669.68
Director & Officer	\$ 98,046.01	\$ 77,016.96
Director & Officer - Commission Credit	\$ (23,787.45)	\$ (18,685.48)
Employee Practices Liability Annual Premium	\$ 1,341.24	\$ 1,053.57
Excess Director & Officer	\$ 152,469.96	\$ 119,768.00
Excess Liability Annual Premium	\$ 22,636.96	\$ 17,781.70
Fiduciary Liability	\$ 4,852.30	\$ 3,811.55
General Liability Annual Premium	\$ 6,489.46	\$ 5,097.58
METC -Partnership Liability Runoff Coverage	\$ -	\$ 155,269.71
Surplus Lines Tax	\$ -	\$ 3,881.75
Terrorism & Sabotage	\$ 96,980.14	\$ 76,179.69
Workers Comp Annual Premium	\$ 9,938.88	\$ 7,807.16
Workers Comp.	\$ 436.18	\$ 342.64
Grand Total Prepaid Insurance	\$ 512,632.51	\$ 561,833.77
	\$ 1,196,710.75	\$ 956,217.93