



## **2010 Attachment O True Up Adjustment – METC**

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# Presentation Purpose

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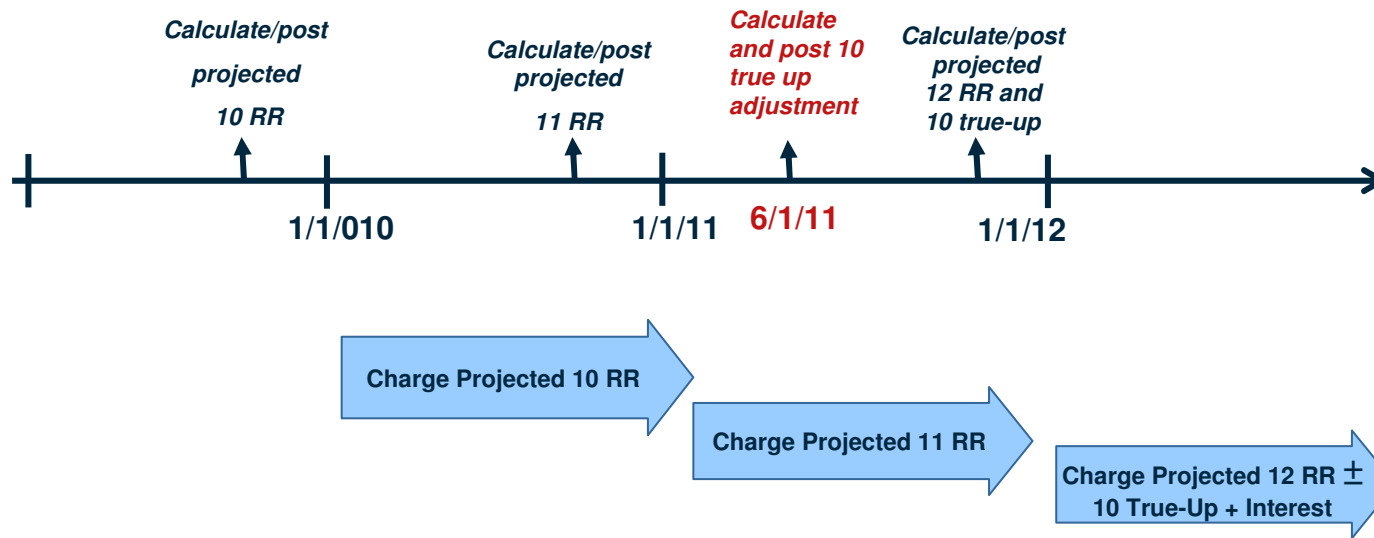
- On June 1, 2011, the 2010 Attachment O True Up Adjustment for METC was posted to the OASIS site as item #66:

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

# Forward Looking Attachment O

## ■ Forward Looking Attachment O Timeline (2010 Example)

- **August 2009**
  - Calculate 2010 billing rate based on projected 2010 net revenue requirement (“RR”)
- **September 1, 2009**
  - Post rate on OASIS
- **January 2010 – December 2010**
  - Apply 2010 billing rate to monthly peak load
- **June 1, 2011**
  - **Post 2010 true up**
- **September 1, 2011**
  - Calculate 2012 billing rate based on projected 2012 net RR and 2010 true-up with interest (comparing actual 2010 billed revenues to actual 2010 net RR)
- **January 2012 – December 2012**
  - Apply 2012 billing rate based on projected 2012 net RR +/- 2010 true-up with interest



# True Up Adjustment

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## 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

|   |    |                    |
|---|----|--------------------|
| Net Revenue Requirement                               | \$ | 182,762,005        |
| for 2010 Actual & 2008 True Up                        |    |                    |
| Less: 2008 True Up Under Recovery                     |    | <u>12,197,148</u>  |
| Net Revenue Requirement for 2010 Actual               |    | 170,564,857        |
| Less: Actual Network Revenues for 2010 <sup>(1)</sup> |    | <u>173,709,946</u> |
| True Up Principal (Over) Recovery                     |    | (3,145,089)        |
| <br>  |    |                    |
| Preliminary Monthly Interest Rate                     |    | 0.27%              |
| Preliminary Interest                                  | \$ | (203,802)          |
| Preliminary True-Up Adjustment Under (Over)           |    |                    |
| Recovery including interest                           | \$ | (3,348,891)        |

(1) Revenues shown are for 2010 only as shown on Form 1, page 330, line 6, column (n), and exclude revenues for 2008 true-up which were collected in 2010 but accrued as revenue in 2008.

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# 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 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

## METC Interest Rate on 2010 Under(Over)-Recovery

| (a)<br>Year          | (b)<br>Month | (c)<br>METC<br>Revolving<br>Credit<br>Agreement<br>Rate<br>Note 1 | (d)<br>METC<br>Revolving<br>Credit<br>Agreement<br>Rate adjusted<br>for months<br>with zero<br>balance<br>Note 2 | (e)<br>Note<br>Reference | (f)<br>METC<br>Revolving<br>Credit<br>Agreement<br>Rate adjusted<br>for months<br>with zero<br>balance<br>Monthly Rate | (g)<br>FERC<br>Refund<br>Rate<br>Note 3 | (h)<br>METC<br>Interest<br>Rate on<br>Under<br>Recovery |
|----------------------|--------------|---|--|--------------------------|--|---|---|
| 2011                 | July         |   |  |                          |  |   |   |
| 2011                 | June         |   |  |                          |  |   |   |
| 2011                 | May          |   |  |                          |  |   |   |
| 2011                 | Apr          |   |  |                          |  |   |   |
| 2011                 | Mar          |   |  |                          |  |   |   |
| 2011                 | Feb          |   |  |                          |  |   |   |
| 2011                 | Jan          |   |  |                          |  |   |   |
| 2010                 | Dec          | 3.25%   | 3.25%  |                          | 0.27%  | 0.28%                                   | 0.27%   |
| 2010                 | Nov          | 0.26%   | 0.26%  |                          | 0.02%  | 0.27%                                   | 0.02%   |
| 2010                 | Oct          |   | 0.56%  | Note 2                   | 0.05%  | 0.28%                                   | 0.05%   |
| 2010                 | Sep          |   | 0.56%  | Note 2                   | 0.05%  | 0.27%                                   | 0.05%   |
| 2010                 | Aug          |   | 0.56%  | Note 2                   | 0.05%  | 0.28%                                   | 0.05%   |
| 2010                 | July         |   | 0.56%  | Note 2                   | 0.05%  | 0.28%                                   | 0.05%   |
| 2010                 | June         |   | 0.56%  | Note 2                   | 0.05%  | 0.27%                                   | 0.05%   |
| 2010                 | May          |   | 0.56%  | Note 2                   | 0.05%  | 0.28%                                   | 0.05%   |
| 2010                 | Apr          | 0.56%   | 0.56%  |                          | 0.05%  | 0.27%                                   | 0.05%   |
| 2010                 | Mar          | 0.59%   | 0.59%  |                          | 0.05%  | 0.28%                                   | 0.05%   |
| 2010                 | Feb          | 0.58%   | 0.58%  |                          | 0.05%  | 0.25%                                   | 0.05%   |
| 2010                 | Jan          | 0.58%   | 0.58%  |                          | 0.05%  | 0.28%                                   | 0.05%   |
| Total                |              |   |  |                          |  | 0.0329                                  | 0.0079  |
| Count                |              |   |  |                          |  | 12                                      | 12  |
| Average monthly rate |              |   |  |                          |  | 0.0027                                  | 0.0007  |

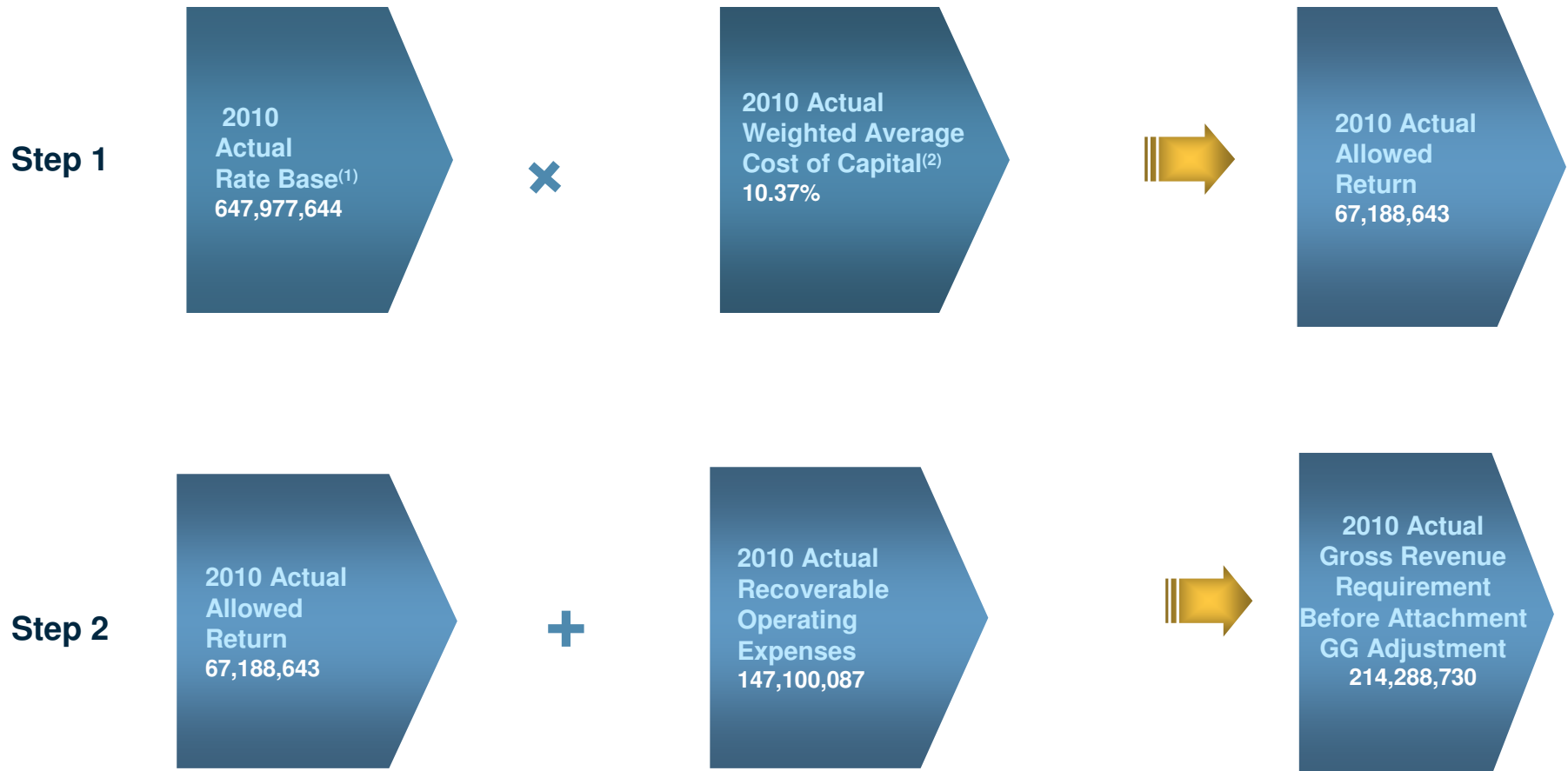
Note 1: Weighted-average interest rate of METC borrowings under revolving credit agreement at month-end.  
For description of revolving credit facilities, see METC 2010 Form 1, page 123.9.

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>]

# Attachment O

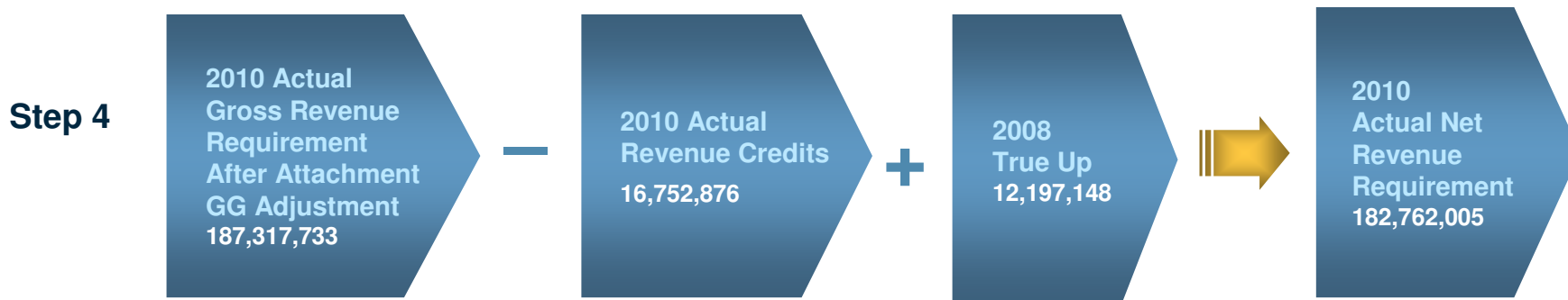
## Using Attachment O to Derive the 2010 Actual Net Revenue Requirement



(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

# Attachment O (continued)

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# Step 1A – Calculate Rate Base

| Rate Base Item                | 2010 Actual Amount | 2010 Projected Amount | Increase/ (Decrease) | Explanation  |
|-------------------------------|--------------------|-----------------------|----------------------|--|
| Gross Plant in Service        | \$ 930,076,240     | \$ 916,012,000        | \$ 14,064,240        | Higher actual 2010 plant additions resulting in higher 13-month gross plant average partially offset by higher plant retirements                   |
| Less Accumulated Depreciation | 317,598,661        | 322,716,000           | (5,117,339)          | Lower accumulated depreciation due to higher retirements partially offset by higher 2010 depreciation expense due to higher additions to rate base |
| Net Plant in Service          | 612,477,579        | 593,296,000           | 19,181,579           |  |
| Deferred Taxes                | (97,581,575)       | (88,710,000)          | (8,871,575)          | Lower actual deferred tax assets due to higher taxable income  |
| Revenue Deferral              | 46,750,000         | 46,750,000            | -                    |  |
| ADIT Deferral                 | 51,076,060         | 51,076,000            | 60                   |  |
| Materials & Supplies          | 24,114,219         | 21,035,429            | 3,078,789            | Higher actual materials and supplies due to higher stores handling balances than projected.  |
| Land Held for Future Use      | -                  | -                     | -                    |  |
| Prepayments                   | 1,652,904          | 3,432,000             | (1,779,096)          | Lower actual prepaid inventory for equipment   |
| Cash Working Capital          | 9,488,458          | 8,775,028             | 713,430              | 1/8 of recoverable O&M and G&A   |
| Total Rate Base               | \$ 647,977,644     | \$ 635,654,457        | \$ 12,323,188        |  |

# 2010 Major Projects Additions to Plant In-Service

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## Reliability-System Capacity Improvements

Brickyard-Felch Project  
Alameda-Saginaw River Rebuild  
Black River-Campbell Project  
138kV Sag Clearance  
Felch Road-Croton Project

## Reliability-Infrastructure Improvements

Cobb Swamp Mitigation Project  
Breaker Replacement Program – METC  
Delhi-Island Rd 138kV Rebuild  
METC Conveyances

## Customer Connections

N/A

## General Plant

Vehicles, Tools & Equipment

**2010 Actual Additions to Plant and Service \$141.7MM**

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

|                | Ratio | Cost   | 2010 Actual WACC | 2010 Projected WACC | Increase/ (Decrease) | Explanation  |
|----------------|-------|--------|------------------|---------------------|----------------------|--|
| Equity         | 60%   | 13.38% | 8.03%            | 8.03%               | 0.00%                |  |
| Debt           | 40%   | 5.84%  | 2.34%            | 2.37%               | -0.03%               | Lower actual interest rate on revolving credit facility borrowings |
| Rate of Return |       |        | 10.37%           | 10.40%              | -0.03%               |  |

|                  | 2010 Actual Amount | 2010 Projected Amount | Increase/ (Decrease) |
|------------------|--------------------|-----------------------|----------------------|
| Rate Base        | \$ 647,977,644     | \$ 635,654,457        | \$ 12,323,188        |
| x Return         | 10.37%             | 10.40%                | -0.03%               |
| = Allowed Return | \$ 67,188,643      | \$ 66,084,538         | \$ 1,104,105         |

## Step 2A – Calculate Recoverable Operating Expenses

| Expense Item                          | 2010 Actual Amount    | 2010 Projected Amount | Increase/ (Decrease) | Explanation  |
|---------------------------------------|-----------------------|-----------------------|----------------------|--|
| Operating & Maintenance Expense       | \$ 52,998,137         | \$ 47,375,000         | \$ 5,623,137         | Higher actual vegetation management and information technology system maintenance expenses |
| Plus Administrative & General Expense | 22,909,526            | 22,825,222            | 84,304               |  |
| Plus Depreciation Expense             | 19,108,617            | 17,443,000            | 1,665,617            | Higher depreciation expense primarily due to higher additions to rate base in 2010         |
| 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    | 13,023,426            | 14,095,000            | (1,071,574)          | Lower actual property taxes due to lower 2009 additions to rate base                       |
| Plus Income Taxes                     | 32,905,310            | 31,349,577            | 1,555,733            | Higher actual rate base  |
| Total Recoverable Operating Expenses  | <u>\$ 147,100,087</u> | <u>\$ 139,242,799</u> | <u>\$ 7,857,288</u>  |  |

## Step 2B – Calculate Gross Revenue Requirement

|  | 2010 Actual Amount    | 2010 Projected Amount | Increase/ (Decrease) |
|--|-----------------------|-----------------------|----------------------|
| Allowed Return                         | \$ 67,188,643         | \$ 66,084,538         | \$ 1,104,105         |
| + Total Recoverable Operating Expenses | 147,100,087           | 139,242,799           | 7,857,288            |
| = Gross Revenue Requirement            | <u>\$ 214,288,730</u> | <u>\$ 205,327,337</u> | <u>\$ 8,961,393</u>  |

## Step 3A – Calculate Net Revenue Requirement

| Credit Item                    | 2010 Actual Amount | 2010 Projected Amount | Increase/ (Decrease) | Explanation  |
|--------------------------------|--------------------|-----------------------|----------------------|--|
| Total Attachment GG Adjustment | \$ 26,970,997      | \$ 30,353,496         | \$ (3,382,499)       | Lower due to lower actual capital expenditures associated with RECB partially offset by higher actual annual allocation factor rate  |
| Point to Point/ Other Revenue  | \$ 16,357,990      | \$ 6,748,000          | \$ 9,609,990         | Higher revenues due to higher PTP reservations and higher prior period adjustments related to FERC decision on PJM redirects. Additionally, higher other revenues due to timing of utilization payments. |
| Rental Revenue/ Other          | 394,886            | 296,000               | 98,886               |  |
| Total Revenue Credits          | \$ 16,752,876      | \$ 7,044,000          | \$ 9,708,876         |  |

|   | 2010 Actual Amount | 2010 Projected Amount | Increase/ (Decrease) |
|---|--------------------|-----------------------|----------------------|
| Gross Revenue Requirement Before Attachment GG Adjustment | \$ 214,288,730     | \$ 205,327,337        | \$ 8,961,393         |
| - Attachment GG Adjustment                                | (26,970,997)       | (30,353,496)          | 3,382,499            |
| Gross Revenue Requirement After Attachment GG Adjustment  | 187,317,733        | 174,973,842           | 12,343,892           |
| - Revenue Credits   | (16,752,876)       | (7,044,000)           | (9,708,876)          |
| + True Up Adjustment                                      | 12,197,148         | 12,197,148            | -                    |
| = Net Revenue Requirement                                 | \$ 182,762,005     | \$ 180,126,990        | \$ 2,635,016         |

## 2010 METC Summary

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|   |    |             |
|---|----|-------------|
| ■ Actual Net Revenue Requirement  | \$ | 182,762,005 |
| ■ Projected Net Revenue Requirement                                     |    | 180,126,990 |
| ■ Actual vs. Projected Net Revenue Requirement Under/(Over) Requirement |    | 2,635,015   |
| ■ Projected vs. Actual Revenue attributed to (increased)/decreased load |    | (5,780,104) |
| ■ Total True-Up Receivable/(Payable) (excluding interest)               | \$ | (3,145,089) |

# Questions

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- If there are any questions regarding the true up, please submit them in writing to Purvi Patel [ppatel@itctransco.com](mailto: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>