

2008 METC True Up Adjustment -FINAL

| | |
|---|-----------------------|
| Actual Net Revenue Requirement | \$ 165,195,657 |
| Actual Network Revenues | \$ 153,530,443 |
| True-Up Principal Under(Over) Recovery before Interest | \$ 11,665,214 |
| Monthly rate | 0.0019 |
| Number of months | 24 |
| Interest | \$ 531,934 |
| TU Principal & Interest | \$ 12,197,148 |

| | | | | | |
|---|---|---|------------|------------------------------------|--|
| Formula Rate - Non-Levelized | | Rate Formula Template Utilizing FERC Form 1 Data | | For the 12 months ended 12/31/2008 | |
| Michigan Electric Transmission Company, LLC | | | | | |
| Line No. | | | | Allocated Amount | |
| 1 | GROSS REVENUE REQUIREMENT (page 3, line 29) | | | \$ 182,965,419 | |
| | REVENUE CREDITS (Note T) | Total | Allocator | | |
| 2 | Account No. 454 (page 4, line 34) | 996,163 | TP 1.00000 | 996,163 | |
| 3 | Account No. 456.1 (page 4, line 37) | 16,773,599 | TP 1.00000 | 16,773,599 | |
| 4 | Revenues from Grandfathered Interzonal Transactions | 0 | TP 1.00000 | 0 | |
| 5 | Revenues from service provided by the ISO at a discount | 0 | TP 1.00000 | 0 | |
| 6 | TOTAL REVENUE CREDITS (sum lines 2-5) | | | 17,769,762 | |
| 6A | True-up Adjustment (See Note 1) | | | | |
| 7 | NET REVENUE REQUIREMENT (line 1 minus line 6 plus line 6A) | | | \$ 165,195,657 | |
| | DIVISOR | | | | |
| 8 | Average of 12 coincident system peaks for requirements (RQ) service (Note A) | | | 6,425,750 | |
| 9 | Plus 12 CP of firm bundled sales over one year not in line 8 (Note B) | | | 0 | |
| 10 | Plus 12 CP of Network Load not in line 8 (Note C) | | | 0 | |
| 11 | Less 12 CP of firm P-T-P over one year (enter negative) (Note D) | | | 0 | |
| 12 | Plus Contract Demand of firm P-T-P over one year | | | 0 | |
| 13 | Less Contract Demand from Grandfathered Interzonal Transactions over one year (enter negative) (Note S) | | | 0 | |
| 14 | Less Contract Demands from service over one year provided by ISO at a discount (enter negative) | | | 0 | |
| 15 | Divisor (sum lines 8-14) | | | 6,425,750 | |
| 16 | Annual Cost (\$/kW/Yr) (line 7 / line 15) | 25.7084 | | | |
| 17 | Network & P-to-P Rate (\$/kW/Mo) (line 16 / 12) | 2.1424 | | | |
| | | Peak Rate | | Off-Peak Rate | |
| 18 | Point-To-Point Rate (\$/kW/Wk) (line 16 / 52; line 16 / 52) | \$0.4944 | | \$0.4944 | |
| 19 | Point-To-Point Rate (\$/kW/Day) (line 18 / 5; line 18 / 7) | \$0.0989 Capped at weekly rate | | \$0.0706 | |
| 20 | Point-To-Point Rate (\$/MWh) (line 19 / 16; line 19 / 24 times 1,000) | \$6.1799 Capped at weekly and daily rates | | \$2.9428 | |
| 21 | FERC Annual Charge(\$/MWh) (Note E) | \$0.000 Short Term | | \$0.000 Short Term | |
| 22 | | \$0.000 Long Term | | \$0.000 Long Term | |

Note 1. Calculated in accordance with the Annual Rate Calculation and True-up Procedures on pages 1365Z.16A and 1365Z.16B of this Tariff.

| Formula Rate - Non-Levelized | | Rate Formula Template Utilizing FERC Form 1 Data | | For the 12 months ended 12/31/2008 | |
|-----------------------------------|--|---|-----------|-------------------------------------|-------------|
| (1) | | (2) | (3) | (4) | (5) |
| Line No. | Form No. 1 Page, Line, Col. | Company Total | Allocator | Transmission (Col 3 times Col 4) | |
| RATE BASE: | | | | | |
| GROSS PLANT IN SERVICE | | | | | |
| 1 | Production | 205.46.g | NA | zero | 0 |
| 2 | Transmission (Note V) | 207.58.g | TP | 1.00000 | 655,234,352 |
| 3 | Distribution | 207.75.g | NA | 0.00000 | 0 |
| 4 | General & Intangible (Note V) | 205.5.g & 207.99.g | W/S | 1.00000 | 31,981,237 |
| 5 | Common | 356.1 | CE | 1.00000 | 0 |
| 6 | TOTAL GROSS PLANT (sum lines 1-5) | 687,215,589 | GP= | 100.000% | 687,215,589 |
| ACCUMULATED DEPRECIATION | | | | | |
| 7 | Production | 219.20-24.c | NA | zero | 0 |
| 8 | Transmission (Note V) | 219.25.c | TP | 1.00000 | 284,235,645 |
| 9 | Distribution | 219.26.c | NA | 0.00000 | 0 |
| 10 | General & Intangible (Note V) | 219.28.c | W/S | 1.00000 | 9,997,903 |
| 11 | Common | 356.1 | CE | 1.00000 | 0 |
| 12 | TOTAL ACCUM. DEPRECIATION (sum lines 7-11) | 294,233,548 | | | 294,233,548 |
| NET PLANT IN SERVICE | | | | | |
| 13 | Production | (line 1 - line 7) | | | 0 |
| 14 | Transmission | (line 2 - line 8) | | | 370,998,707 |
| 15 | Distribution | (line 3 - line 9) | | | 0 |
| 16 | General & Intangible | (line 4 - line 10) | | | 21,983,334 |
| 17 | Common | (line 5 - line 11) | | | 0 |
| 18 | TOTAL NET PLANT (sum lines 13-17) | 392,982,041 | NP= | 100.000% | 392,982,041 |
| ADJUSTMENTS TO RATE BASE (Note F) | | | | | |
| 19 | Account No. 281 (enter negative) (Note W) | 273.8.k | NA | zero | 0 |
| 20 | Account No. 282 (enter negative) (Note W) | 275.2.k | NP | 1.00000 | -55,862,930 |
| 21 | Account No. 283 (enter negative) (Note W) | 277.9.k | NP | 1.00000 | -19,324,169 |
| 22 | Account No. 190 (Note W) | 234.8.c | NP | 1.00000 | 27,467,359 |
| 23 | Account No. 255 (enter negative) (Note W) | 267.8.h | NP | 1.00000 | 0 |
| 23a | Account No. 182.3 Deferral | | NP | 1.00000 | 55,000,000 |
| 23b | Account No. 114 ADIT | | NP | 1.00000 | 61,291,272 |
| 23c | Amortization of Deferral | | NP | 1.00000 | -2,750,000 |
| 23d | Amortization of ADIT | | NP | 1.00000 | -3,405,071 |
| 24 | TOTAL ADJUSTMENTS (sum lines 19- 23) | 62,416,461 | | | 62,416,461 |
| 25 | LAND HELD FOR FUTURE USE (Note W) | 214.x.d (Note G) | TP | 1.00000 | 0 |
| WORKING CAPITAL (Note H) | | | | | |
| 26 | CWC | calculated | | | 9,251,538 |
| 27 | Materials & Supplies (Note G) (Note W) | 227.4.c | TE | 0.88326 | 14,770,049 |
| 28 | Prepayments (Account 165) (Note W) | 111.57.c | GP | 1.00000 | 1,364,305 |
| 29 | TOTAL WORKING CAPITAL (sum lines 26 - 28) | 18,086,513 | | | 25,385,891 |
| 30 | RATE BASE (sum lines 18, 24, 25, & 29) | 473,485,015 | | | 480,784,393 |

Note 2. Excludes deferred taxes associated with the True-up Adjustment that are not otherwise included in rate base.

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Filed to comply with the December 28, 2006 Letter Order in Docket No. ER07-113-000 (Midwest Independent Transmission System Operator, Inc. and the Transmission Owners of the Midwest Independent Transmission System Operator, Inc., 117FERC ¶61,355 (2006)).

| Formula Rate - Non-Levelized | | Rate Formula Template Utilizing FERC Form 1 Data | | For the 12 months ended 12/31/2008 | |
|---|--|---|---------------|------------------------------------|-------------------------------------|
| Line No. | (1) | (2) | (3) | (4) | (5) |
| | | Form No. 1 Page, Line, Col. | Company Total | Allocator | Transmission (Col 3 times Col 4) |
| O&M | | | | | |
| 1 | Transmission | 321.112.b | 56,494,272 | TE 0.88326 | 49,899,101 |
| 2 | Less Account 565 | 321.96.b | | 1.00000 | 0 |
| 2a | Customer Records | 323.164b | | W/S 1.00000 | 0 |
| 3 | A&G | 323.197.b | 24,145,657 | W/S 1.00000 | 24,145,657 |
| 4 | Less FERC Annual Fees | | | W/S 1.00000 | 0 |
| 5 | Less EPRI & Reg. Comm. Exp. & Non-safety Ad. (Note I) | | 105,241 | W/S 1.00000 | 105,241 |
| 5a | Plus Transmission Related Reg. Comm. Exp. (Note I) | | 82,404 | TE 0.88326 | 72,784 |
| 6 | Common | 356.1 | | CE 1.00000 | 0 |
| 7 | Transmission Lease Payments | | | 1.00000 | 0 |
| 8 | TOTAL O&M (sum lines 1, 3, 5a, 6, 7 less lines 2, 4, 5) | | 80,617,092 | | 74,012,301 |
| DEPRECIATION EXPENSE | | | | | |
| 9 | Transmission | 336.7.b | 15,586,330 | TP 1.00000 | 15,586,330 |
| 10 | General & Intangible | 336.10.b & 336.1.f | 4,873,050 | W/S 1.00000 | 4,873,050 |
| 11 | Common | 336.11.b | | CE 1.00000 | 0 |
| 11a | Regulatory Deferral Amortization (Note Ia) | | 2,750,000 | | 2,750,000 |
| 11b | ADIT Amortization | | 3,405,071 | | 3,405,071 |
| 12 | TOTAL DEPRECIATION (Sum lines 9 - 11) | | 26,614,451 | | 26,614,451 |
| TAXES OTHER THAN INCOME TAXES (Note J) | | | | | |
| LABOR RELATED | | | | | |
| 13 | Payroll | 263.3,4,8.i | 680,731 | W/S 1.00000 | 680,731 |
| 14 | Highway and vehicle | 263.i | 0 | W/S 1.00000 | 0 |
| PLANT RELATED | | | | | |
| 16 | Property | 263.i | 8,650,265 | GP 1.00000 | 8,650,265 |
| 17 | Gross Receipts | 263.i | 0 | NA zero | 0 |
| 18 | Other | 263.i | 22,285 | GP 1.00000 | 22,285 |
| 19 | Payments in lieu of taxes | | 0 | GP 1.00000 | 0 |
| 20 | TOTAL OTHER TAXES (sum lines 13 - 19) | | 9,353,281 | | 9,353,281 |
| INCOME TAXES (Note K) | | | | | |
| 21 | $T=1 - \frac{((1 - SIT) * (1 - FIT))}{(1 - SIT * FIT * p)}$ | | 38.22% | | |
| 22 | $CIT=(T/1-T) * (1-(WCLTD/R)) =$ where WCLTD=(page 4, line 27) and R= (page 4, line30) and FIT, SIT & p are as given in footnote K. | | 48.57% | | |
| 23 | $1 / (1 - T) =$ (from line 21) | | 1.6186 | | |
| 24 | Amortized Investment Tax Credit (266.8f) (enter negative) | | 0 | | |
| 25 | Income Tax Calculation = line 22 * line 28 | | 23,499,424 | NA zero | 23,861,698 |
| 26 | ITC adjustment (line 23 * line 24) | | 0 | NP 1.00000 | 0 |
| 27 | Total Income Taxes (line 25 plus line 26) | | 23,499,424 | | 23,861,698 |
| 28 | RETURN [Rate Base (page 2, line 30) * Rate of Return (page 4, line 30)] | | 48,377,881 | NA zero | 49,123,688 |
| 29 | REV. REQUIREMENT (sum lines 8, 12, 20, 27, 28) | | 188,462,129 | | 182,965,419 |

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Formula Rate - Non-Levelized Rate Formula Template Utilizing FERC Form 1 Data For the 12 months ended 12/31/2008

Michigan Electric Transmission Company, LLC

SUPPORTING CALCULATIONS AND NOTES

| | | | | | |
|--|---|-------------|---------------------|---------------|-------------------|
| Line No. | TRANSMISSION PLANT INCLUDED IN ISO RATES | | | | |
| 1 | Total transmission plant (page 2, line 2, column 3) | | | | 655,234,352 |
| 2 | Less transmission plant excluded from ISO rates (Note M) | | | | 0 |
| 3 | Less transmission plant included in OATT Ancillary Services (Note N) | | | | 0 |
| 4 | Transmission plant included in ISO rates (line 1 less lines 2 & 3) | | | | 655,234,352 |
| 5 | Percentage of transmission plant included in ISO Rates (line 4 divided by line 1) | | TP= | | 1.00000 |
| TRANSMISSION EXPENSES | | | | | |
| 6 | Total transmission expenses (page 3, line 1, column 3) | | | | 56,494,272 |
| 7 | Less transmission expenses included in OATT Ancillary Services (Note L) | | | | 6,595,171 |
| 8 | Included transmission expenses (line 6 less line 7) | | | | 49,899,101 |
| 9 | Percentage of transmission expenses after adjustment (line 8 divided by line 6) | | | | 0.88326 |
| 10 | Percentage of transmission plant included in ISO Rates (line 5) | | TP | | 1.00000 |
| 11 | Percentage of transmission expenses included in ISO Rates (line 9 times line 10) | | TE= | | 0.88326 |
| WAGES & SALARY ALLOCATOR (W&S) | | | | | |
| | Form 1 Reference | \$ | TP | Allocation | |
| 12 | Production 354.20.b | | 1.00 | 0 | |
| 13 | Transmission 354.21.b | 2,579,325 | 1.00 | 2,579,325 | |
| 14 | Distribution 354.23.b | | 1.00 | 0 | W&S Allocator |
| 15 | Other 354.24,25,26,27.b | 5,033,115 | 1.00 | 5,033,115 | (\$ / Allocation) |
| 16 | Total (sum lines 12-15) | 7,612,440 | | 7,612,440 = | 1.00000 = WS |
| COMMON PLANT ALLOCATOR (CE) (Note O) | | | | | |
| | | \$ | % Electric | W&S Allocator | |
| 17 | Electric 200.3.c | 567,216,736 | (line 17 / line 20) | (line 16) | CE |
| 18 | Gas 201.3.d | | 1.00000 * | 1.00000 = | 1.00000 |
| 19 | Water 201.3.e | | | | |
| 20 | Total (sum lines 17 - 19) | 567,216,736 | | | |
| RETURN (R) | | | | | |
| | | | | \$ | |
| 21 | Long Term Interest (117, sum of 62.c through 67.c) see footnote to FERC Form | | | \$ 11,759,976 | |
| 22 | Preferred Dividends (118.29c) (positive number) | | | \$ - | |
| Development of Common Stock: | | | | | |
| 23 | Proprietary Capital (112.16.c) (Note V) | | | 321,245,638 | |
| 24 | Less Preferred Stock (line 28) (Note V) | | | 0 | |
| 25 | Less Account 216.1 (112.12.c)(enter negative) (Note V) | | | 0 | |
| 25a | Less 2003 Equity Adjustment (253.3.b)(enter negative) (Note V) | | | | |
| 26 | Common Stock (sum lines 23-25) | | | 321,245,638 | |
| | | \$ | % | Cost (Note P) | Weighted |
| 27 | Long Term Debt (112, sum of 18.c through 21.c) (Note V) | 214,532,700 | 40% | 0.0548 | 0.02195 =WCLTD |
| 28 | Preferred Stock (112.3.c) (Note V) | 0 | 0% | 0.0000 | 0.00000 |
| 29 | Common Stock (line 26) | 321,245,638 | 60% | 0.1338 | 0.08022 |
| 30 | Total (sum lines 27-29) | 535,778,338 | | | 0.10217 =R |
| REVENUE CREDITS | | | | | |
| | | | | Load | |
| ACCOUNT 447 (SALES FOR RESALE) (310-311) (Note Q) | | | | | |
| 31 | a. Bundled Non-RQ Sales for Resale (311.x.h) | | | 0 | |
| 32 | b. Bundled Sales for Resale included in Divisor on page 1 | | | 0 | |
| 33 | Total of (a)-(b) | | | 0 | |
| 34 | ACCOUNT 454 (RENT FROM ELECTRIC PROPERTY) (Note R) | | | \$996,163 | |
| ACCOUNT 456.1 (OTHER ELECTRIC REVENUES) (Note U) (330.x.n) | | | | | |
| 35 | a. Transmission charges for all transmission transactions | | | \$188,299,300 | |
| 36 | b. Transmission charges for all transmission transactions included in Divisor on Page 1 | | | \$171,525,701 | |
| 37 | Total of (a)-(b) | | | \$16,773,599 | |

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Formula Rate - Non-Levelized

Rate Formula Template
 Utilizing FERC Form 1 Data

For the 12 months ended 12/31/2008

Michigan Electric Transmission Company, LLC

General Note: References to pages in this formulary rate are indicated as: (page#, line#, col.#)
 References to data from FERC Form 1 are indicated as: #.y.x (page, line, column)

Note
 Letter

- A Peak as reported on page 400, column b of Form 1 at the time of the ISO coincident monthly peaks.
- B Labeled LF, LU, IF, IU on pages 310-311 of Form 1 at the time of the ISO coincident monthly peaks.
- C Labeled LF on page 328 of Form 1 at the time of the ISO coincident monthly peaks.
- D Labeled LF on page 328 of Form 1 at the time of the ISO coincident monthly peaks.
- E The FERC's annual charges for the year assessed the Transmission Owner for service under this tariff.
- F The balances in Accounts 190, 281, 282 and 283, as adjusted by any amounts in contra accounts identified as regulatory assets or liabilities related to FASB 106 or 109. Balance of Account 255 is reduced by prior flow throughs and excluded if the utility chose to utilize amortization of tax credits against taxable income as discussed in Note K. Account 281 is not allocated.
- G Identified in Form 1 as being only transmission related.
- H Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission at page 3, line 8, column 5. Prepayments are the electric related prepayments booked to Account No. 165 and reported on Page 111 line 57 in the Form 1.
- I Line 5 - EPRI Annual Membership Dues listed in Form 1 at 353.f, all Regulatory Commission Expenses itemized at 351.h, and non-safety related advertising included in Account 930.1. Line 5a - Regulatory Commission Expenses directly related to transmission service, ISO filings, or transmission siting itemized at 351.h.
- I-a For the rate period June 1, 2006 through May 31, 2007, this amount will reflect an adjustment (positive or negative) equal to the true-up amount, including interest, determined pursuant to the methodology approved in Docket No. ER06-56, to eliminate the rate impact of the differences caused by the use of a projected year 2005 deferral balance.
- J Includes only FICA, unemployment, highway, property, gross receipts, and other assessments charged in the current year. Taxes related to income are excluded. Gross receipts taxes are not included in transmission revenue requirement in the Rate Formula Template, since they are recovered elsewhere.
- K The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and $p =$ "the percentage of federal income tax deductible for state income taxes". If the utility is taxed in more than one state it must attach a work paper showing the name of each state and how the blended or composite SIT was developed. Furthermore, a utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f) multiplied by $(1/1-T)$ (page 3, line 26).

| | | | |
|------------------|-------|--------|---|
| Inputs Required: | FIT = | 35.00% | |
| | SIT= | 4.95% | (State Income Tax Rate or Composite SIT) |
| | p = | 0.00% | (percent of federal income tax deductible for state purposes) |
- L Removes dollar amount of transmission expenses included in the OATT ancillary services rates, including all of Account No. 561.1, 561.2, 561.3, and 561.BA
- M Removes transmission plant determined by Commission order to be state-jurisdictional according to the seven-factor test (until Form 1 balances are adjusted to reflect application of seven-factor test).
- N Removes dollar amount of transmission plant included in the development of OATT ancillary services rates and generation step-up facilities, which are deemed to included in OATT ancillary services. For these purposes, generation step-up facilities are those facilities at a generator substation on which there is no through-flow when the generator is shut down.
- O Enter dollar amounts
- P Debt cost rate = long-term interest (line 21) / long term debt (line 27). Preferred cost rate = preferred dividends (line 22) / preferred outstanding (line 28). ROE will be supported in the original filing and no change in ROE may be made absent a filing with FERC.
- Q Line 33 must equal zero since all short-term power sales must be unbundled and the transmission component reflected in Account No. 456.1 and all other uses are to be included in the divisor.
- R Includes income related only to transmission facilities, such as pole attachments, rentals and special use.
- S Grandfathered agreements whose rates have been changed to eliminate or mitigate pancaking - the revenues are included in line 4 page 1 and the loads are included in line 13, page 1. Grandfathered agreements whose rates have not been changed to eliminate or mitigate pancaking - the revenues are not included in line 4, page 1 nor are the loads included in line 13, page 1.
- T The revenues credited on page 1 lines 2-5 shall include only the amounts received directly (in the case of grandfathered agreements) or from the ISO (for service under this tariff) reflecting the Transmission Owner's integrated transmission facilities. They do not include revenues associated with FERC annual charges, gross receipts taxes, ancillary services, facilities not included in this template (e.g., direct assignment facilities and GSUs) which are not recovered under this Rate Formula Template.
- U Account 456.1 entry shall be the annual total of the quarterly values reported at Form 1, 330.x.n.
- V Calculate using 13 month average balance.
- W Calculate using average of beginning and end of year balances.