



**Michigan Electric Transmission Company,
LLC
2010 Attachment O Rate Presentation**



Agenda



Opening Remarks

Introduction to Attachment O

Details of the Inputs

Q & A

Meeting Purpose



Michigan Electric Transmission Company, LLC's (METC) network rate starting on January 1, 2010 was calculated on the Midwest ISO's Attachment O, using METC's projected net revenue requirement and projected load.

The purpose of today's meeting is to review with you the 2010 Attachment O formula rate, and METC's input projections and cost details.

Forward Looking Attachment O

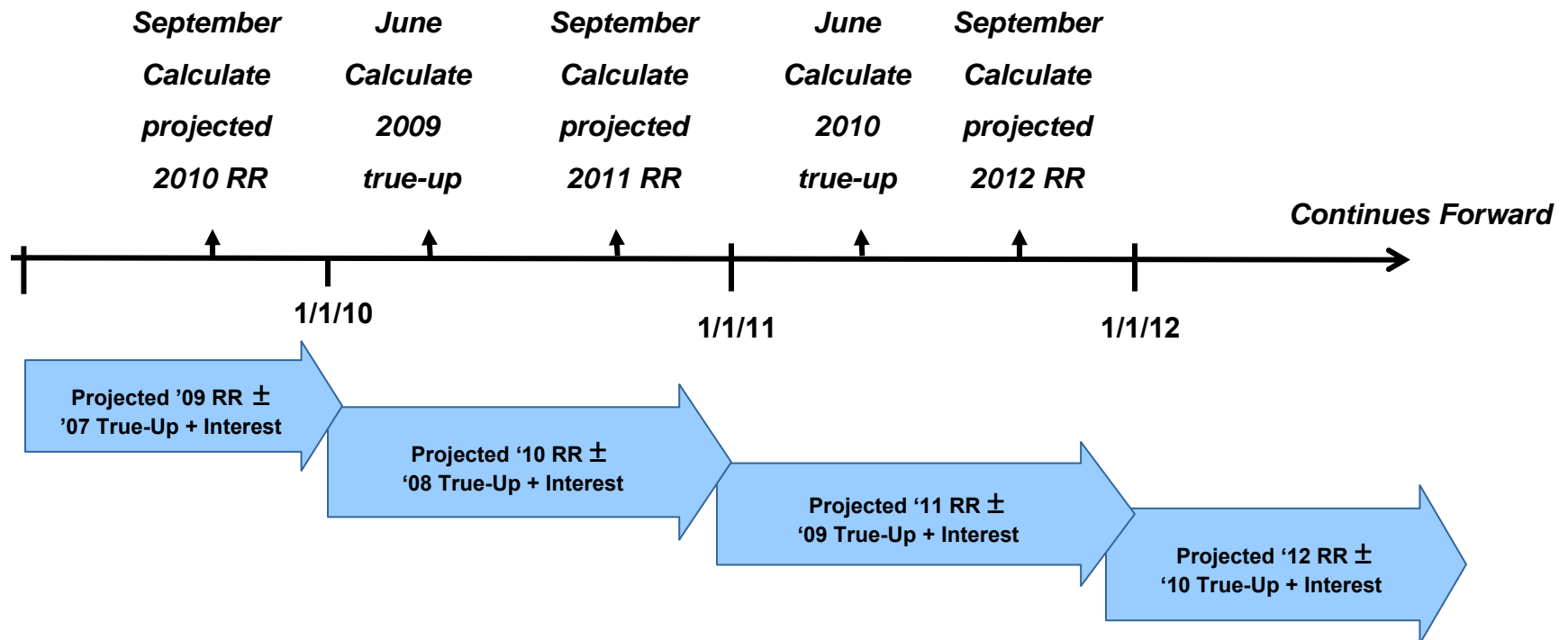


- ◆ **September 1, 2009 (per tariff)**
 - Calculated 2010 network rate based on projected 2010 Net Revenue Requirement (“RR”) and posted rate on OASIS on September 1, 2009
- ◆ **January 2010 – December 2010**
 - Apply 2010 network rate based on projected 2010 net RR +/- 2008 true-up with interest
- ◆ **June 2010**
 - Calculate actual 2009 revenue requirement based on 2009 FERC Form 1 data and post true-up adjustment on OASIS by June 1, 2010
- ◆ **September 1, 2010**
 - Calculate 2011 network 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 network rate based on projected 2011 net RR +/- 2009 true-up with interest
- ◆ **June 2011**
 - Calculate actual 2010 revenue requirement based on 2010 FERC Form 1 data and post true-up adjustment on OASIS by June 1, 2011
- ◆ **September 1, 2011**
 - Calculate 2012 network 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 network rate based on projected 2012 net RR +/- 2010 true-up with interest

Forward Looking Attachment O cont'd



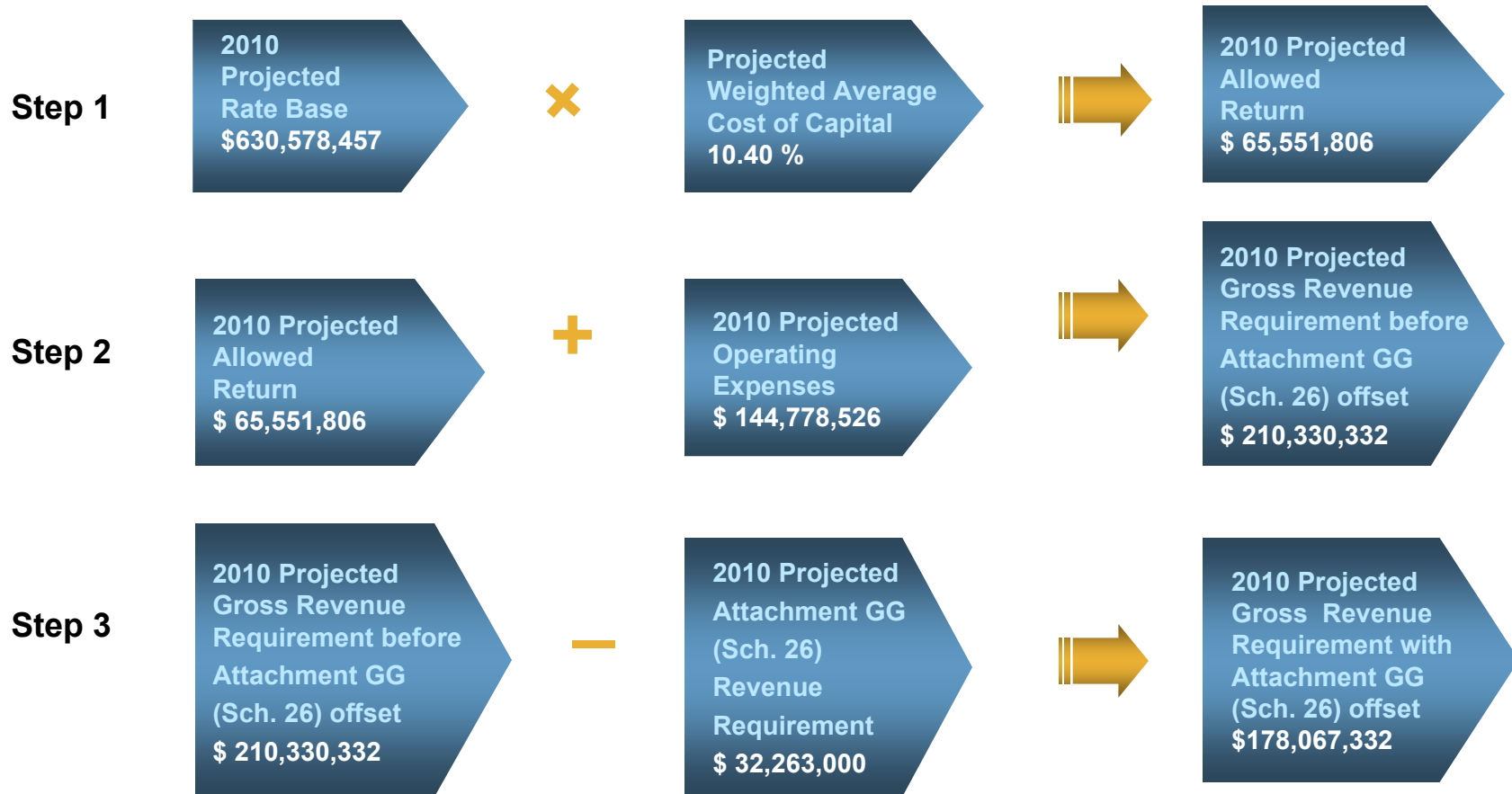
Forward Looking Attachment O Timeline



Forward Looking Attachment O



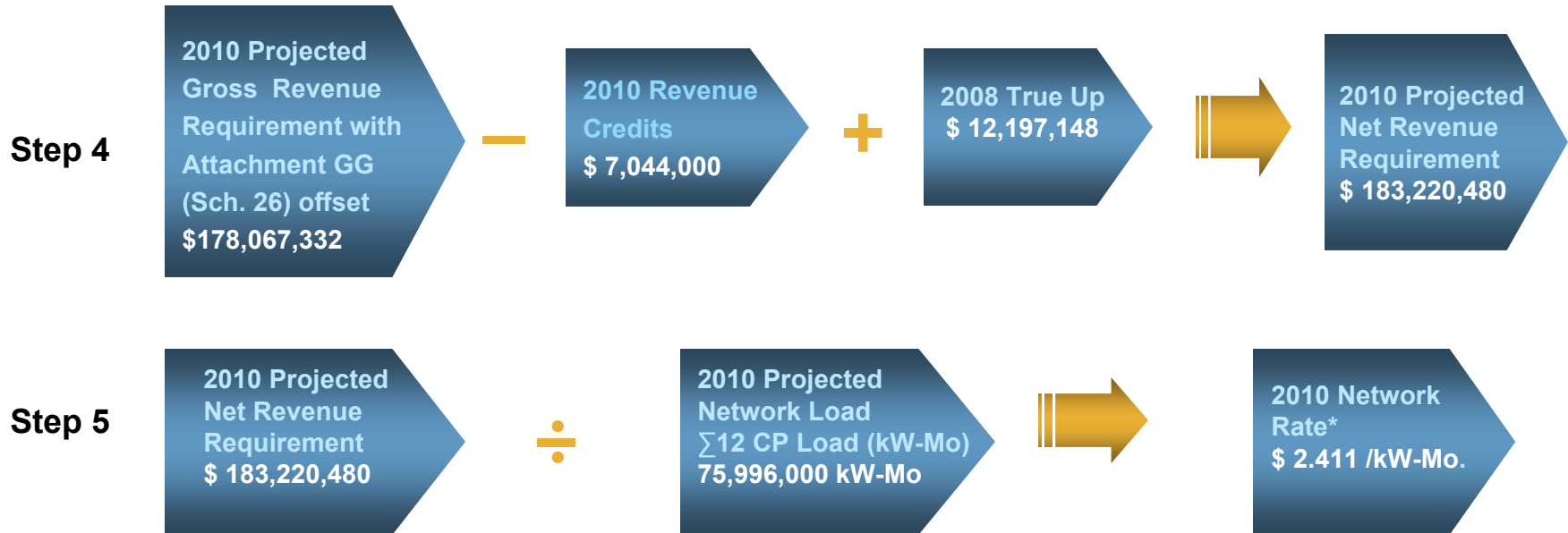
Using Attachment O to Derive the 2010 Billing Rate



Forward Looking Attachment O



Using Attachment O to Derive the 2010 Billing Rate



* This represents only the METC's portion of the joint zone billing rate. Schedules 1 & 26 are billed separately by MISO.

Step 1A – Establish Rate Base



Rate Base Item	2010 Projected Amount	2009 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Gross Plant in Service	\$ 916,012,000	\$ 815,024,000	\$ 100,988,000	Additions to plant
Less Accumulated Depreciation	<u>331,060,000</u>	<u>317,224,000</u>	<u>13,836,000</u>	Higher depreciable asset base
Net Plant in Service	584,952,000	497,800,000	87,152,000	
Deferred Taxes	(85,442,000)	(56,402,000)	(29,040,000)	Higher net deferred tax liability primarily attributable to property additions
Regulatory Amortizations	97,826,000	103,981,130	(6,155,130)	Amortization of ADIT Adder & Revenue Deferral
Materials & Supplies	21,035,429	19,880,094	1,155,335	Higher inventory balances due to higher capital levels
Land Held for Future Use	-	-	-	
Prepayments	3,432,000	676,000	2,756,000	2010 reflects capital prepaid inventory for transformers
Computed Working Capital	8,775,028	9,982,972	(1,207,944)	Decrease in recoverable O&M expenses (1/8 of \$70.2 M)
Total Rate Base	<u>\$ 630,578,457</u>	<u>\$ 575,918,196</u>	<u>\$ 54,660,261</u>	

2010 Planned Capital Additions



While the following slides identify general times for line and substation construction projects, several factors could impact the company's ability to complete projects according to those times.

These factors include, but are not limited to, regulatory approvals, access to construction resources, availability of materials, and even weather.

The dates and schedules identified in these slides represent our best estimates for projects to be initiated and completed, but please understand that many factors could alter those schedules.

2010 Planned Capital Additions



MISO Project ID#		Forecasted Construction Start Date	Forecasted In-Service Date	Forecasted Plant Additions*
<u>Reliability-System Capacity Improvements</u>				
0988	Batavia-Simpson 138kV Line	Jan '10	Dec '10	\$20,084,800
0480	Brickyard-Felch Rebuild	Aug '09	Apr '10	9,994,811
1798	Campbell-Black River #2	Jan '10	Dec '10	21,016,775
1797	Alameda-Saginaw River Rebuild	Jan '10	Nov '10	14,687,483
1828	Argenta-Palisades Sag Limit Remediation	Jan '10	Jun '10	11,680,845
1793	Argenta Breaker Installations	Jan '10	Apr '10	1,856,274
	Terminal Equipment Upgrade	Jan '10	Jun '10	728,686
2502	McGulpin 138kV Shunt Reactor	Sept '09	Oct '10	3,285,660
<u>Reliability-Infrastructure Improvements</u>				
1813	Cobb Swamp Rebuild	Nov '09	Dec '10	\$18,222,139
2505	Power Plant Control Relocation		Ongoing	1,456,040
1822	Breaker Replacement Program		Ongoing	4,269,093
2504	Potential Device Replacement Program		Ongoing	305,438
1824	Relay Betterment Program		Ongoing	1,975,273
2516	Relay NERC PRC-023 Loadability Compliance		Ongoing	1,131,961
2509	Wood Pole Replacement Program		Ongoing	4,544,355
	Misc NRUC/ERUC		Ongoing	2,014,757
	Multicone Insulator Replacements		Ongoing	80,398
	Cross Arm Replacements		Ongoing	100,074
	Pole Guying Replacements		Ongoing	200,147
2503	Battery Replacement		Ongoing	164,006

*Includes previous years' expenditures for multi-year projects.

2010 Planned Capital Additions cont'd



MISO Project ID#		Forecasted Construction Start Date	Forecasted In-Service Date	Forecasted Plant Additions*
<u>Customer Connections</u>				
1841	Eagles Landing	Mar '10	Jun '10	\$ 170,679
MTEP10	Chester Tie	Mar '10	May '10	384,274
2478	Capital Avenue	Mar '10	Jun '10	170,679
2483	Maines Road	Mar '10	Jun '10	369,042
2484	Scenic Lake	Mar '10	Jun '10	366,114
2479	Chase	Oct '10	Nov '10	32,007
2481	Forrest Grove	Mar '10	Jun '10	170,679
MTEP10	Faussette	Oct '10	Dec '10	171,430
1838	Jolly Substation	Nov '09	Apr '10	2,162,682
MTEP10	Pearline	Apr '10	July '10	172,434
<u>General Plant</u>				
	Vehicles, Tools & Equipment		Ongoing	\$ 2,002,588
	Information Technology		Ongoing	294,498
	General Facilities		Ongoing	471,197
	Security		Ongoing	1,884,789

*Includes previous years' expenditures for multi-year projects.

Step 1B – Establish Rate of Return & Allowed Return



	Ratio	Cost	2010 Projected WACC	2009 Projected WACC	Increase/ (Decrease)	Projected Amount Explanation
Equity	60%	13.38%	8.03%	8.03%	0.00%	
Debt	40%	5.92%	2.37%	2.47%	(0.10%)	Lower projected LIBOR rates on revolvers
Rate of Return			10.40%	10.50%	(0.10%)	

Calculation

Rate Base (slide 8)	\$ 630,578,457
x Return (above)	10.40%
= Allowed Return	\$ 65,551,806

Step 2A – Determine Operating Expenses



Expense Item	2010 Projected Amount	2009 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Operation & Maintenance Expense	\$ 47,375,000	\$ 34,767,000	\$ 12,608,000	Higher non-field O&M expenses including the CMS easement payment of \$10M (classified as A&G in 2009)
Plus Administrative & General Expense	22,825,222	45,096,777	(22,271,555)	Decreases are attributable to cost mitigation efforts, the impacts of the 2009 capitalization process, lower allocations of corporate expenses and the reclass of non-field O&M expenses from A&G to O&M in 2010
Plus Depreciation Expense	23,195,000	23,942,000	(747,000)	
Plus Regulatory Amortizations	6,155,000	6,155,000	-	
Taxes Other Than Income Taxes	14,095,000	12,612,000	1,483,000	Higher asset base
Plus Income Taxes	31,133,304	28,566,308	2,566,996	Greater rate base
Total Operating Expenses	\$ 144,778,526	\$ 151,139,085	\$ (6,360,559)	

Step 2B – Establish Gross Revenue Requirement



Calculation

Allowed Return (slide 12)	\$	65,551,806
+ Total Operating Expenses (slide 13)		144,778,526
= Gross Revenue Requirement before Attachment GG (Sch. 26) offset	\$	210,330,332

Step 3 – Establish Gross Revenue Requirement with Sch. 26 offset



Credit Item	2010 Projected Amount	2009 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Total Attachment GG (Schedule 26) offset	\$ 32,263,000	\$ 18,512,000	\$ 13,751,000	2010 projections based on MTEP '09 regionally shared projects , as well as previous MTEP '07 & '08 regionally shared projects

Calculation

Gross Revenue Requirement before Attachment GG (Sch. 26) offset (slide 14)	\$210,330,332
- Attachment GG (Sch. 26) offset (above)	32,263,000
= Gross Revenue Requirement with Attachment GG (Sch. 26) offset	\$178,067,332

Step 4 – Establish Net Revenue Requirement



Revenue Credit Item	2010 Projected Amount	2009 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Point to Point	\$ 6,748,000	\$ 10,917,000	\$ (4,169,000)	2010 projections based on decline in PTP revenues that METC is experiencing in 2009
Rental Revenue	<u>296,000</u>	-	\$ 296,000	Rental revenue for shared warehouse facilities with ITC Transmission
Total Revenue Credits	\$ 7,044,000	\$ 10,917,000	\$ (3,873,000)	

2008 True-up Calculation

Actual Net Revenue Requirement	\$165,195,657
Actual Network Revenues	<u>\$153,530,443</u>
True-up Principal Under/(Over) Recovery before Interest	\$11,665,214
Monthly Interest Rate	0.0019
Number of Months	<u>24</u>
True-up Interest	\$531,934
True-up Principal and Interest	<u><u>\$12,197,148</u></u>

Calculation

Gross Revenue Requirement with Attachment GG (Sch. 26) offset (slide 15)	\$178,067,332
- Revenue Credits (above)	\$7,044,000
+ True-up (above)	\$12,197,148
= Net Revenue Requirement	\$183,220,480

Step 5 – Establish Billing Rate



	2010 Projected Load	2009 Projected Load	Increase/ (Decrease)	Projected Amount Explanation
Sum of 2010 Monthly Coincident Network Peak Loads (in kW-Mo)	75,996,000	81,312,000	(5,316,000)	- Based on internal short term peak demand forecast model

Calculation

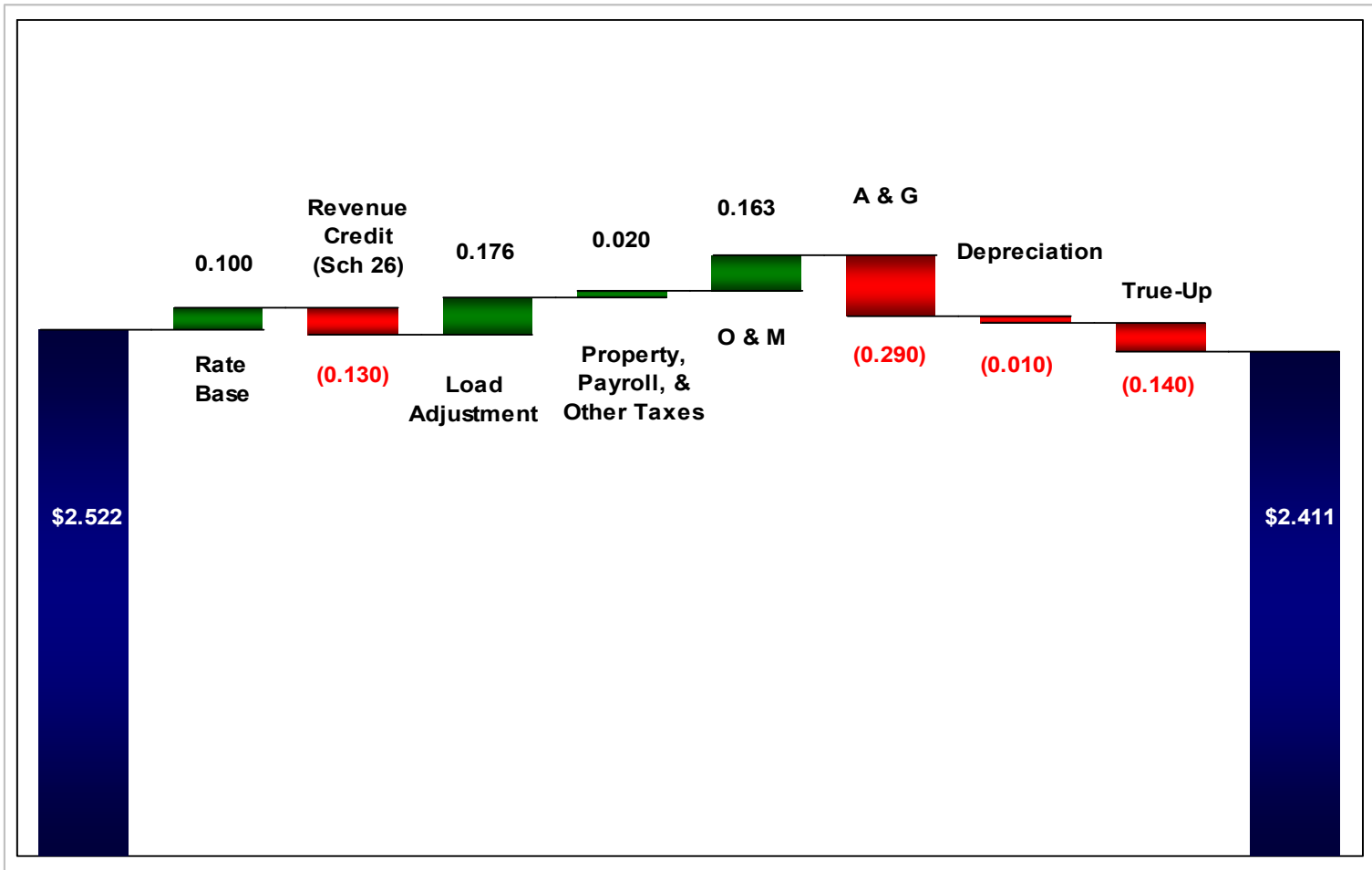
Net Revenue Requirement (slide 16)	\$ 183,220,480
÷ \sum 12 CP Load (kW-Mo)	75,996,000
= 2010 Network Rate (per kW-Mo)	\$2.411

- This represents only the METC portion of the joint zone billing rate.
- Schedules 1 & 26 are billed separately by MISO.
- The projected January 2010 Joint Zone Billing Rate, based on current MISO OASIS Data, is \$2.606. Please note, the official 2010 Joint Zone Billing Rate will be posted by MISO on OASIS. The final rate paid by customers is determined by MISO.

2010 METC Year Over Year Change In Rate



The 2010 METC \$2.411/kW/Month rate effective January 1, 2010 through December 31, 2010 is shown below (all values shown are \$/kW/Month).



2009 Rate

2010 Rate



Questions



- ◆ If there are any questions regarding the 2010 Attachment O rate, please submit them in writing to:

Cynthia Crane (ccrane@itctransco.com)(248-946-3485) and
Chuck Marshall (cmarshall@itctransco.com)(248-946-3276).

- ◆ All questions and their answers will be distributed by email to the person who asked, and all attendees at this meeting. Also, they will be posted on the OASIS website and the Partners in Business website at:
 - <http://oasis.midwestiso.org/oasis/METC>
 - <http://www.itctransco.com/servingourcustomers/partnersinbusiness/michigan.html>