



**Michigan Electric  
Transmission Company  
Partners in Business 2009  
Attachment O**



# Agenda



**Opening Remarks**

**Jeff Dorr**

**Details of the Inputs**

**Purvi Patel**

**Q & A**

# Meeting Purpose



**Michigan Electric Transmission Company's (METC) billing rate starting on January 1, 2009 is 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 Attachment O formula rate, and METC's input projections and cost details.**

# Forward Looking Attachment O



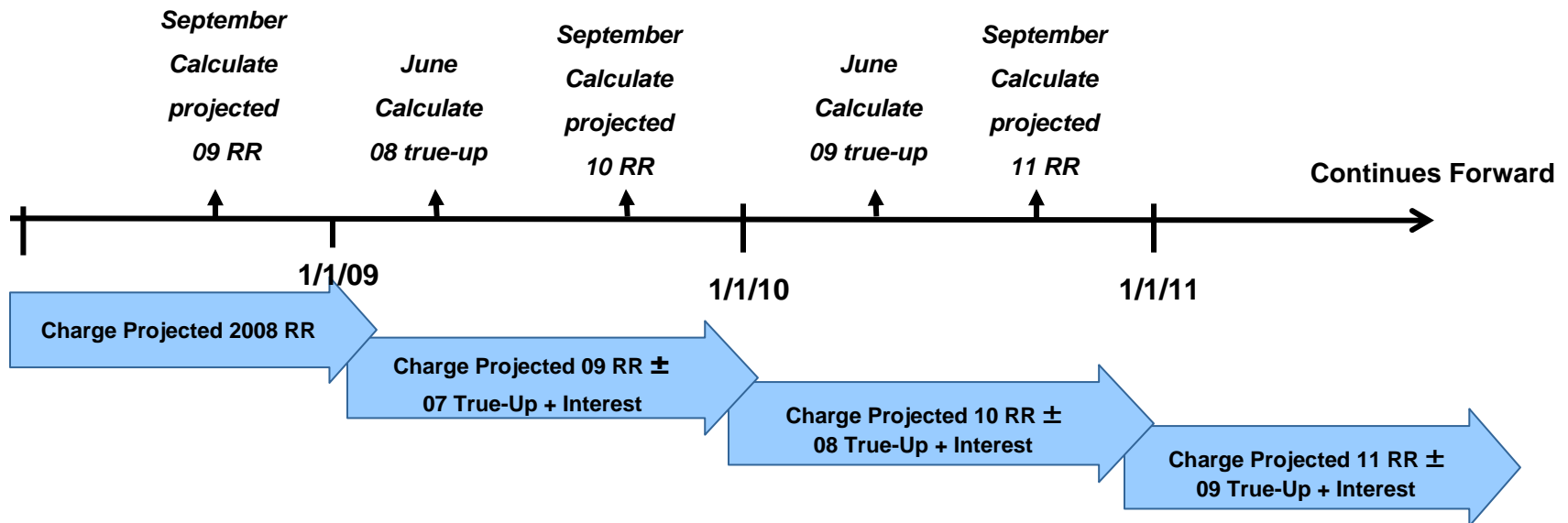
## Forward Looking Attachment O Timeline

- ◆ September 2008
  - Calculate 2009 billing rate based on projected 2009 Net Revenue Requirement (“RR”) and 2007 true-up with interest (comparing actual 2007 billed revenues to actual 2007 net RR), post rate on OASIS
- ◆ January 2009 – December 2009
  - Apply 2009 billing rate to monthly peak load
- ◆ June 2009
  - Calculate actual 2008 revenue requirement based on 2008 FERC Form 1 data and post true-up adjustment on OASIS by June 1, 2009
- ◆ September 2009
  - Calculate 2010 billing rate based on projected 2010 net RR and 2008 true-up with interest (comparing actual 2008 billed revenues to actual 2008 net RR), post rate on OASIS
- ◆ January 2010– December 2010
  - Apply 2010 billing 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 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), post rate on OASIS
- ◆ January 2011 – December 2011
  - Apply 2011 billing rate based on projected 2011 net RR +/- 2009 true-up with interest

# Forward Looking Attachment O cont'd



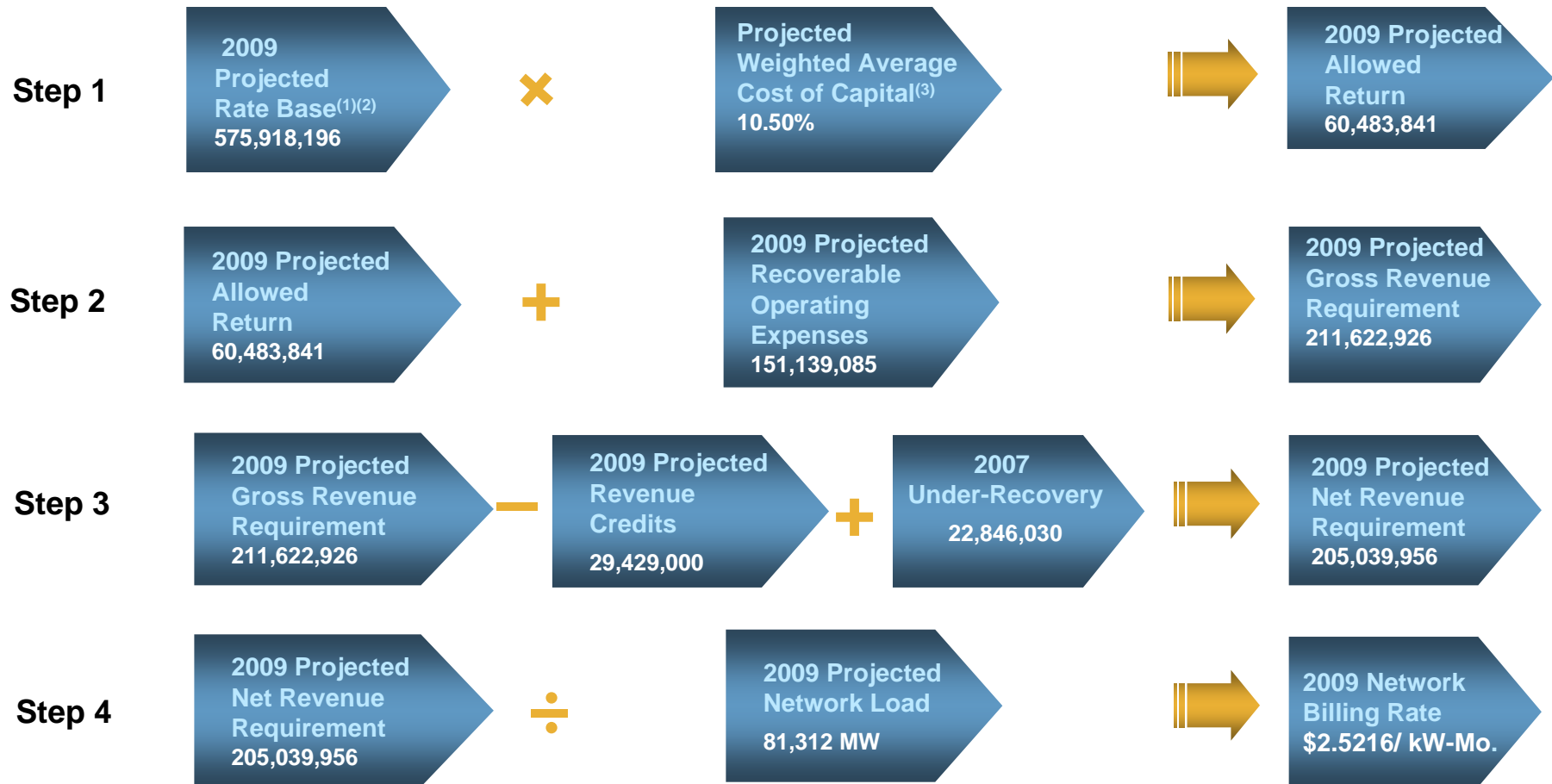
## Forward Looking Attachment O Timeline



# Forward Looking Attachment O



## Using Attachment O to Derive the 2009 Billing Rate



(1) Includes new in-service property, plant and equipment additions in rate base

(2) Includes the Regulatory Assets in rate base

(3) Weighted average cost of capital based in part on FERC accepted return on equity

# Step 1A – Establish Rate Base



Rate Base Item	2009 Projected Amount	2008 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Gross Plant in Service	\$ 815,024,000	\$ 677,815,000	\$ 137,209,000	Additions to plant
Less Accumulated Depreciation	<u>317,224,000</u>	<u>293,912,000</u>	<u>23,312,000</u>	Higher depreciable asset base
Net Plant in Service	497,800,000	383,903,000	113,897,000	
Deferred Taxes	(56,402,000)	(54,423,000)	(1,979,000)	Higher net deferred tax liability attributable to property additions
Regulatory Amortizations	103,981,130	110,136,000	(6,154,870)	Amortization of ADIT Adder & Revenue Deferral
Materials & Supplies	19,880,094	8,082,575	11,797,519	Higher inventory levels in support of capital program
Land Held for Future Use	-	-	-	
Prepayments	676,000	1,411,000	(735,000)	Reflects savings for transition to self-insurance
Change in Working Capital	9,982,972	9,879,752	103,220	Increase in recoverable O&M expenses (1/8 of \$826K)
Total Rate Base	<u>\$ 575,918,196</u>	<u>\$ 458,989,327</u>	<u>\$ 116,928,869</u>	

# 2009 Planned Capital Additions



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

**Those 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.**

# 2009 Planned Capital Additions



<b>MISO Project ID#</b>		<b>Forecasted Construction Start Date</b>	<b>Forecasted In-Service Date</b>	<b>Forecasted Plant Additions*</b>
<b><u>Reliability-System Capacity Improvements</u></b>				
1817	Midland Project	Jan '08	Mar '09	\$ 30,152,511
1819	Felch Road - Croton Rebuild	Jan '09	Nov '09	8,358,580
480	Brickyard - Felch Rebuild	Jan '09	Dec '09	10,104,179
1829	Leoni - Beecher Sag Limit Remediation	Jan '09	June '09	2,817,750
1826	138kV Sag Clearance		Ongoing	3,286,930
<b><u>Reliability-Infrastructure Improvements</u></b>				
1821	Breaker Replacement Program		Ongoing	\$ 4,763,519
	Battery Replacement Program		Ongoing	208,593
	Potential Device Replacement Program		Ongoing	269,280
	METC Communication and Relaying Upgrade		Ongoing	10,105,592
	Transformer Monitoring Program		Ongoing	1,057,460
1823	Relay Betterment		Ongoing	1,255,136
	Wood Pole Replacement Program		Ongoing	4,229,841
	Misc. NRUC/ERUC		Ongoing	1,882,035
1656	Relay Betterment		Ongoing	\$ 6,023,830
<b><u>Customer Connections</u></b>				
1425	WPSC Gray Rd Interconnection	Jan '09	Mar '09	\$ 1,458,098
1841	Eagles Landing Station	May '09	May '09	159,185
1964*	Chester Tie	Oct '09	Oct '09	162,000
1834	Tirrell Rd Pole Switch	Oct '09	Oct '09	162,000

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

# 2009 Planned Capital Additions cont'd



	<u>Forecasted Construction Start Date</u>	<u>Forecasted In-Service Date</u>	<u>Forecasted Plant Additions*</u>
<b><u>Facilities</u></b>			
General Facilities		Ongoing	\$ 434,093
<b><u>Security</u></b>			
Karn Substation Security	Feb '09	Apr '09	\$ 320,611
Keystone Substation Security	Mar '09	May '09	318,596
Gaines Substation Security	Apr '09	June '09	85,867
Campbell 138kv Security	May '09	July '09	86,522
Battle Creek Substation Security	June '09	Aug '09	88,941
Campbell 345kv Security	July '09	Sept '09	87,171
Vergennes Substation Security	Aug '09	Oct '09	87,982
<b><u>General Plant</u></b>			
Vehicles, Tools & Equipment		Ongoing	\$ 1,851,764
Information Technology		Ongoing	542,617

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

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



	Ratio	Cost	2009 Projected WACC	2008 Projected WACC	Increase/ (Decrease)	Projected Amount Explanation
Equity	60%	13.38%	8.03%	8.03%	0.00%	
Debt	40%	6.19%	2.47%	2.40%	0.07%	Increased interest rates used for additional long-term debt issuances
Rate of Return			10.50%	10.44%	0.07%	

## Calculation

Rate Base (slide 7)	\$	575,918,196
x Return		10.50%
= Allowed Return	\$	60,483,841

# Step 2A – Determine Recoverable Operating Expenses



Expense Item	2009 Projected Amount	2008 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Operation & Maintenance Expense <sup>(1)</sup>	\$ 34,767,000	\$ 34,818,236	\$ (51,236)	Lower due to efficiencies gained through improved processes and work flow
Plus Administrative & General Expense <sup>(1)</sup>	45,096,777	44,219,780	876,997	Increase in staffing and outside services
Plus Depreciation Expense	23,942,000	15,402,000	8,540,000	Higher depreciable asset base
Plus Regulatory Amortizations	6,155,000	6,155,000	-	
Taxes Other Than Income Taxes	12,612,000	9,548,000	3,064,000	Higher asset base
Plus Income Taxes	28,566,308	22,838,298	5,728,010	Greater rate base
<b>Total Recoverable Operating Expenses</b>	<b>\$ 151,139,085</b>	<b>\$ 132,981,314</b>	<b>\$ 18,157,771</b>	

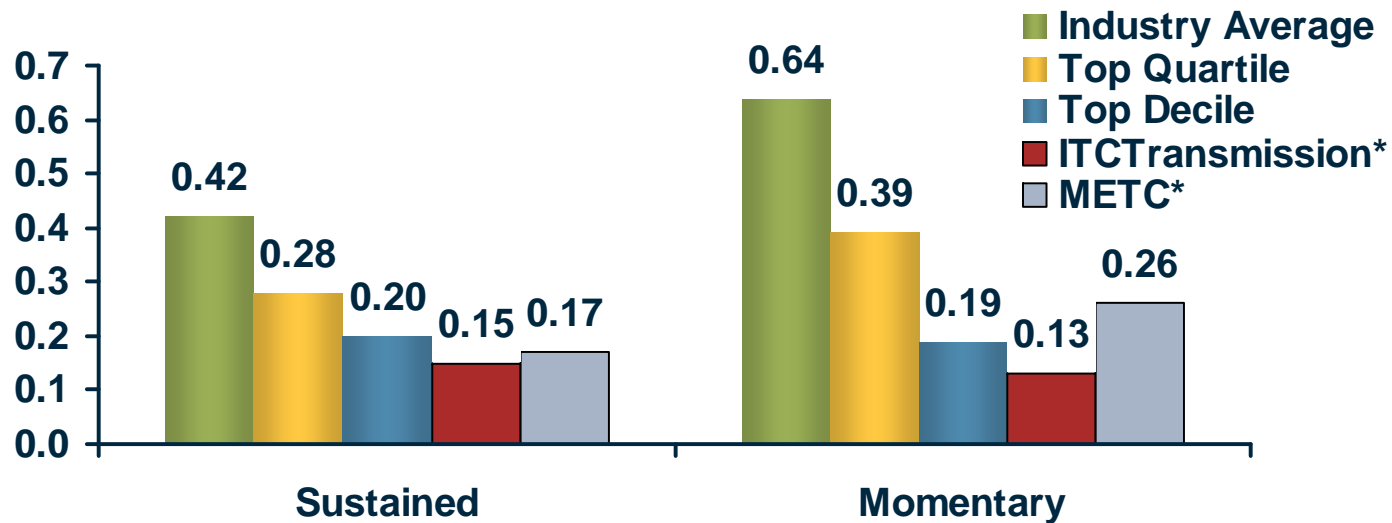
(1) For Comparison purposes, 2008 project amounts have been adjusted to reflect the CMS easement payment as A&G (previously classified as O&M)

# Improved System Performance



- ◆ Our goal is to improve the performance of our transmission systems.
- ◆ Our Michigan systems achieved Top Decile performance for sustained outages.
- ◆ ITC *Transmission* is also Top Decile in momentary outages while METC is Top Quartile.

2007 Average Circuit Outages:  
Sustained and Momentary <sup>(1)</sup>



(1) 2008 SGS Transmission Reliability Benchmarking Study  
\* Excludes external cause outages

# Step 2B – Establish Gross Revenue Requirement



## Calculation

Allowed Return (slide 11)	\$	60,483,841
+ Total Recoverable Operating Expenses (slide 12)		151,139,085
= Gross Revenue Requirement	\$	211,622,926

# Step 3A – Establish Net Revenue Requirement



Credit Item	2009 Projected Amount	2008 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Point to Point	\$ 10,917,000	\$ 8,808,000	\$ 2,109,000	2009 projections based on 2008 actuals to date
Schedule 26	18,512,000	2,270,000	16,242,000	2009 projections based on MTEP regionally shared projects
Total Revenue Credits	<u>\$ 29,429,000</u>	<u>\$ 11,078,000</u>	<u>\$ 18,351,000</u>	

# Step 3B – 2007 True Up Adjustment



<b>Actual Net Revenue Requirement =</b>	<b>\$ 149,940,116</b>
<b>Actual Transmission Revenues =</b>	<b><u>\$ 129,276,196</u></b>
<b>True Up Adjustment (Over)/Under Recovery =</b>	<b>\$ 20,663,920</b>
<b>Monthly Interest Rate <sup>(1)</sup></b>	<b>0.44%</b>
<b>Interest</b>	<b><u>\$ 2,182,110</u></b>
<b>True-Up Adjustment Under (Over) Recovery Including Interest</b>	<b>\$ 22,846,030</b>

(1) 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.

# Interest Rate Calculation



Year	Month	METC Revolving Credit Agreement (Note 1)	METC Revolving Credit Agreement Rate Adjusted for Months with Zero Balance (Note 2)	Note Reference	METC Revolving Credit Agreement Rate Adjusted for Months with Zero Balance Monthly Rate	FERC Refund Rate (Note 3)	METC Interest Rate on Under-Recovery
2008	Jul	0.0296	0.0296		0.0025	0.0045	0.0025
2008	Jun	0.0298	0.0298		0.0025	0.0056	0.0025
2008	May	0.0298	0.0298		0.0025	0.0057	0.0025
2008	Apr	0.0329	0.0329		0.0027	0.0056	0.0027
2008	Mar	0.0384	0.0384		0.0032	0.0066	0.0032
2008	Feb	0.0358	0.0358		0.003	0.0062	0.003
2008	Jan	0.0431	0.0431		0.0036	0.0066	0.0036
2007	Dec	0.0536	0.0536		0.0045	0.0070	0.0045
2007	Nov		0.0558	Note 2	0.0047	0.0068	0.0047
2007	Oct		0.0558	Note 2	0.0047	0.0070	0.0047
2007	Sep	0.0558	0.0558		0.0047	0.0068	0.0047
2007	Aug	0.0596	0.0596		0.005	0.0070	0.005
2007	Jul	0.0577	0.0577		0.0048	0.0070	0.0048
2007	Jun	0.0572	0.0572		0.0048	0.0068	0.0048
2007	May		0.0747	Note 2	0.0062	0.0070	0.0062
2007	Apr		0.0747	Note 2	0.0062	0.0068	0.0062
2007	Mar		0.0747	Note 2	0.0062	0.0070	0.0062
2007	Feb	0.0747	0.0747		0.0062	0.0063	0.0062
2007	Jan	0.0749	0.0749		0.0062	0.0070	0.0062

Total (Note 4)	0.0842
Count	19
Average monthly rate	0.0044

Note 1: Weighted-average interest rate of METC borrowings under revolving credit agreement at month-end. For description of revolving credit facilities, see METC 2007 Form 1, page 123.10,

Note 2: Interest rate for months with zero revolver credit agreement balance at month-end based on data for most recent prior month.

Note 3: FERC refund interest rate 18 CFR 35.19a [<http://www.ferc.gov/legal/acct-matts/interest-rates.asp>]

Note 4: Interest rate based on 19 months January 2007 through July 2008.

# Step 4 – Establish Billing Rate



	2009 Projected Load	2008 Projected Load	Increase/ (Decrease)	Projected Amount Explanation
Sum of 2009 Monthly Coincident Network Peak Loads (in kW)	81,312,000	83,964,000	(2,652,000)	-Based on METC short term peak demand forecast model -Econometric model including weather, economic and calendar drivers

## Calculation

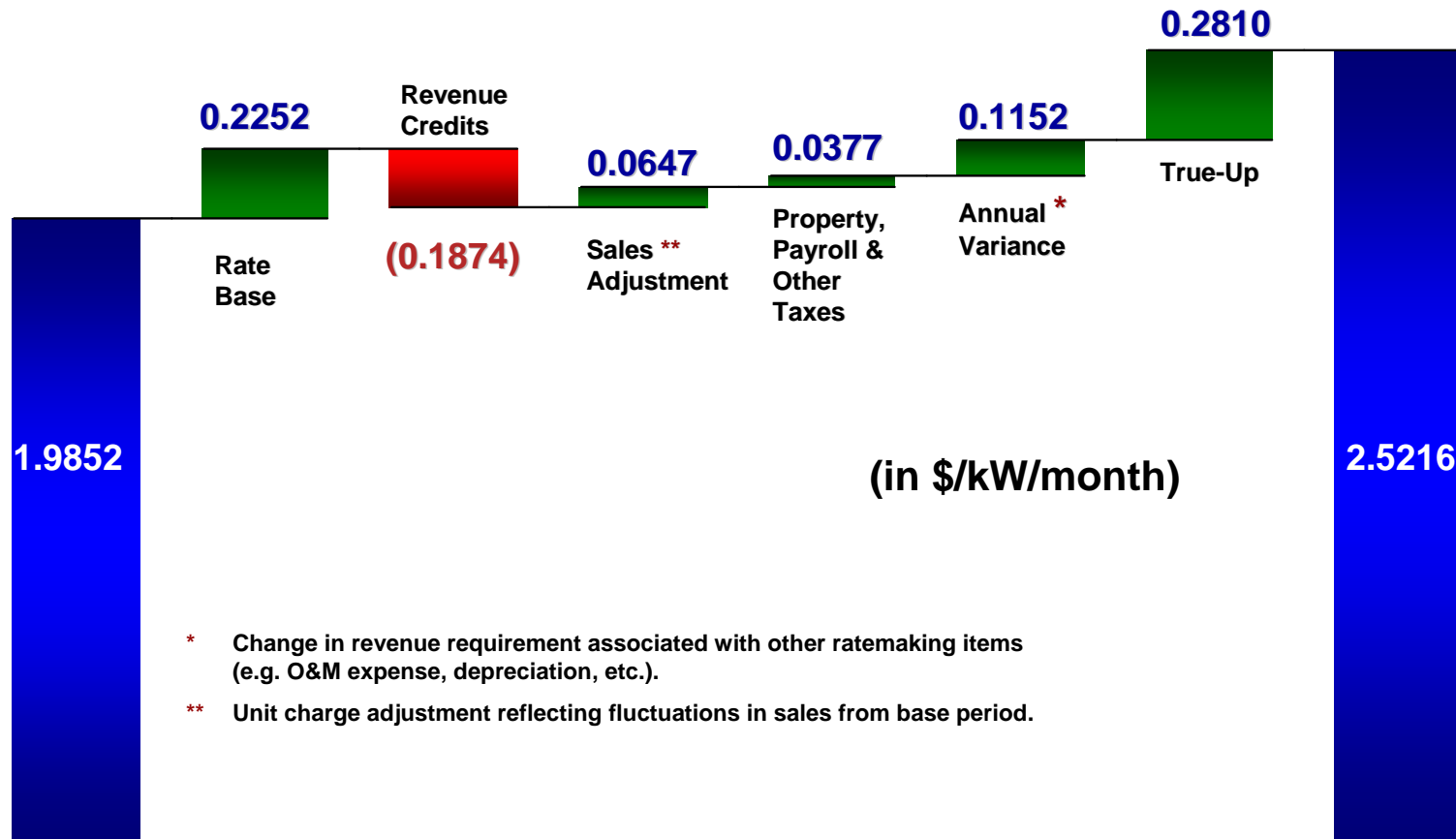
Gross Revenue Requirement (slide 14)	\$	211,622,926
- Revenue Credits (slide 15)		(29,429,000)
+ 2007 Under-Recovery (slide 16)		22,846,030
= Net Revenue Requirement	\$	205,039,956

Net Revenue Requirement	\$	205,039,956
/ Load (kW-Mo)		81,312,000
= 2009 Rate (per kW-Mo)	\$	2.5216

# Summary



The \$2.5216/kW/Mo rate (effective January 1, 2009 through December 31, 2009) is shown below.



(in \$/kW/month)

\* Change in revenue requirement associated with other ratemaking items (e.g. O&M expense, depreciation, etc.).  
 \*\* Unit charge adjustment reflecting fluctuations in sales from base period.

METC 2008 Rate

METC 2009 Rate



# Questions



- ◆ If there are any questions regarding the 2009 Attachment O rate, please contact Purvi Patel [ppatel@itctransco.com](mailto:ppatel@itctransco.com) or 248-946-3465.
  
- ◆ 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/app.php?sec=&id=39>