



Transmission Realities

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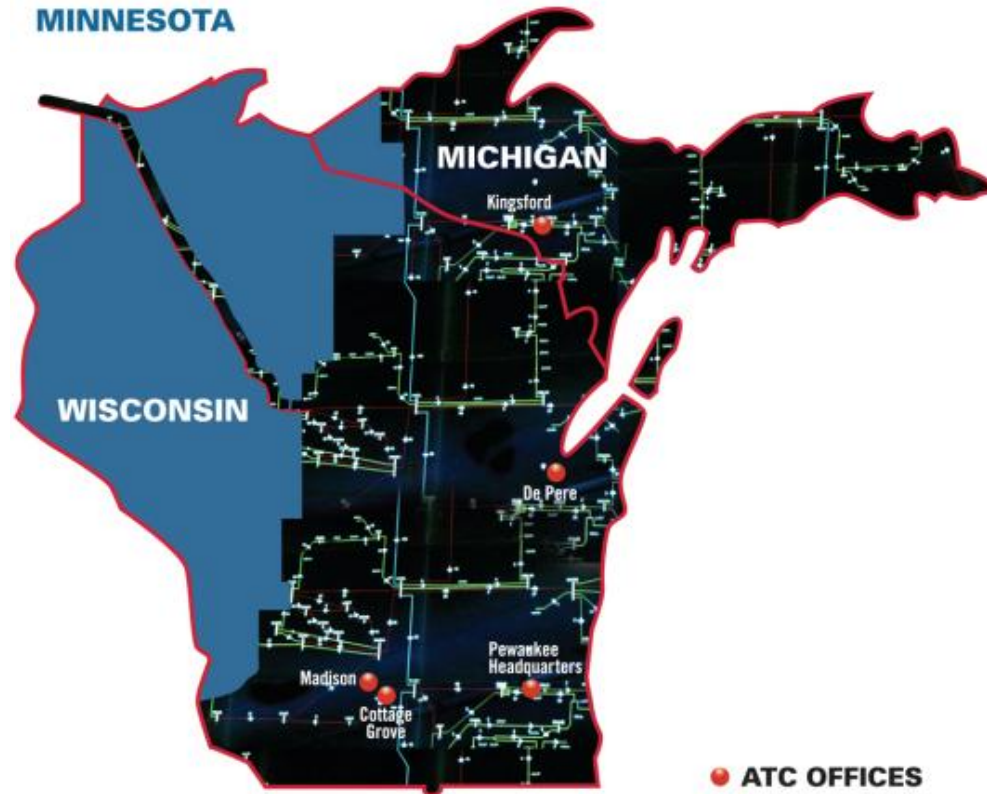
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businesses running and communities strong®



Introduction

- ATC - Background
- Industry Overview
- Revenue Requirement
- Financing
 - Debt
 - Equity
- Summary

About ATC



- Owns, operates, builds and maintains the high-voltage electric transmission system
- Member of the Midwest ISO regional transmission organization

History

- Began operations January 2001
- First multi-state transmission-only utility
- Equal access
- Improved capacity
- Better coordination
 - Planning
 - Construction
 - Operation



Business Highlights

- \$2.8 billion in total assets at 12/31/2009
 - 9,400 miles of line
 - 510 substations
- Infrastructure serves about 5 million people
- Recognized as national leader in building transmission infrastructure
- Investing \$3.4 billion in capital over the next 10 years
 - Construction projects regulated by states
- Formula rates regulated by FERC



Overview

Electric Utility Industry Overview

- Very capital intensive industry
- Financial Risk
 - In general, viewed as lower risk than other more competitive industries
 - Regulated rates of return on equity
 - More stable cash flows
 - Higher leverage (i.e. debt) than other industries

Industry Cap Structure (\$ Billions)

Capitalization Structure

U.S. SHAREHOLDER-OWNED ELECTRIC UTILITIES

Capitalization Structure	12/31/09	12/31/2008r	12/31/07
Common Equity	285,190	255,484	270,082
Preferred Equity & Noncontrolling Interests	6,679	6,911	566
Long-Term Debt (current & non-current)*	393,869	374,515	350,219
Total Capitalization	685,738	636,909	620,867
Common Equity %	41.6%	40.1%	43.5%
Preferred & Noncontrolling %	1.0%	1.1%	0.1%
Long-Term Debt %	57.4%	58.8%	56.4%
Total	100.0%	100.0%	100.0%

* Long-term debt not adjusted for (i.e., includes) securitization bonds.

r = revised

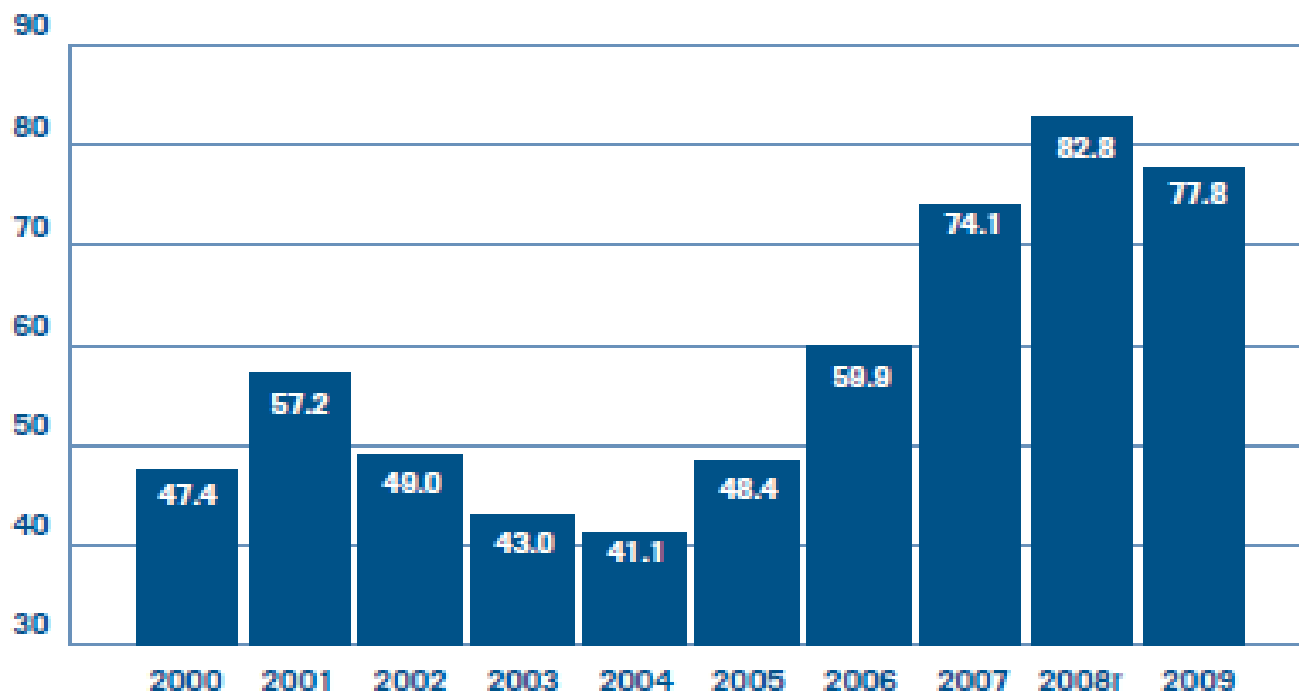
Source: SNL Financial and EEI Finance Depart

Historical Capital Expenditures

Capital Expenditures 2000–2009

U.S. SHAREHOLDER-OWNED ELECTRIC UTILITIES

(\$ Billions)



r = revised

Source: SNL Financial and EEI Finance Department



Revenue Requirement

Attachment O Tariff Overview

- A FERC approved cost of service rate formula of the MISO open access transmission tariff for network customers
 - Must be filed by October 1, of the year prior to when the revenue will be received
- Process for filing begins with developing forecasts for capital and O&M, as well as depreciation, tax, interest expense, etc.
 - FP&A works with departments like Transmission Planning, Construction, and Business Administration Services to develop the forecasts
 - The forecasts serve as inputs to the corporate budget model
- Senior management as well as Board of Directors review and approve the budget
 - Usually late September
- Allows ATC to recover all reasonable costs of service and earn a return on assets used to provide transmission service
 - 50/50 capital structure with a 12.2% ROE

Network Revenue Requirement Formula

Average Rate Base

x Allowed Return (Equity + Debt)

= Return on Rate Base (After-Tax)

+ Members' Income Tax Provision

= Return on Rate Base (Pre-Tax)

+ Operating Expenses

{ O&M, Depreciation, and Taxes
other than Income Taxes

= Revenue Requirement

Revenue Requirement and Rate Calculation

- ATC customers pay the same rate regardless of how much energy flows over our lines
 - More energy does not mean more revenues and higher profits
- ATC has a true-up built into its rate calculation
 - If we collect more than the actual revenue requirement for the year, that amount is deducted from a future year's network customer bills
 - If we collect less than the actual revenue requirement for the year, that amount is added to a future year's network customer bills
 - Interest is added to the true-up amounts



Financing



Financial Objectives

- Minimize long-run customer costs as we seek to improve the adequacy and reliability of the transmission system
- Provide customers and investors with:
 - Predictability and transparency



Traditional Utility Financing

- Secured debt
 - Property, plant and equipment provides investor security in the event of bankruptcy
- Unsecured debt
- Common stock
- Preferred stock
 - Pays dividends at a specified rate and has preference over common stock in payment of dividends and the liquidation of assets

Fixed Income (Debt) Financing

- Income security
 - A fixed income security is a claim on a specified stream of income
 - The basic fixed income security is a bond
- The issuer is obligated to make interest payments to the holder over the life of the bond
- Issuer repays the principal at the maturity
- The stated interest rate is comprised of:
 - Treasury rate
 - Credit spread
 - The better the credit quality the lower the credit spread

Tariff's Impact on Debt Costs

- ATC's tariff provides very stable and predictable earnings and cash flows reducing the risk associated with debt program
- This reduced risk has reduced borrowing costs significantly, saving customers money related to our financing costs of our construction plan
 - The more stable ATC's cash flows, the lower the perceived risk by investors, thus reducing our borrowing costs
 - ATC's current ratings are A+/A1 (S&P/Moody's)
 - Industry average is ~ BBB

Recent Debt Issuance

- Priced \$300 million of debt on August 18, 2010
 - December 2010 funding:
 - \$75 million; 15-year notes; 4.17% coupon
 - March 2011 funding:
 - \$75 million; 15-year notes; 4.27% coupon
 - \$150 million; 30-year notes; 5.17% coupon
 - Annual interest savings of \$7.3 million from refinancing



Common Equity Utility Financing

- Industry average is about 42% of the total capital (as of year end 2009)
- Utilities must monitor their capitalization ratio to comply with state PUC orders
- Overall cost of capital implications
- Utilities must monitor market conditions for issuing new equity
 - Must consider valuations
 - Future earnings per share growth impacts
- Dividend and cash flow implications



Summary

- The electric utility industry will continue to require large amounts of capital to fund investments
- Access to investor capital is critical
- Maintaining strong balance sheets will be very important
- ATC will continue to focus on maintaining financial strength
 - Strong credit ratings support cost effective financing and access to capital

Questions