

A CLEAR SENSE OF PURPOSE



2003 Annual Report



a
clear sense
of purpose



ATC owns and operates the electric transmission system in portions of Wisconsin, Michigan's Upper Peninsula and Illinois.



ELECTRIC *reliability*

MEANS AUTOMATION, SAFETY
AND CONVENIENCE.



TABLE OF CONTENTS

President's Letter	5
Operational Highlights	6
Financial Highlights	18
Ownership and Oversight	20

TO HELP KEEP THE LIGHTS ON AND BUSINESSES RUNNING

In today's world, electricity brings us automation, safety, efficiency, entertainment and convenience. A sound and reliable electric system is so critical to a region's economy and the daily life of its citizens that it's hard to imagine life without it.

At American Transmission Company, we're clear about our purpose. We are in business to do one thing – to help ensure that homes, businesses, hospitals, schools, farms and others have a reliable and uninterrupted supply of electricity for their automation, safety and convenience.

In 2003, we made clear progress toward achieving our mission. We invested \$198 million to strengthen the reliability of the transmission grid in the Upper Midwest. That makes more than \$397 million invested in transmission infrastructure since ATC began operations in January 2001. Another \$260 million is planned for 2004, with an estimated \$2.8 billion in construction proposed over the next 10 years.

We believe our success requires a clear understanding of our responsibility as a public utility to reliably operate and improve the transmission grid, a commitment to serve the needs of our customers and all electricity users, and a sensitivity to the impacts of our infrastructure on the environment and landowners ... today and for future generations.



AT ATC, IT'S ALL ABOUT

electric transmission

— ALL DAY, EVERY DAY.



ATC BY THE NUMBERS

8,900 miles of transmission lines

450 substations

322 employees

6 offices

2 control centers

1 **purpose:** to help keep the lights on and businesses running



ATC EXECUTIVE OFFICERS

Left to right

MARK WILLIAMSON
Vice President – Major Projects

HARRY TERHUNE
Vice President – Operations

JOSÉ DELGADO
President and Chief Executive Officer

WALTER WOELFLE
Vice President – Legal and Secretary

DANIEL DOYLE
Vice President, Chief Financial Officer
and Treasurer

DALE LANDGREN
Vice President and Chief Strategic Officer

mission

CLEAR

OPERATE AND IMPROVE THE TRANSMISSION NETWORK

Within the electric industry, 2003 will long be remembered as the year of the great eastern blackout. The recently completed joint US-Canadian investigation of that event revealed numerous departures from the reliability guidelines by some utilities, causing the cascading failure of the network. The event served as a wake-up call, prompting the industry to refocus on its primary purpose: to deliver reliable, safe and economic electricity to its customers.

At ATC there is no confusion; our business mission is crystal clear. We are entirely focused on operating and improving an electric transmission network that keeps the lights on for all those who depend on us. At ATC, it's all about electric transmission — all day, every day.

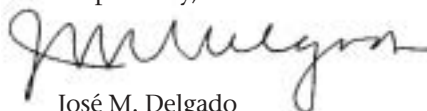
We are committed to attending to the needs of electric customers with all of our resources to prevent localized as well as regional failures of the network. The urgency of our task was highlighted in 2003 by various service interruptions occurring in Michigan's Upper Peninsula and northeastern Wisconsin. We are addressing those matters with projects in our short- and long-term plans.

I am pleased to share progress on the efforts in this annual report. Looking back on 2003, it was our employees' commitment to customer service that made the difference. Our motivation has been to contribute to the success of our customers. Internally, we also focused on improving our processes for getting projects approved and built, ensuring the safety and security of our people and facilities, and creating the right cultural environment for our employees to perform expertly on behalf of our company.

We continue to make this a viable business investment for our owners. We are increasing the value of this company – not only as a business with a strong bottom line, but as a business that delivers value to its customers, value by operating and planning with a broad perspective, and value to the region in terms of reliable energy for residents and businesses.

Clearly, this is our mission.

Respectfully,



José M. Delgado
President and Chief Executive Officer
American Transmission Company

progress

CLEAR

OPERATIONS

Operationally, there can be nothing more important than ensuring the safety, reliability and availability of the transmission network. Our customers count on us. In 2003, we had a system availability of 99.959 percent, almost perfect.

To improve our operational effectiveness, in 2003 ATC began the installation of a new energy management system at our Cottage Grove Operations Center, the same system in use at the Pewaukee Center. When all adjustments are completed, operators will be able to control the entire ATC transmission network from either location. The redundancy will assure business continuity should an event ever cause the failure of one of the control centers.

PLANNING

ATC's transmission system is in need of reinforcement and expansion. Our area is served by a transmission system that, in some cases, dates back to the 1920s. To make matters more challenging, the transmission grid was never designed to serve the regional needs that currently exist.

Appropriately, ATC planners continued their studies in 2003 – totaling more than 1,000 – of the current and future needs on the transmission system. They took a comprehensive look at various factors affecting electricity utilization in the region, such as business development and employment trends, proposed new generation and projected growth in electric use.

We summarized our recommendations for the third year in a row in an annual 10-Year Transmission System Assessment report. It outlined the potential problems affecting the future performance of the system including overloads, low voltages, transmission service limitations and instability. We identified more than 500 projects to support future growth and strengthen the reliability of the transmission system.



ATC'S TRANSMISSION SYSTEM

availability

WAS 99.959 PERCENT IN 2003.





ATC **invested** \$183 MILLION IN
NEW CAPITAL PROJECTS AND \$15 MILLION
IN MAINTENANCE CAPITAL PROJECTS.



CONSTRUCTION

Our construction and maintenance employees oversaw the building of \$183 million in new capital projects and \$15 million in maintenance capital projects in 2003.

The Forest Junction project, which included a new substation in the town of Brillion in east central Wisconsin and rebuilding a 75-year-old, 20-mile transmission line, was completed on schedule and substantially under budget.

On the Portage to Montello project, ATC rebuilt 20 miles of poles and wires that were more than 50 years old and in poor physical condition. ATC rerouted two segments of the line out of wetlands, riverbank and wildlife areas, eliminating the need to perform maintenance in environmentally sensitive areas. Through coordination with the Department of Natural Resources and the US Fish and Wildlife Federation, some of the old wood poles were used to host bird-nesting platforms.

In some regions where population is impacting energy usage, ATC was equally as busy in 2003. Within days of receiving regulatory approval, ATC began construction to make improvements at the Pulliam Substation in the Green Bay area to accommodate a new combustion turbine generator built by Wisconsin Public Service Corp. ATC worked on a fast track, relocating the line within three weeks and completing the entire project within six months to meet customer needs.

In Sauk County, where electric use is growing at two times the average rate for the rest of the state due to the expansion of local economic activity, ATC quadrupled the electric capacity of 33 miles of existing transmission lines, added three new substations and upgraded six others.



In the Madison area, ATC constructed six miles of new 69-kilovolt underground transmission line connecting an existing substation with a new Madison Gas & Electric substation. As part of the project, ATC developed a new bike path adding to the city's network of cycling paths.

THE WORK CONTINUES

ATC also received approval from the Public Service Commission of Wisconsin on several key projects that will help improve electric reliability in the areas we serve including:

- the \$420 million Arrowhead-Weston transmission project, which will improve electric reliability in northwestern Wisconsin and the broader region with a new 345-kilovolt transmission line;
- a 16-mile upgrade to the transmission system to address low voltages in northeastern Wisconsin and Michigan's Upper Peninsula; and
- a new nine-mile transmission line in Waukesha County where in the project area electric demand has increased 11 percent compared with 2-3 percent in the rest of the state.

ATC UNDERTOOK 480 projects

IN 2003 TO STRENGTHEN THE
RELIABILITY OF THE TRANSMISSION SYSTEM.



projects 2003

A REPRESENTATION OF MAJOR PROJECTS IS INDICATED BELOW AND ON THE MAP AT LEFT:

DISTRIBUTION SUBSTATION INTERCONNECTIONS

- 1 Edgewood
- 2 North Bluff
- 3 Hartman Creek
- 4 Sunnyvale
- 5 Pheasant Branch
- 6 Endeavor
- 7 Glacier
- 8 Crawfish River

GENERATION INTERCONNECTIONS

- 9 Completed Riverside generation interconnection project
- 10 Completed Pulliam interconnection project
- 11 Completed Petenwell interconnection facilities
- 12 Started construction of West Campus cogeneration interconnection project with expected 2004 in service
- 13 Started construction of Port Washington interconnection project with completion of final facility upgrades expected in 2005

ASSET RENEWAL PROJECTS

(addressing age and condition issues)

- 14 Completed DeTour line rebuild project
- 15 Completed North Randolph to Rio rebuild project
- 16 Completed North Appleton to Kewaunee cross-arm replacement project
- 17 Completed Spring Green transformer replacement

NETWORK PROJECTS

(addressing reliability and transmission service requests)

- 18 Received the final PSC order and started construction of the new Arrowhead-Weston 345-kilovolt line project
- 19 Substantially completed the final phase of the Downtown Milwaukee Reliability project with in service scheduled for January 2004
- 20 Completed construction of the Saukville-Granville double circuit 138-kilovolt line rebuild project
- 21 Completed construction of the Whitewater-Mukwonago 138-kilovolt line rebuild project
- 22 Completed the first phase of the Sauk County Electric Reliability project and started construction of Phase 2 with expected completion in 2004
- 23 Completed construction of the Rock River-Janesville double circuit 138-kilovolt rebuild project
- 24 Started construction of the Russell-Rockdale 18-kilovolt reconductor project with expected in service of 2004
- 25 Completed the Russell transformer addition
- 26 Completed interim summer 2003 facility upgrades for the Rhinelander Loop area and substantially completed Phase 1 of the Rhinelander Loop project in January 2004
- 27 Completed the Maplewood-Badger voltage conversion project
- 28 Started Phase 1 and 2 of the Dane County Electric Reliability Project including completion of the Christiana-Kegonsa reconductor project, start of construction of the: Fitchburg and Sycamore substation transformers additions, upgrade of the Blount Street substation breakers, and East Campus-Walnut new underground circuit with expected in service of 2004
- 29 Completed the North Randolph substation transformer addition project

understanding

CLEAR

Understanding starts with listening. In 2003, ATC employees did a lot of listening in an effort to develop a clear understanding of the needs of our customers and the issues of those impacted by our infrastructure.

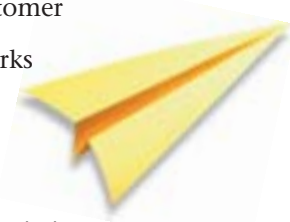
CUSTOMER NEEDS

For our customers, we continued the system studies to identify physical and operational weaknesses. Going further, we gave increased attention to our customers' need for greater access to the competitive wholesale electric marketplace outside of the ATC footprint. We also stepped up our communication efforts with customers in both directions – sharing information with them and expanding opportunities for them to give us comments. We introduced a customer newsletter that brings together news and information about our business. We launched our Customer Advisory Panel to gather feedback and suggestions on service issues. We also brought together employees from throughout the company to form Account Management Teams to better anticipate and serve the needs of individual customers and customer groups.

These activities, as well as others, have helped ATC better understand customer needs and service expectations. In fact, customers gave ATC overall higher marks for service in two surveys conducted in 2003.

POTENTIAL IMPACTS

We understand that the construction activities needed to strengthen the transmission system are not without impacts. So, at ATC we have established a public outreach practice of soliciting broad local input before seeking regulatory review of our plans. We have taken time to seek the opinions and concerns of customers, local officials, landowners, the general public, environmental organizations and others. In fall 2003, we held meetings throughout our service area to share our 10-year plan for improving the reliability of the transmission grid. We also held public open houses in several communities associated with our proposed projects to encourage people to ask questions and make comments.





CUSTOMERS GAVE ATC

OVERALL HIGHER MARKS FOR

service IN 2003.



LOCATING NATIVE PLANTS IN A
RIGHT-OF-WAY IS A WAY OF GAINING
MULTIPLE **benefits** FROM THE LAND.



14 | 15

The public examination of our plans enhances our awareness of the impacts. It also enhances the public's awareness of the needs of the transmission system and increases their support for the work that is required to meet those needs.

We also are conscious that on nearly every project ATC undertakes, there are impacts to the environment, the landscape and land use. We collaborate with state and local agencies to evaluate these impacts and find ways to introduce some benefits. While transmission corridors require safe clearances, they can become wildlife habitats if the right plantings are incorporated. In a landscaping brochure we introduced in 2003, we emphasized with landowners that locating native plants in a right-of-way is a way of gaining multiple benefits from the land.

Our environmental commitment is shared by our employees, many of whom are involved in stewardship projects – everything from pulling garlic mustard weed and cleaning up wooded wetlands to building birdhouses and osprey nesting platforms.

OUR RESPONSIBILITY

The concerns of communities, landowners and the environment are balanced with our responsibility to maintain and build a critical energy infrastructure that supports the electric needs of nearly 5 million people in the areas we serve. A sound and reliable transmission network is key to everyday life for people and the places they work. It's key to economic development, as well.

Our responsibility as a regional transmission company is to evaluate the transmission needs of many customers, recommend solutions that address multiple problems and lessen impacts, and do so in a cost-effective way. Indeed, the financial investment and amount of work are daunting, but they pale in comparison with the cost of doing nothing.



ATC'S CRITICAL ENERGY INFRASTRUCTURE
SUPPORTS THE ELECTRIC NEEDS
OF NEARLY **5 million** PEOPLE.



road ahead

CLEAR



The business model of the stand-alone electric transmission company still is evolving. In our three years of operations as the first multi-state, for-profit, stand-alone transmission utility, we have demonstrated many of the benefits that were expected from the formation of ATC.

The continued success, however, depends to a large extent on the establishment and maintenance of an adequate legal and regulatory environment to enable transmission companies to perform their work effectively. This environment, at the federal, regional and state levels, also is evolving. To encourage these developments and ensure a clear road ahead, ATC has participated in a variety of legal and regulatory forums to make known our business, explain system needs and expose our issues.

In 2003, ATC became one of the founding members of the Midwest Stand-Alone Transmission companies – a group composed of companies whose sole business is the ownership, planning, construction and maintenance of electric transmission systems. We are confident that the collective expertise and voice can play a significant role in the development of adequate policies.

In 2003, we also supported a Public Service Commission of Wisconsin and Department of Natural Resources agreement that commits these agencies to work together on energy projects in Wisconsin in a more timely and efficient manner. The agreement helps ensure the coordination of the work of both agencies in the evaluation and selection of routes, and the issuance of permits for the construction of transmission projects.

Internally, we developed a pre-certification process that complements the PSC/DNR agreement. Our process involves early communication with local stakeholders, landowners, government and civic leaders as well as the PSC and DNR. Their feedback and comments are factored into plans as they are formed, applications developed, and as detailed environmental and cultural resources field data are collected to support agency permit and decision-making needs.

All our efforts are driven by our singular purpose – to help keep the lights on and businesses running.



WE HAVE DEMONSTRATED MANY
OF THE **benefits** THAT WERE
EXPECTED FROM THE FORMATION OF ATC.



2003 FINANCIAL SUMMARY

SELECTED FINANCIAL AND OPERATING DATA

(dollars in thousands)

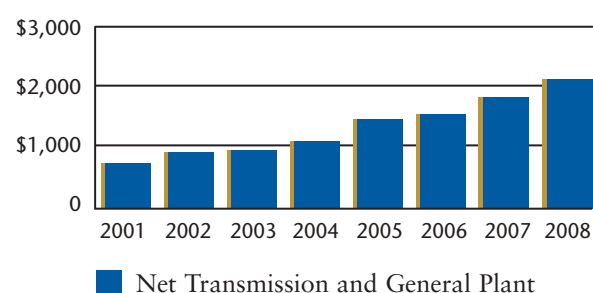
Financial Position and Results

	2003	2002	2001
Operating Revenues	\$ 225,608	\$ 205,298	\$ 174,532
Operating Expenses	139,549	131,059	110,135
Operating Income	<u>86,059</u>	<u>74,239</u>	<u>64,397</u>
Other Income	2,555	1,406	3,943
Interest Expense, net	25,908	21,588	15,139
Earnings Before Taxes	<u>\$ 62,706</u>	<u>\$ 54,057</u>	<u>\$ 53,201</u>
Distribution to Members (at 80%)	\$50,165	\$43,245	\$42,561
Return on Regulatory Equity (pre-tax)	19.5%	17.4%	18.8%
Return on Regulatory Equity (after tax)	13.0%	11.7%	12.3%
Net Transmission & General Plant	\$ 909,167	\$ 733,530	\$ 644,131
Current Assets	33,077	40,655	56,684
Regulatory and Other Assets	18,107	20,852	22,049
Total Assets	<u>\$ 960,351</u>	<u>\$ 795,037</u>	<u>\$ 722,864</u>
Members' Equity	\$ 432,693	\$ 393,502	\$ 385,652
Long-term Debt	448,215	348,033	297,863
Total Capitalization	880,908	741,535	683,515
Current Liabilities	66,592	46,893	36,125
Long-term Liabilities	12,851	6,609	3,224
Total Members' Equity & Liabilities	<u>\$ 960,351</u>	<u>\$ 795,037</u>	<u>\$ 722,864</u>

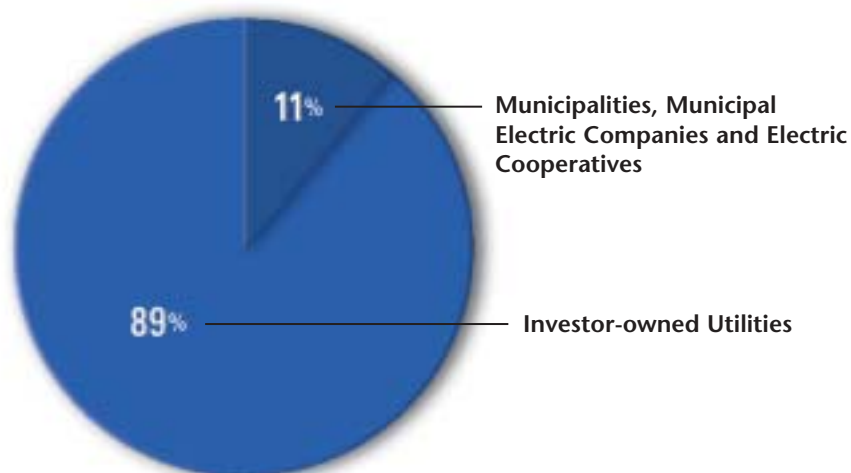
FINANCING AND INVESTING ACTIVITIES

Debt Ratings	Fitch	Moody's	S&P
Commercial Paper	F1	P-1	A-1
Senior Notes	A	A1	A
Capitalization	2003	2002	2001
Debt	51%	47%	44%
Equity	49%	53%	56%
Total Capitalization	100%	100%	100%

Investment in Plant (dollars in millions)



OWNERSHIP



OPERATING

Miles of Transmission Line	8,900
Wholly or Jointly-owned Substations	450
Interconnected Generation Capacity	12,594 Megawatts
Peak Demand	12,708 Megawatts
Energy Delivered	66,333 GWH

CONTRIBUTING OWNERS

ownership

Adams-Columbia Electric Cooperative

Alger Delta Cooperative Electric Association

City of Algoma

Badger Power Marketing Authority

Central Wisconsin Electric Cooperative

Cloverland Electric Cooperative

Edison Sault Electric Company

City of Kaukauna

Madison Gas & Electric Company

Manitowoc Public Utilities

Marshfield Electric and Water Department

City of Menasha

City of Oconto Falls

Ontonagon County Rural Electrification
Association

City of Plymouth

City of Reedsburg

Rock County Electric Cooperative

City of Sheboygan Falls

South Beloit Water, Gas & Electric Co.

City of Sturgeon Bay

City of Sun Prairie

Upper Peninsula Power Company

Upper Peninsula Public Power Agency

Wisconsin Electric Power Company

Wisconsin Power & Light Company

Wisconsin Public Power Inc.

Wisconsin Public Service Corporation

City of Wisconsin Rapids



BOARD OF DIRECTORS

oversight



JOSÉ M. DELGADO
President and Chief
Executive Officer,
American Transmission
Company



ANTHONY S. EARL
Attorney and Partner,
Quarles & Brady



WILLIAM D. HARVEY
President, Wisconsin
Power & Light
Company



AGUSTIN A. RAMIREZ
President, Chief
Executive Officer and
Chairman, Husco
International



J. LEROY THILLY
President and Chief
Executive Officer,
Wisconsin Public
Power, Inc.



WILLIAM C. VERRETTE
Chairman and Chief
Executive Officer,
Champion, Inc.



JEFFREY P. WEST
Treasurer, We Energies



LARRY L. WEYERS
Chairman, President
and Chief Executive
Officer, Wisconsin
Public Service
Corporation



GARY J. WOLTER
Chairman, President
and Chief Executive
Officer, Madison Gas &
Electric Company



STEPHEN J. YANISCH
Managing Director,
Public Finance
Department, RBC
Dain Rauscher



N19 W23993 Ridgeview Parkway West ■ Waukesha, Wisconsin 53188-1000

Toll-free: 1.866.899.3204 ■ Tel: 262.506.6700 ■ Fax: 262.506.6710

www.atcllc.com