

1 **Q. What are your primary responsibilities in your present position?**

2 A. I am responsible for overseeing the financial strategies, policies and governance at
3 ATC. All financial functions and staff report to me. I am also responsible for the
4 human resource function at ATC.

5 **Q. What are your educational and business qualifications?**

6 A. I was graduated from Michigan State University in 1981 with a Bachelor of Arts
7 Degree in Accounting; and, in May 1991, I was graduated from Rensselaer
8 Polytechnic Institute with a Master of Business Administration degree.
9 Immediately after graduation from Michigan State University, I was employed by
10 Arthur Andersen & Co. in the Utilities and Telecommunications Division of its
11 Chicago Office. I left Arthur Andersen and Co. in 1988 to assume the
12 controllership at Central Vermont Public Service Corporation, the position I held
13 until joining WPL in July 1992. I am a Certified Public Accountant and a member
14 of the American Institute of Certified Public Accountants. I also participate in the
15 Edison Electric Institute's Accounting and Finance-related committee programs.

16 **Q. Have you previously testified before the Commission?**

17 A. Yes. I have also provided testimony before the Federal Energy Regulatory
18 Commission, the Vermont Public Service Board, Iowa Utilities Board, New
19 Hampshire Public Service Commission, and the Illinois Commerce Commission.

20 **Q. Please describe the purpose of your testimony.**

21 A. The purpose of my testimony is to discuss three issues. First, I will discuss the rate
22 impact of the Arrowhead-Weston transmission line and associated facilities project
23 ("Project") on Wisconsin electric customers. Second, I will describe the Allowance
24 for Funds Used During Construction component of the Project Cost Estimate.
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1 Finally, I will address certain aspects of how ATC intends to recover its costs for
2 the Project.

3 **Q. What rate impact will the Arrowhead-Weston line have on an average**
4 **customer's bill?**

5 A. ATC has calculated the rate impact of the Project on retail electric rates to be
6 approximately one (1) percent of a retail customer's electric bill. So if a customer
7 had a \$100 electric bill the portion attributable to the Project would be about \$1.00.

8 **Q. How was this figure reached?**

9 A. ATC reached this figure as follows: for each of the five largest investor-owned
10 utility customers of ATC, the calculation begins with 2001 total electric revenues as
11 reported in filed FERC Form No. 1. This number was projected into the future
12 considering both a revenue growth assumption of 2.5% and increases in ATC's
13 billings to individual customers. Then, for year 2009, the year in which the Project
14 is completed and the year that will have the highest revenue requirement impact, the
15 total projected electric revenues for each company were divided into the
16 Arrowhead-Weston related revenues to arrive at an approximate one (1) percent
17 overall rate impact for each company. The spreadsheet showing this calculation for
18 each of the five investor-owned utility customers of ATC is attached as Exhibit ____
19 (DAD-1).

20 **Q. What were the key assumptions used in this analysis?**

21 A. The key assumptions used in this analysis are as follows:

- 22 a. The projected annual ATC Revenue Requirement for the Arrowhead-Weston
23 line;
24 b. IOU Revenue Growth: 2.5% per annum;

- 1 c. Coincident MW peak growth: 2.5% per annum;
- 2 d. All Project and non-Project revenue requirements were allocated pro rata
- 3 across all rate jurisdictions;
- 4 e. Non-Project ATC revenue requirements are based on ATC's most recent ten-
- 5 year model;
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- 7 f. The entire Project revenue requirement impact has been treated as network
- 8 revenue, and no allocation or consideration has been made for the impacts of
- 9 point-to-point revenues that the Project might generate.

10 **Q. How were the annual ATC Revenue Requirements for the Arrowhead-Weston**

11 **line calculated?**

12 A. The annual ATC Revenue Requirements for the Project were calculated based on

13 the ATC's FERC approved rate formula as set forth in Attachment "O" of MISO's

14 OATT. The formula includes all traditional components of utility rate-making

15 including rate base, operating expenses, taxes, capital structure and cost of capital.

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17 **Q. What are the detailed assumptions in the annual ATC Revenue Requirements**

18 **formula relative to the A-W Project?**

19 A. The detailed assumptions used in the annual ATC Revenue Requirements model are

20 as follows:

- 21 a. Total Project cost of \$420.3 million;
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- 23 b. Project cost placed in-service is assumed to be \$47.0 million in 2005, \$212.3
- 24 million in 2006, \$0.3 million in 2007 and \$160.8 million in 2008;
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- 26 c. Assets depreciated over a 40-year book life using straight-line depreciation
- 27 and over a 20-year tax life using MACRS;
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- 1 d. Bonus tax depreciation under the *Job Creation and Workers Assistance Act of*
2 *2002*;
- 3 e. Capital Structure assumed for rate making follows the settlement hypothetical
4 structure of 50% debt at the actual long term cost of debt, 45% common
5 equity at 12.2% return and 5% preferred equity at 7.5% return;
- 6 f. Effective tax rate assumed to be 35.82% due to a blend of taxable and tax-
7 exempt owners of ATCLLC.
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9 **Q. What is the “Bonus tax depreciation under the *Job Creation and Workers***
10 ***Assistance Act of 2002*”?**

11 A. The *Job Creation and Workers Assistance Act of 2002* allowed an additional 30%
12 of new capital investments to be depreciated in the first year in service. Only
13 capital expenditures incurred prior to September 11, 2004 on projects that began
14 construction after September 11, 2001 and are placed into service prior to
15 January 1, 2006 qualify for this bonus tax depreciation. Accordingly, only \$47
16 million of the Project cost, the portion placed in service prior to January 1, 2006
17 receives bonus depreciation treatment. The bonus tax depreciation increases the
18 deferred taxes included in the tariff calculation thereby reducing the rate impact of
19 the Project.
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22 **Q. Will the impacts of the Project cost on customer bills change from year to**
23 **year?**

24 A. Yes. ATC earns a return based on the net depreciated book value of the
25 transmission assets in service, therefore the return on assets changes each year as
26 the net book value of the transmission assets change due to the affects of
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1 accumulating depreciation and deferred taxes. Thus the impacts of the initial
2 Project cost on customer bills will become less and less over time.

3 **Q. What is AFUDC and how is it incorporated into the cost estimates?**

4 A. The Allowance for Funds Used During Construction (AFUDC) is the cost of capital
5 that is incurred to finance the Project during the construction period. Such cost of
6 capital is capitalized as a project cost, then is recovered from rate-payers after the
7 Project is placed in service and included in rates. This means these costs will be
8 included in the company's rate base and then amortized over the useful life of the
9 Project.
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11 **Q. Why did ATC include AFUDC in the Project cost estimates?**

12 A. ATC includes the AFUDC in the cost estimates of its projects, in order to present
13 the total project costs to that will be included in ATC's rate base under the
14 regulation of the FERC.
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16 **Q. How was the AFUDC calculated for the Project cost estimates?**

17 A. AFUDC was calculated using the standard FERC approved formula, which takes
18 into consideration ATC's cost of debt and equity financing costs.
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20 **Q. Please describe ATC's policy for capitalizing Project precertification costs.**

21 A. In accordance with FERC's published Regulatory Accounting Rules, ATC
22 capitalizes all precertification costs. Once the Project enters the construction phase,
23 AFUDC is capitalized on those precertification costs. Once construction is
24 complete and the Project is placed in service, the precertification costs and
25 associated accrued AFUDC is then collected from rate payers over the 40 year
26 useful life of the Project.
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1 **Q. Does this complete your testimony?**

2 A. Yes.

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