

with the non-competitive issue, sale or distribution of securities issued under this Application will not exceed 7% of the principal or total amount of the securities being issued.

#### C. Short-Term Debt

Applicants request authority for ATC to arrange short term financing, including institutional borrowings, commercial paper and privately placed notes. Applicants state that the maturity of short-term debt would not exceed one year and that any short-term debt security or credit facility would have designations, aggregate principal amount, interest rate(s) or methods of determining the same, terms of payment of interest, collateral, redemption provisions, non-refunding provisions, sinking fund terms, conversion or put terms and other terms and conditions as ATC and ATCMI might determine at the time of issuance, provided that, in no event, however, would the effective cost of money on short-term debt exceed 300 basis points over the London Interbank Offered Rate for maturities of one year or less in effect at the time.

Applicants propose that ATC sell commercial paper or privately placed notes ("Commercial Paper") from time to time, in established domestic or European commercial paper markets. Commercial Paper may be sold at a discount or bear interest at a rate per annum prevailing at the date of issuance for Commercial Paper of a similarly situated company.

Applicants propose that ATC maintain back up lines of credit in connection with one or more Commercial Paper programs in an aggregate amount not to exceed the amount of authorized Commercial Paper, without these credit lines counting against the limit on short-term debt financing set forth above.

Applicants propose that ATC use credit lines for general corporate purposes, to support Commercial Paper, to obtain letters of credit, or to borrow against, from time to time, as it is deemed appropriate or necessary.

#### D. Long-Term Debt

Applicants request authority for ATC to issue long-term debt securities including notes or debentures under one or more indentures or long-term indebtedness under agreements with banks or other institutional lenders directly or indirectly. Applicants state that ATC's long-term debt may be secured or unsecured. Applicants further state that the maturity of long-term debt would not exceed fifty years. Applicants assert that specific terms of any borrowings will be determined at

the time of issuance but that the interest rate on long-term debt would not exceed 500 basis points over the yield-to-maturity of a U.S. Treasury security having a remaining term approximately equal to the average life of that debt. Applicants ask the Commission to reserve jurisdiction over the issuance of convertible securities except as described in section 3 below.

#### E. Preferred Securities and Equity Interest

Applicants request authority for ATCMI to issue preferred stock or other types of preferred securities. Applicants request authority for preferred stock or other types of preferred securities to be issued in one or more series with such rights, preferences, and priorities as may be designated in the instrument creating each such series, as determined by ATCMI's board of directors, or a pricing committee or other committee of the board performing similar functions. Preferred securities may be redeemable or may be perpetual in duration. Applicants state that the dividend rate on any series of preferred securities issued by ATCMI would not exceed 500 basis points over the yield to maturity of a U.S. Treasury security having a remaining term equal to the term of that series of preferred securities at the time of issuance. Applicants further state that dividends or distributions on preferred securities would be made periodically and to the extent funds are legally available for that purpose, but may be made subject to terms which allow Applicants to defer dividend payments for specified periods. Preferred securities may be sold directly through underwriters or dealers in any manner.

Applicants contemplate that from time to time ATC may require an additional equity infusion. In such situations, ATC could reduce the amount of distributions to Member Utilities. Each Member Utilities' equity would be increased by the amount of the undistributed earnings on a *pro rata* basis. Alternatively, there could be a capital call for Member Utilities to make additional cash contributions on a *pro rata* basis. If a Member Utility opts not to make an additional contribution, any other Member Utility could make the requested contribution. Member Utilities do not, however, have the obligation to make additional contributions. Another possibility, therefore, would be for ATC to issue preferred securities that are convertible into Member Interests and/or Class A shares and/or Class B shares. These convertible preferred securities would have a stated par value and dividend rate and would be convertible into

Member Interests and/or Class A and/or Class B shares based on a predetermined ratio or formula. Applicants will seek additional authority as may be required in connection with the exercise of the conversion feature. Applicants also ask the Commission to reserve jurisdiction over the issuance of preferred member interests or convertible member interests other than as described above.

In the event Applicants determine to seek capital through equity or to acquire new facilities in exchange for equity interests, Applicants request authority for ATC to issue Member Interests and ATCMI to issue Class A and B shares in an aggregate amount not to exceed \$393 million plus the face value of any outstanding Member Interests and Class A and B shares at any one time outstanding through the Authorization Period.<sup>8</sup>

Applicants request authority for ATC to issue Member Interests in exchange for cash or the transfer of transmission facilities to ATC by current or future Member Utilities. The entities transferring transmission assets and their transferring asset values have not yet been determined. Applicants further state that in order to maintain its 50/50 debt to equity ratio; ATC would reimburse the contributors for 50% of the net book value of the transmission assets contributed. In addition, ATCMI will issue to each new Member Utility of ATC, Class A shares in an amount that is proportional to that Member Utility's interest in the ATC, with a par value of \$0.01 per share and a sales price of \$10 per share.

Additionally, Applicants state that it is anticipated that ATC will issue Member Interests and ATCMI will issue Class A shares to Wisconsin Public Service Corporation or its affiliate in exchange for that company's contribution of 50% of the ongoing cash requirements of the Arrowhead to Weston Transmission Line Project ("Project"). Applicants state that current cost estimates are \$400 million over the 2002-2004 period.<sup>9</sup>

<sup>8</sup> In the case of equity securities, Applicants request that the aggregate amount be based on new issuance and exclude issuances for any undistributed earnings. Applicants state that as of December 31, 2002, the value of outstanding Class A and B Shares was \$103,560. Also at that date, there were 28,127,075 outstanding Member Interests. At that time a Member Interest was valued at \$10.77. The total value of Member Interest was \$302,811,729. The value on a Member Interest is based on the amount of the initial contribution and any undistributed earnings and so will vary from time to time.

<sup>9</sup> Arrowhead-Weston is a 220-mile transmission line connecting Duluth, Minnesota, with Wausau, Wisconsin. Applicants state that the line is needed to accommodate electric load growth in northern Wisconsin and to improve reliability of the electric