AMERICAN TRANSMISSION COMPANY LLC

Financial Statements and Report of Independent Registered Public Accounting Firm

As of December 31, 2017 and 2016
and for the Years Ended December 31, 2017, 2016 and 2015

American Transmission Company LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the members and the Board of Directors of American Transmission Company LLC:

Opinion on the Financial Statements

We have audited the accompanying balance sheets of American Transmission Company LLC (the "Company") as of December 31, 2017 and 2016, the related statements of operations, members' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

Milwaukee, Wisconsin
February 7, 2018

We have served as the Company's auditor since 2002.

American Transmission Company LLC

Statements of Operations
For the Years Ended December 31, 2017, 2016 and 2015

(In Thousands)

	2017	2016	2015
Operating Revenues			
Transmission Service Revenue	$719,880	$649,136	$614,277
Other Operating Revenue	1,792	1,670	1,559
Total Operating Revenues	721,672	650,806	615,836
Operating Expenses			
Operations and Maintenance	166,025	157,791	162,840
Depreciation and Amortization	154,583	141,724	133,265
Taxes Other than Income	24,327	23,002	23,216
Total Operating Expenses	344,935	322,517	319,321
Operating Income	376,737	328,289	296,515
Other Income, Net			
Other Income (Expense), Net	2,734	177	(584)
Equity in Earnings of Unconsolidated Subsidiary	2,551	3,048	1,760
Total Other Income, Net	5,285	3,225	1,176
Earnings Before Interest and Members' Income Taxes	382,022	331,514	297,691
Net Interest Expense	109,394	98,758	97,250
Earnings Before Members' Income Taxes	$272,628	$232,756	$200,441

The accompanying notes are an integral part of these financial statements.

American Transmission Company LLC

Balance Sheets
As of December 31, 2017 and 2016

(In Thousands)

ASSETS	2017	2016
Property, Plant and Equipment		
Transmission Plant	$5,247,562	$4,941,372
General Plant	235,101	161,289
Less- Accumulated Depreciation	(1,292,690)	(1,193,603)
	4,189,973	3,909,058
Construction Work in Progress	396,112	359,458
Net Property, Plant and Equipment	4,586,085	4,268,516
Current Assets		
Accounts Receivable	77,049	66,430
Prepaid Expenses	6,517	5,486
Current Portion of Regulatory Assets	-	395
Other Current Assets	4,164	3,479
Total Current Assets	87,730	75,790
Regulatory and Other Assets		
Equity Investment in Unconsolidated Subsidiary	904	41,625
Regulatory Assets	6,526	-
Other Assets	5,404	2,752
Total Regulatory and Other Assets	12,834	44,377
Total Assets	$4,686,649	$4,388,683
CAPITALIZATION AND LIABILITIES		
Capitalization		
Members' Equity (See Note 3 for redemption provisions)	$1,888,525	$1,756,760
Long-term Debt (excluding current portion)	1,790,590	1,865,302
Total Capitalization	3,679,115	3,622,062
Current Liabilities		
Accounts Payable	24,420	28,115
Distribution Payable to Members	61,944	54,680
Accrued Interest	26,781	24,327
Other Accrued Liabilities	91,479	53,890
Current Portion of Regulatory Liabilities	74,208	71,473
Current Maturities of Long-term Debt	200,000	-
Short-term Debt	288,416	262,641
Total Current Liabilities	767,248	495,126
Regulatory and Other Long-term Liabilities		
Regulatory Liabilities	196,255	250,056
Other Long-term Liabilities	44,031	21,439
Total Regulatory and Other Long-term Liabilities	240,286	271,495
Commitments and Contingencies (See Note 7)	-	-
Total Capitalization and Liabilities	$4,686,649	$4,388,683

The accompanying notes are an integral part of these financial statements.

American Transmission Company LLC

Statements of Cash Flows
For the Years Ended December 31, 2017, 2016 and 2015

(In Thousands)

	2017	2016	2015
Cash Flows from Operating Activities			
Earnings Before Members' Income Taxes	$272,628	$232,756	$200,441
Adjustments to Reconcile Earnings Before Members' Income Taxes to Net			
Cash Provided by Operating Activities-			
Depreciation and Amortization	154,582	141,724	133,265
Bond Discount and Debt Issuance Cost Amortization	655	603	582
Equity Earnings in Unconsolidated Subsidiary Investment	(2,551)	(3,048)	(1,760)
Change in-			
Accounts Receivable	(10,909)	(6,446)	(3,710)
Other Current Assets	(1,321)	11,859	(4,134)
Accounts Payable	(715)	4,652	69
Accrued Liabilities	28,179	56,945	(713)
Regulatory Liabilities	(71,275)	(6,170)	71,918
Other, Net	(6,524)	3,174	(7,020)
Total Adjustments	90,121	203,293	188,497
Net Cash Provided by Operating Activities	362,749	436,049	388,938
Cash Flows from Investing Activities			
Capital Expenditures for Property, Plant and Equipment	(444,260)	(463,069)	(339,159)
Investment in Unconsolidated Subsidiary	-	(1,500)	-
Proceeds from Sale of Unconsolidated Subsidiary	45,521	-	-
Net Cash Used in Investing Activities	(398,739)	(464,569)	(339,159)
Cash Flows from Financing Activities			
Distribution of Earnings to Members	(210,838)	(154,144)	(174,815)
Distribution of Proceeds from Sale of Unconsolidated Subsidiary	(22,761)	-	-
Issuance of Membership Units for Cash	100,000	70,000	20,000
Issuance of Short-term Debt, Net	25,783	36,335	106,390
Issuance of Long-term Debt, Net of Issuance Costs	124,625	73,974	98,099
Repayment of Long-term Debt	-	-	(100,000)
Advances Received Under Interconnection Agreements	25,640	2,010	-
Repayments of Interconnection Agreements	(6,846)	-	-
Advances Received for Construction	387	345	440
Other, Net	-	-	10
Net Cash Provided by (Used in) Financing Activities	35,990	28,520	(49,876)
Net Change in Cash and Cash Equivalents	-	-	(97)
Cash and Cash Equivalents, Beginning of Period	-	-	97
Cash and Cash Equivalents, End of Period	$ -	$ -	$ -
Supplemental Disclosures of Cash Flows Information			
Cash Paid for Interest (Net of Amounts Capitalized)	$103,062	$92,952	$92,529
Significant Non-cash Investing or Financing Transactions-			
Accruals and Payables Related to Construction Costs	$50,932	$48,481	$36,208

The accompanying notes are an integral part of these financial statements.

American Transmission Company LLC

Statements of Changes in Members' Equity
For the Years Ended December 31, 2017, 2016 and 2015

(In Thousands)

Members' Equity as of December 31, 2014		$1,617,202
Membership Units Outstanding at December 31, 2014	87,588	
Issuance of Membership Units		$ 20,000
Earnings Before Members' Income Taxes		200,441
Distribution of Earnings to Members		(174,815)
Members' Equity as of December 31, 2015		$1,662,828
Membership Units Outstanding at December 31, 2015	88,740	
Issuance of Membership Units		$ 70,000
Earnings Before Members' Income Taxes		232,756
Distribution of Earnings to Members		(154,144)
Distribution Payable to Members		(54,680)
Members' Equity as of December 31, 2016		$1,756,760
Membership Units Outstanding at December 31, 2016	92,662	
Issuance of Membership Units		$ 100,000
Earnings Before Members' Income Taxes		272,628
Distribution of Earnings to Members		(210,838)
Distribution of Proceeds from Sale of Unconsolidated Subsidiary		(22,761)
Change in Distribution Payable to Members		(7,264)
Members' Equity as of December 31, 2017		$1,888,525
Membership Units Outstanding at December 31, 2017	98,130	

The accompanying notes are an integral part of these financial statements.

American Transmission Company LLC

Notes to Financial Statements as of December 31, 2017 and 2016 and for the Years Ended December 31, 2017, 2016 and 2015

(1) Nature of Operations and Summary of Significant Accounting Policies

(a) General

American Transmission Company LLC (the "Company") was organized, as a limited liability company under the Wisconsin Limited Liability Company Act, as a single-purpose, for-profit electric transmission company. The Company's purpose is to plan, construct, operate, own and maintain electric transmission facilities to provide an adequate and reliable transmission system that meets the needs of all users on the system and provides transmission service to support equal access to a competitive, wholesale, electric energy market.

The Company currently owns and operates the electric transmission system, under the direction of the Midcontinent Independent System Operator, Inc. (MISO), in parts of Wisconsin, Illinois, Minnesota and the Upper Peninsula of Michigan. The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC) as to rates, terms of service and financing, and by state regulatory commissions as to other aspects of business, including the construction of electric transmission assets.

The Company's five largest customers are also members and account for approximately 80 percent of the Company's operating revenues. The rates for these transmission services are subject to review and approval by FERC. In addition, several members provide operational, maintenance and construction services to the Company. The agreements under which these services are provided are subject to review and approval by the Public Service Commission of Wisconsin (PSCW). See Note (8) for details of the various transactions between the Company and its members.

The Company evaluated potential subsequent events through February 7, 2018, the date these statements were available to be issued.

(b) Corporate Manager

The Company is managed by a corporate manager, ATC Management Inc. ("Management Inc."), which is a service company under FERC regulations. The Company and Management Inc. have common ownership and operate as a single functional unit. Under the Company's operating agreement, Management Inc. has complete discretion over the business of the Company and provides all management services to the Company at cost. The Company itself has no employees and no governance structure separate from Management Inc. The Company's operating agreement establishes that all of the expenses of Management Inc. that are incurred on behalf of the Company are the responsibility of the Company. These expenses consist primarily of payroll, benefits, payroll-related taxes and other employee-related expenses. All such expenses are recorded in the Company's accounts as if they were direct expenses of the Company. Under an overhead sharing agreement approved by the PSCW, Management Inc. also provides management services at cost to ATC Development Company LLC ("Development LLC"). See Note 8(b) for further discussion of Development LLC.

As of December 31, the following net payables to Management Inc. were included in the Company's balance sheets (in thousands):

	2017	2016
Other Accrued Liabilities	$18,109	$11,971
Other Long-term Liabilities	5,922	2,932
Net Amount Payable to Management Inc.	$24,031	$14,903

Amounts included in other accrued liabilities are primarily payroll- and benefit-related accruals. Amounts included in other long-term liabilities relate primarily to certain long-term compensation arrangements covering Management Inc. employees, as described in Note (2).

(c) Revenue Recognition

Under the authority of the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("MISO Tariff"), which is regulated by FERC, the Company provides wholesale electric transmission service to eligible entities within its service area. The Company charges for these services under FERC-approved rates. The MISO Tariff specifies the general terms and conditions of service on the Company's transmission system and establishes the rates and amounts to be paid for those services. The Company does not take ownership of the electricity that it transmits.

The Company's FERC-approved formula rate tariff ("Company's Tariff") for the revenue requirement determined under Attachment O of the MISO Tariff includes a true-up provision that meets the requirements of an alternative revenue program as defined in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 980, "Regulated Operations." Accordingly, the Company recognizes revenue for providing transmission system access to its customers during the rate year based on the revenue requirement formula in the Company's Tariff. Annually, the Company prepares a forecast for the upcoming rate year of total operating expenses, projected rate base resulting from planned construction and other capital expenditures, and projected revenues it expects to receive from MISO and other sources. From this forecast, the Company computes an annual projected total revenue requirement for the rate year. Based on the criteria in the MISO Tariff, the Company also calculates its regional cost-sharing revenue requirements, which, in addition to other forecasted revenues from MISO and other sources, are subtracted from the total revenue requirement to determine the Company's annual network revenue requirement. The annual network revenue requirement is billed to, and collected from, network transmission customers in monthly installments throughout the rate year. Subsequent to the rate year, the Company compares actual results from the rate year to the forecast to determine any under- or over-collection of revenue from network and regional customers. In accordance with ASC Topic 980, the Company accrues or defers revenues that are higher or lower, respectively, than the amounts collected during the rate year. In accordance with ASC Topic 980, the Company classifies an accumulated over-collected true-up balance as a regulatory liability and an accumulated under-collected true-up balance as a regulatory asset in the balance sheets. The Company is required to refund any over-collected amounts, plus interest, within two years subsequent to the rate year, with the option to accelerate all or a portion of any network true-up refunds, and is permitted to include any under-collected amounts, plus interest, in annual network billings two years subsequent to the rate year. Under these true-up provisions, the Company refunded network customers through their monthly bills, $8.2 million in 2017 and $9.9 million in 2015, both inclusive of interest, and collected from network customers, through their monthly bills, a net amount of $2.6 million in 2016, inclusive of interest. The Company also has FERC-approved true-up provisions for MISO regional cost-sharing revenues and MISO scheduling revenues to refund over collections or receive under collections in the second year subsequent to the rate year. The Company refunded, inclusive of interest, net amounts of $5.6 million, $4.7 million and $3.9 million to regional customers in 2017, 2016 and 2015, respectively. See Note 1(h) for more information on the Company's true-up provisions.

The Company records a reserve for revenue subject to refund when such refund is probable and can be reasonably estimated.

The Company is currently operating under a settlement agreement approved by FERC in 2004. The Company may elect to change, or intervenors may request a change to, the Company's revenue requirement formula at any time. A change to the revenue requirement formula could result in reduced rates and have an adverse effect on the Company's financial position, results of operations and cash flows. If no filings are made by either the Company or other parties, the current terms of the settlement agreement will continue in effect.

The Company has been involved in two complaints filed at FERC pursuant to Section 206 of the Federal Power Act (FPA) by customer and public power groups located within the MISO service area. The primary complaint of these groups is that, at the time the complaints were filed, the base return on equity (ROE) that was in effect for MISO transmission owners, including the Company, was no longer just and reasonable.

On September 28, 2016, FERC issued an order on the first complaint reducing the base ROE to 10.32 percent for MISO transmission owners, including the Company. This base ROE was effective prospectively from the date of the order and is currently the authorized base ROE for the Company until FERC rules in the second complaint, or another rate is otherwise established. The base ROE that FERC establishes in any order will then be effective prospectively from the date of that order.

Further details related to these complaints are discussed in Note 7(a).

(d) Transmission and General Plant and Related Depreciation

Transmission plant is recorded at the original cost of construction which includes materials, construction overhead and outside contractor costs. Additions to, and significant replacements of, transmission assets are charged to property, plant and equipment at cost; replacements of minor items are charged to maintenance expense. The cost of transmission plant is charged to accumulated depreciation when an asset is retired.

The provision for depreciation of transmission assets is an integral part of the Company's cost of service under FERC-approved rates. Depreciation rates include estimates for future removal costs and salvage value. Amounts collected in depreciation rates for future removal costs are included in regulatory liabilities in the balance sheets, as described in Note 1(h). Costs the Company incurs to remove an asset when not under a legal obligation to do so are charged against the regulatory liability. Depreciation expense on transmission assets, including a provision for removal costs, as a percentage of average transmission plant was 2.81 percent in 2017, 2.75 percent in 2016 and 2.74 percent in 2015.

The Company completed a depreciation study during 2016 and filed with FERC on October 27, 2016 for an adjustment to its depreciation rates based on the findings of the study. On December 15, 2016, FERC approved the Company's revised rates in docket ER17-191, effective January 1, 2017.

General plant, which includes buildings, office furniture and equipment, and computer hardware and software, is recorded at cost. Depreciation is recorded at straight-line rates over the estimated useful lives of the assets, which currently range from five to 70 years.

(e) Asset Retirement Obligations

Consistent with ASC Topic 410, "Asset Retirement and Environmental Obligations," the Company records a liability at fair value for a legal asset retirement obligation (ARO) in the period in which it is incurred. When a new legal obligation is recorded, the costs of the liability are capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. In accordance with ASC Topic 980, the Company recognizes regulatory assets or liabilities, as described in Note 1(h), for the timing differences between when it recovers the ARO in rates and when it recognizes these costs under ASC Topic 410. At the end of the asset's useful life, the Company settles the obligation for its recorded amount and records the gain or loss in the appropriate regulatory account.

The Company has recognized AROs primarily related to asbestos, lead-based paint and polychlorinated biphenyls contained in its electrical equipment. AROs are recorded as other long-term liabilities in the balance sheets. The following table describes all changes to AROs for the years ended December 31, 2017 and 2016 (in thousands):

	2017	2016
Asset Retirement Obligations at January 1	$16,180	$ 7,839
Accretion	708	389
Liabilities Recognized	-	39
Revision to Estimated Cash Flows	-	8,029
Liabilities Settled	(79)	(116)
Asset Retirement Obligations at December 31	$16,809	$16,180

The 2016 revision to estimated cash flows was primarily due to changes in regulatory requirements by the Wisconsin Department of Natural Resources which resulted in increased requirements for the Company related to testing for lead-based paint on transmission structures.

(f) Interconnection Agreements

The Company has entered into interconnection agreements with entities planning to build generation facilities. Under these agreements, the Company will construct the interconnection facilities and the generator will finance and bear all financial risk of constructing the interconnection facilities. The Company will own and operate the interconnection facilities when the generation facilities become operational and will reimburse the generator for network upgrade construction costs plus interest. The Company has no obligation to reimburse the generator for costs incurred during construction if the generation facilities do not become operational.

Under these interconnection agreements, the Company receives cash advances for network upgrade construction costs from the generators. During construction, the Company includes actual costs incurred in construction work in progress (CWIP) and records liabilities for the cash advances from the generators, along with accruals for interest. The accruals for interest are capitalized and included in CWIP. The network upgrade construction costs and accrued interest related to interconnection agreements that are included in CWIP are not included as a component of the Company's rate base until the generation facilities become operational and the Company has reimbursed the generator.

At December 31, 2017 and 2016 there was $2.2 million and $0.9 million, respectively, included in CWIP related to generator interconnection agreements. At December 31, 2017 and 2016, liabilities for generator advances, including accrued interest, totaled $21.2 million and $2.3 million, respectively, all of which was included in other long-term liabilities in the balance sheets.

(g) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The Company intends to maintain a zero-cash balance by issuing short-term debt on a periodic basis to cover its cash payments. Therefore, the Company had no cash or cash equivalents on the balance sheets at December 31, 2017 or 2016.

(h) Regulatory Accounting

The Company's accounting policies conform to ASC Topic 980. Accordingly, assets and liabilities that result from the regulated ratemaking process are recorded that would otherwise not be recorded under accounting principles generally accepted in the United States of America (U.S. GAAP) for non-regulated companies. Certain costs are recorded as regulatory assets as incurred and are recognized in the statements of operations at the time they are reflected in rates. As such, regulatory assets are not included as a component of rate base and do not earn a current return. Regulatory liabilities represent amounts that have been collected in current rates to recover costs that are expected to be incurred, or refunded to customers, in future periods.

As discussed in Note 1(c) and in accordance with ASC Topic 980, an accumulated over-collected revenue true-up balance is classified as a regulatory liability in the balance sheets and an accumulated under-collected revenue true-up balance is classified as a regulatory asset in the balance sheets.

The Company recognizes a regulatory asset or liability for the cumulative difference between amounts recognized for AROs under ASC Topic 410 and amounts recovered through depreciation rates related to these obligations.

As of December 31, regulatory assets included the following amounts (in thousands):

	2017	2016
Revenue True-ups, Including Interest		
2015 Scheduling Revenue Collected in 2017	$ -	$395
2017 Network Revenue to be Collected in 2019	4,021	-
2017 Multi-Value Project Revenue to be Collected in 2019	2,505	-
Total Regulatory Assets	$6,526	$395

As of December 31, these amounts were classified in the balance sheets as follows (in thousands):

	2017	2016
Current Portion of Regulatory Assets	$ -	$395
Regulatory Assets (long term)	6,526	-
Total Regulatory Assets	$6,526	$395

The Company continually assesses whether regulatory assets continue to meet the criteria for probability of future recovery. This assessment includes consideration of factors such as changes in the regulatory environment, recent rate orders to other regulated entities under the same jurisdiction and the status of any pending or potential deregulation legislation. If the likelihood of future recovery of any regulatory asset becomes less than probable, the affected assets would be written off in the period in which such determination is made.

The Company recorded regulatory liabilities of $66.7 million and $140 million at December 31, 2017 and 2016, respectively, related to the MISO transmission owner complaints discussed in Notes 1(c) and 7(a).

In accordance with ASC Topic 715, "Compensation – Retirement Benefits," the Company recognizes the funded status of its postretirement benefit plan, measured as the amount by which its accumulated postretirement benefit obligation is less than or greater than the fair value of the assets that fund its plan. Since the Company expects to refund or recover these amounts in future rates, a regulatory liability or asset is established for an amount equal to the ASC Topic 715 asset or liability. The Company recognized regulatory liabilities of $7.2 million and $4.1 million at December 31, 2017 and 2016, respectively, related to the over-funded position of its postretirement benefit plan at each year-end.

As described in Note 1(d), the Company's depreciation rates include an estimate for future asset removal costs. The cumulative amounts that have been collected for future asset removal costs which do not represent the present value of AROs under ASC Topic 410 are reflected as regulatory liabilities.

As of December 31, regulatory liabilities included the following amounts (in thousands):

	2017	2016
Revenue True-ups, Including Interest		
2015 Network Revenue Refunded in 2017	$ -	$ 906
2015 Multi-Value Project Revenue Refunded in 2017	-	2,970
2015 Regional Cost-sharing Revenue Refunded in 2017	-	2,921
2016 Network Revenue (Refund in 2017 and 2018)	373	7,478
2016 Regional Cost-sharing Revenue to be Refunded in 2018	1,997	1,929
2016 Multi-Value Project Revenue to be Refunded in 2018	607	590
2016 Scheduling Revenue to be Refunded in 2018	2,510	2,421
2017 Network Revenue to be Refunded in 2018	1,997	-
2017 Regional Cost-sharing Revenue to be Refunded in 2019	2,534	-
2017 Scheduling Revenue to be Refunded in 2019	1,355	-
Return on Equity Refund Liability	66,724	139,678
Recognition of Over-funded Post Retirement Benefit Plan	7,171	4,085
Non-ARO Removal Costs Collected in Rates	184,105	157,448
Cumulative Difference between ARO Costs Collected in Rates and ARO Recognition under ASC Topic 410	1,090	1,103
Total Regulatory Liabilities	$270,463	$321,529

As of December 31, these amounts were classified in the balance sheets as follows (in thousands):

	2017	2016
Current Portion of Regulatory Liabilities	$ 74,208	$ 71,473
Regulatory Liabilities (long term)	196,255	250,056
Total Regulatory Liabilities	$270,463	$321,529

(i) Other Assets

As of December 31, other assets included the following (in thousands):

	2017	2016
Deferred Project Costs	$2,805	$ 815
Other	2,599	1,937
Total Other Assets	$5,404	$2,752

Deferred project costs are expenditures directly attributable to the construction of transmission assets. These costs are recorded as other assets in the balance sheets until all required regulatory approvals are obtained and construction begins, at which time the costs are transferred to CWIP. In accordance with its 2004 FERC-approved settlement agreement, the Company is allowed to expense and recover in rates, in the year incurred, certain preliminary survey and investigation costs related to study and planning work performed in the early stages of construction projects. Other costs, such as advance equipment purchases, continue to be deferred as described above. Approximately $6.3 million, $5.5 million and $8.3 million of preliminary survey and investigation costs were included in operations and maintenance expense for 2017, 2016 and 2015, respectively.

Additional amounts reported as Other Assets in the balance sheets consist primarily of the non-current portion of prepaid expenses, unamortized credit facility fees on undrawn lines of credit, and cash deposits.

(j) Impairment of Long-lived Assets

The Company reviews the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable under ASC Topic 360, "Property, Plant and Equipment." Impairment would be determined based upon a comparison of the undiscounted future operating cash flows to be generated during the remaining life of the assets to their carrying amounts. An impairment loss would be measured as the amount that an asset's carrying amount exceeds its fair value. As long as its assets continue to be recovered through the ratemaking process, the Company believes that such impairment is unlikely.

(k) Income Taxes

The Company is a limited liability company that has elected to be treated as a partnership under the Internal Revenue Code and applicable state statutes. The Company's members (except certain tax-exempt members) report their share of the Company's earnings, gains, losses, deductions and tax credits on their respective federal and state income tax returns. Earnings before members' income taxes reported in the statements of operations are the net income of the Company. Accordingly, these financial statements do not include a provision for federal or state income tax expense. See Note (6) for further discussion of income taxes.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to apply policies and make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for items such as depreciable lives of property, plant and equipment, removal costs associated with asset retirements, tax provisions included in rates, actuarially-determined benefit costs, accruals for construction costs, operations and maintenance expenses, and revenue refund liabilities. As additional information becomes available, or actual amounts are determined, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

(m) New Accounting Pronouncements

In May 2014, FASB issued Accounting Standards Update No. (ASU) 2014-09, Revenue from Contracts with Customers (ASC Topic 606). The new recognition and measurement rules introduced by ASU 2014-09, clarified by subsequent amendments, replace nearly all existing revenue guidance, including most industry-specific guidance, and, with a few exceptions, apply to all contracts with customers. The core principle of the guidance is to recognize revenue in an amount that an entity expects to be entitled to receive in exchange for goods and services. ASU 2014-09 also requires applicable disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

ASU 2014-09 is effective for the Company for the annual reporting period ending December 31, 2019 and interim reporting periods within 2019. The Company plans to use the modified retrospective method of adoption, which requires the Company to record a cumulative effect adjustment to its balance sheet as of the beginning of 2019, as if the standard had always been in effect. Disclosures in 2019 will include a reconciliation of results under ASU 2014-09 to results as they would have been under current revenue recognition guidance.

Although the Company believes that its transmission service revenues billed under its FERC-approved tariff, excluding any components related to alternative revenue programs as defined by ASC Topic 980, are within the scope of ASU 2014-09, the Company continues to review its contracts with customers to evaluate any additional impacts of ASU 2014-09 on its current revenue recognition policies and procedures.

In February 2016, FASB issued ASU 2016-02, Leases (ASC Topic 840), which requires transition of most leases to the balance sheet and eliminates the prior tests used in determining lease classifications. ASU 2016-02, clarified by subsequent amendments, becomes effective for the Company on a retrospective basis for the annual reporting period ending December 31, 2020 and interim periods beginning in 2021. The Company is evaluating the impacts of ASU 2016-02.

Historically, the Company has met the definition of a public business entity (PBE) under U.S. GAAP solely because its financial statements have been included in the U.S. Securities and Exchange Commission (SEC) filings of some of its public owners that are SEC registrants. As a PBE, the Company would normally be required to adopt ASUs 2014-09 and 2016-02 one year earlier than the transition dates disclosed in the respective paragraphs above. However, on July 20, 2017, SEC staff announced that it would not object to elections by certain PBEs to use the non-PBE effective dates for the sole purpose of adopting ASUs 2014-09 and 2016-02. The Company, which meets the criteria for PBEs defined in the SEC staff announcement, has made the election to use the non-PBE effective dates for these ASUs; therefore, the non-PBE transition dates are noted in the respective discussions on revenue and leases above.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (ASC Topic 230), Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). ASU 2016-15 provides guidance on eight cash flow items that have historically caused diversity in practice due to either unclear or non-existing guidance under the current guidelines. ASU 2016-15 becomes effective for the Company on a retrospective basis for the annual reporting period ending December 31, 2019 and interim periods beginning in 2020, with early adoption permitted. However, the Company does not expect the adoption of ASU 2016-15 to have an impact on the Company's cash flows.

In March 2017, FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASC Topic 715). Currently, all components of Management Inc.'s net periodic post-retirement healthcare benefit cost that are charged to the Company are reported as a net amount in the Company's financial statements. ASU 2017-07 requires entities to disaggregate the service cost component from the other components of net periodic benefit cost ("other components"). The Company's current practice is to allocate its share of Management Inc.'s net periodic benefit cost between operating expense and capital projects based on the amount of labor costs charged. Upon adoption of ASU 2017-07, the Company will continue to report its share of Management Inc.'s post-retirement healthcare service cost in its financial statements as it currently does, with a portion included in operations and maintenance expense and a portion capitalized to construction projects. However, under ASU 2017-07, the Company is required to present its share of Management Inc.'s other components in the income statement outside of operating income, with no portion capitalized to construction projects. Therefore, the Company anticipates that it will record these differences as either a regulatory asset or regulatory liability in its balance sheets. ASU 2017-07 becomes effective for the Company for interim and annual reporting periods beginning January 1, 2018 on a retrospective basis for income statement presentation and a prospective basis for the limit of capitalization to service cost. The Company does not expect adoption of ASU 2017-07 to have a material impact to its financial position, results of operations or cash flows.

(2) Benefits

Management Inc. sponsors several benefit plans for its employees. These plans include certain postretirement medical, dental and life insurance benefits ("postretirement healthcare benefits"). The weighted-average assumptions related to the postretirement medical benefits, as of the measurement date, are as follows:

	2017	2016	2015
Discount Rate	3.59%	4.42%	4.57%
Medical Cost Trend:			
Immediate Range	7.00%	6.00%	6.10%
Ultimate Range	5.00%	4.50%	4.50%
Long-term Rate of Return on Plan Assets	5.00%	5.00%	5.00%

The components of Management Inc.'s postretirement healthcare benefit (credit) costs for 2017, 2016 and 2015 are as follows (in thousands):

	2017	2016	2015
Service Cost	$ 955	$ 822	$ 1,447
Interest Cost	943	893	1,173
Amortization of Prior Service Credit	(1,324)	(1,324)	(569)
Amortization of Net Actuarial Loss (Gain)	(19)	(37)	276
Expected Return on Plan Assets	(1,340)	(1,342)	(1,291)
Net Periodic Postretirement (Credit) Cost	$ (785)	$ (988)	$ 1,036

The decreases in service and interest cost and the increase in amortization of prior service credit during 2016 compared to 2015 are related to 2015 plan amendments that reduced the Company's expected future costs and changes in the assumptions used to calculate the benefit obligation at December 31, 2015.

To recognize the funded status of its postretirement healthcare benefit plans in accordance with ASC Topic 715, Management Inc. recorded long-term assets of $7.2 million and $4.1 million at December 31, 2017 and 2016, respectively. In addition, the Company had the following amounts not yet reflected in net periodic benefit cost and included in regulatory liabilities at December 31 (in thousands):

	2017	2016
Prior Service Credit	$(6,292)	$(7,616)
Accumulated Loss (Gain)	(879)	3,531
Regulatory Liability for Amounts to be Refunded in Future Rates	$(7,171)	$(4,085)

These amounts will be refunded to customers through an offset to recoverable operating expenses in the Company's rate formula.

The assumed medical cost trend rates are critical assumptions in determining the service and interest cost and accumulated postretirement healthcare benefit obligation for the Company's medical and dental plans. A one-percent change in the medical cost trend rates, holding all other assumptions constant, would have the following effects for 2017 (in thousands):

	One-Percent Increase	One-Percent Decrease
Effect on Total of Service and Interest Cost Components	$ 484	$ (350)
Effect on Postretirement Benefit Obligation at the End of the Year	4,769	(3,470)

In 2018, the Company will recognize a $1.3 million prior service credit in its net periodic postretirement healthcare benefit cost.

The funded status of the Company's postretirement healthcare benefit plans as of December 31 is as follows (in thousands):

	2017	2016
Change in Projected Benefit Obligation:		
Accumulated Postretirement Benefit Obligation at January 1	$21,605	$19,795
Service Cost	955	822
Interest Cost	943	893
Benefits Paid	(261)	(290)
Actuarial Losses (Gains)	(1,626)	385
Benefit Obligation at December 31	$21,616	$21,605
Change in Plan Assets:		
Fair Value of Plan Assets at January 1	$25,710	$25,509
Actual Return on Plan Assets (Net of Expenses)	4,143	1,460
Net Benefits Paid	(1,066)	(1,259)
Fair Value at December 31	$28,787	$25,710
Funded Status at December 31	$ 7,171	$ 4,105

The benefit obligation at December 31, 2017, did not change significantly from December 31, 2016 primarily due to changes in the actuarial assumptions used to calculate the benefit obligation. The changes in actuarial assumptions include the use of a lower discount rate and updated medical cost trend rates which, along with service and interest costs, increased the amount of the obligation; however, changes in the assumptions related to future claims costs and updated mortality rates served to offset much of the increase. The increase in the funded status of the plan is primarily attributable to the return on plan assets exceeding net benefit payments during 2017.

The Company does not anticipate contributing to the plan for postretirement healthcare benefit obligations during 2018.

The Company anticipates net retiree healthcare benefit payments for the next 10 years to be as follows (in thousands):

2018	$ 516
2019	547
2020	586
2021	620
2022	693
2023-2027	4,551
Total	$7,513

To fund postretirement healthcare benefit obligations, the Company periodically contributes to its Voluntary Employees' Beneficiary Association (VEBA) trust. The VEBA trust, along with the 401(h) trust previously established by the Company to fund postretirement healthcare benefits, are discretionary trusts with a long-term investment objective to preserve and enhance the post inflation value of the trusts' assets, subject to cash flow requirements, while maintaining an acceptable level of volatility.

The composition of the fair value of total plan assets held in the trusts as of December 31, along with targeted allocation percentages for each major category of plan assets in the trusts, is as follows:

	2017	2016	Target	Range
U.S. Equities	34.9%	34.8%	32.5%	+/- 5%
Non-U.S. Equities	32.5%	31.8%	32.5%	+/- 5%
Fixed Income	32.6%	33.4%	35.0%	+/- 5%
	100%	100%	100%	

The Company appoints a trustee to maintain investment discretion over trust assets. The trustee is responsible for holding and investing plan assets in accordance with the terms of the Company's trust agreement, including investing within the targeted allocation percentages.

The asset classes designated above and described below serve as guides for the selection of individual investment vehicles by the trustee:

- *U.S. Equities* – Strategy of achieving long-term growth of capital and dividend income through investing primarily in common stock of companies in the U.S. stock market with the Wilshire 5000 Index (or a comparable broad U.S. stock index) as the investment benchmark.
- *Non-U.S. Equities* – Strategy of achieving long-term growth of capital and dividend income through investing primarily in common stock of companies in the non-U.S. stock markets with the Morgan

Stanley Capital Index All Country World ex-U.S. Index (or a comparable broad non-U.S. stock index) as the investment benchmark.

- *Fixed Income* – Strategy of achieving total return from current income and capital appreciation by investing in a diversified portfolio of fixed-income securities with the Barclays Capital Aggregate Index (or a comparable broad bond index) as the investment benchmark.

The objective of the investment vehicles is to minimize risk of large losses by effective diversification. The investment vehicles will attempt to rank better than the median vehicle in their respective peer group. However, these investments are intended to be viewed over the long term; during the short term, there will be fluctuations in rates of return characteristic of the securities markets.

The Company measures its plan assets at fair value according to the hierarchy set forth in ASC Topic 820, "Fair Value Measurements." The three levels of the fair value hierarchy under ASC Topic 820 are:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company's postretirement healthcare benefit plans have the ability to access.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets
- Quoted prices for identical or similar assets in inactive markets
- Inputs other than quoted prices that are observable for the asset
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

Level 3 Inputs to the valuation methodology that are unobservable and not corroborated by market data.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes to the methodologies used at December 31, 2017 and 2016. The following are descriptions of the valuation methodologies used for investments measured at fair value:

- *Money Market Fund:* Valued at cost plus accrued interest, which approximates the fair value of the net asset value of the shares held by the plan at year-end.

- *Mutual Funds:* Valued at the net asset value of shares held by the plan at year-end.

The following table contains, by level within the fair value hierarchy, the Company's postretirement healthcare benefit account investments at fair value as of December 31 (in thousands):

2017	Level 1	Level 2	Level 3	Total
Money Market Fund	$ -	$508	$ -	$ 508
Mutual Funds	28,279	-	-	28,279
Total	$28,279	$508	$ -	$28,787
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Money Market Fund	$ -	$465	$ -	$ 465
Mutual Funds	25,245	-	-	25,245
Total	$25,245	$465	$ -	$25,710

During 2017 and 2016, the Company had no transfers between Level 1 and Level 2 measurements and no transfers into or out of Level 3 measurements. Measurements for the Company's Level 2 inputs are based on inputs other than quoted prices that are observable for these assets.

Management Inc. sponsors a defined contribution money-purchase pension plan, in which substantially all employees participate, and makes contributions to the plan for each participant based on several factors. Contributions made by Management Inc. to the plan and charged to expense totaled $3.8 million, $3.6 million and $3.5 million in 2017, 2016 and 2015, respectively.

Management Inc. also provides a deferred compensation plan for certain employees. The plan allows for the elective deferral of a portion of an employee's base salary and incentive compensation and contains a supplemental retirement and 401(k) component. As of December 31, 2017 and 2016, $18.8 million and $18.5 million, respectively, were included in other long-term liabilities related to this deferred compensation plan. Deferred amounts are taxable to the employee when paid, but the Company recognizes compensation expense in the period earned. Amounts charged to expense, including interest accruals, were $1.2 million, $1.1 million and $1.2 million in 2017, 2016 and 2015, respectively.

(3) Members' Equity

The Company's members include investor-owned utilities, municipalities, municipal electric companies and electric cooperatives.

Distribution of earnings to members is at the discretion of Management Inc. The operating agreement of the Company established a target for distribution of 80 percent of annual earnings before members' income taxes. During 2017, 2016 and 2015, the Company distributed approximately $211 million, $154 million and $175 million, respectively, of its earnings to its members. In December 2017 and 2016, the board of directors of Management Inc. approved distributions for the fourth quarter of each year, in the amounts of $61.9 million and $54.7 million, respectively, which were paid in January of the subsequent year, bringing the total distributions related to 2017 and 2016 earnings to 80 percent of earnings before members' income taxes.

Each of the Company's members has the right to require the Company to redeem all or a portion of its membership interests, so long as such interests have been outstanding for at least 12 months. However, the Company is not required to effect the redemption by non-managing members if Management Inc., in its sole discretion as the corporate manager, elects to purchase, in lieu of redemption, such membership interests for either a specified amount of cash or a specified number of shares of its common stock. After such purchase, Management Inc. shall be deemed the owner of such membership interests.

During 2017, the Company issued 5,468,277 units to members in exchange for $100 million in cash. During 2016 and 2015 the Company issued members 3,921,491 units for $70 million in cash and 1,152,328 units for $20 million in cash, respectively.

In October 2017, the Company sold substantially all of its investment in Duke-American Transmission Company LLC (DATC) to Development LLC for $45.5 million in cash. The Company distributed $22.8 million of the cash proceeds to its members in proportion to each member's current ownership percentage. Further details about DATC and the sale to Development LLC are discussed in Note 8(b).

Management Inc. has issued shares of its common stock to each of the Company's members or their affiliates in proportion to their ownership interests in the Company. Holders of Management Inc. common stock have the rights of shareholders under Wisconsin law, including the right to elect directors of the corporate manager.

(4) Debt

(a) Commercial Paper

The Company has a $400 million unsecured, private placement, commercial paper program. Investors are limited to qualified institutional buyers and institutional accredited investors. Maturities may be up to 364 days from date of issue, with proceeds to be used for working capital and other capital expenditures. Pricing is par, less a discount or, if interest-bearing, at par. The Company had $288 million of commercial paper outstanding as of December 31, 2017 at an average rate of 1.58 percent and $262 million of commercial paper outstanding as of December 31, 2016 at an average rate of 0.77 percent. Commercial paper is included in short-term debt in the balance sheets. As defined by the commercial paper program, no customary events of default took place during the periods covered by the accompanying financial statements.

(b) Credit Facility

The Company has a $400 million, five-year revolving credit facility, which expires on June 12, 2020. The facility provides backup liquidity to the Company's commercial paper program, discussed above. The Company has not borrowed under the revolving credit facility. However, interest rates on outstanding borrowings under the facility would be based on a floating rate plus a margin. The applicable margin, which is based on the Company's debt ratings of A+/A2, is currently 0.8 percent.

The revolving credit facility contains restrictive covenants, including restrictions on liens, certain mergers, sales of assets, acquisitions, investments, transactions with affiliates, change of control, conditions on prepayment of other debt and the requirement of the Company to meet certain financial reporting obligations. The revolving credit facility provides for certain customary events of default, including a targeted total-debt-to-total-capitalization ratio that is not permitted to exceed 65 percent at any given time.

The Company was not in violation of any financial covenants under its credit facility during the periods included in these financial statements.

The Company had no outstanding balance under its credit facility as of December 31, 2017 or 2016.

(c) Long-term Debt

The following table summarizes the Company's long-term debt outstanding as of December 31 (in thousands):

	2017	2016
Senior Notes at stated rate of 7.02%, due August 31, 2032	$ 50,000	$ 50,000
Senior Notes at stated rate of 6.79%, due on dates ranging from August 31, 2024 to August 31, 2043	100,000	100,000
Senior Notes at stated rate of 5.59%, due December 1, 2035	100,000	100,000
Senior Notes at stated rate of 5.91%, due August 1, 2037	250,000	250,000
Senior Notes at stated rate of 5.58%, due April 30, 2018	200,000	200,000
Senior Notes at stated rate of 5.40%, due May 15, 2019	150,000	150,000
Senior Notes at stated rate of 4.59%, due February 1, 2022	100,000	100,000
Senior Notes at stated rate of 5.72%, due April 1, 2040	50,000	50,000
Senior Notes at stated rate of 4.17%, due March 14, 2026	75,000	75,000
Senior Notes at stated rate of 4.27%, due March 14, 2026	75,000	75,000
Senior Notes at stated rate of 5.17%, due March 14, 2041	150,000	150,000
Senior Notes at stated rate of 4.37%, due April 18, 2042	150,000	150,000
Senior Notes at stated rate of 3.74%, due January 22, 2029	50,000	50,000
Senior Notes at stated rate of 4.67%, due January 22, 2044	50,000	50,000
Senior Notes at stated rate of 3.35%, due December 11, 2024	75,000	75,000
Senior Notes at stated rate of 3.60%, due December 11, 2029	29,000	29,000
Senior Notes at stated rate of 4.31%, due December 11, 2044	47,000	47,000
Senior Notes at stated rate of 3.45%, due April 14, 2025	50,000	50,000
Senior Notes at stated rate of 3.70%, due April 14, 2030	21,000	21,000
Senior Notes at stated rate of 4.41%, due April 14, 2045	28,000	28,000
Senior Notes at stated rate of 3.97%, due January 26, 2047	150,000	75,000
Senior Notes at stated rate of 3.19%, due October 30, 2027	50,000	-
Other Long-term Notes Payable	44	36
Total Long-term Debt	$2,000,044	$1,875,036
Less: Unamortized Debt Issuance Costs	(9,454)	(9,734)
Long-term Debt, Net of Unamortized Debt Issuance Costs	$1,990,590	$1,865,302
Less: Current Maturities	(200,000)	-
Net Long-term Debt	$1,790,590	$1,865,302

The senior notes rank equivalent in right of payment with all of the Company's existing and future unsubordinated, unsecured indebtedness and senior in right of payment to all subordinated indebtedness of the Company.

The senior notes contain restrictive covenants, which include restrictions on liens, certain mergers and sales of assets, and the requirement of the Company to meet certain financial reporting obligations. The senior notes also provide for certain customary events of default, none of which occurred during the periods covered by these financial statements.

Future maturities of the Company's senior notes are as follows (in millions):

2018	$ 200
2019	150
2020	-
2021	-
2022	100
Thereafter	1,550
	$2,000

The senior notes contain an optional redemption provision whereby the Company is required to make the note holders whole on any redemption prior to maturity. The notes may be redeemed at any time, at the Company's discretion, at a redemption price equal to the greater of 100 percent of the principal amount of the notes plus any accrued interest or the present value of the remaining scheduled payments of principal and interest from the redemption date to the maturity date discounted to the redemption date on a semiannual basis at the then-existing Treasury rate plus 30 to 50 basis points, plus any accrued interest.

During October 2017, the Company entered into an agreement with a group of investors, through a private placement offering, to issue $50 million of 10-year, unsecured, 3.19 percent senior notes and $75 million of 30-year, unsecured, 3.93 percent senior notes, to be funded in two tranches. Closing of the transaction and funding of the first $50 million of notes occurred on October 30, 2017 with interest due semiannually on April 30 and October 30, beginning on April 30, 2018. The $50 million of senior notes will mature on October 30, 2027.

The remaining $75 million of notes funded on January 16, 2018. The notes will pay interest semiannually on July 15 and January 15, beginning on July 15, 2018, and will mature on January 15, 2048.

During October 2016, the Company entered into an agreement with a group of investors, through a private placement offering, to issue $150 million of 30-year, unsecured, 3.97 percent senior notes to be funded in two tranches. Closing of the transaction and funding of the first $75 million of notes occurred on November 15, 2016 with interest due semiannually on January 26 and July 26, beginning on July 26, 2017. The notes will mature on January 26, 2047.

Funding of the remaining $75 million occurred on January 26, 2017. These notes also pay interest semiannually on January 26 and July 26, beginning on July 26, 2017, and will mature on January 26, 2047.

(5) Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments included in current assets and current liabilities approximates fair value due to the short maturity of such financial instruments. The fair value of the Company's long-term debt is estimated based upon quoted market values for the same or similar issuances or upon the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for the Company's credit ratings.

The carrying amount, excluding unamortized debt issuance costs, and the estimated fair value of the Company's long-term debt at December 31 are as follows (in millions):

	2017	2016
Carrying Amount	$ 2,000	$ 1,875
Estimated Fair Value	2,283	2,097

(6) Income Taxes

The Company is allowed to recover in rates, as a component of its cost of service, the amount of income taxes that are the responsibility of its members. Accordingly, the Company includes a provision for its members' federal and state current and deferred income tax expenses and amortization of the excess deferred tax reserves and deferred investment tax credits in its regulatory financial reports and rate filings. Excess deferred tax reserves are recorded as regulatory liabilities in the Company's regulatory financial reports. For purposes of determining the Company's revenue requirement under FERC-approved rates, rate base is reduced by an amount equivalent to members' net accumulated deferred income taxes, including excess deferred income tax reserves. Such amounts were approximately $752 million, $681 million and $614 million in 2017, 2016 and 2015, respectively, and are primarily related to accelerated tax depreciation and other plant-related differences. The 2017, 2016 and 2015 revenues include recovery of $110 million, $111 million and $107 million, respectively, of income tax expense.

On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 ("2015 Tax Act") was passed by Congress extending 50 percent bonus depreciation from previous legislation through 2017 and allowing bonus depreciation on qualified assets of 40 percent in 2018 and 30 percent in 2019. The 2015 Tax Act allows for a transitional 30 percent bonus depreciation for self-constructed assets that start construction before December 31, 2019, and are placed in service by December 31, 2020.

On December 22, 2017, the Tax Cuts and Jobs Act ("2017 Tax Reform") was signed into law, creating changes across the entire U.S. tax code. The most notable impact of the 2017 Tax Reform is the reduction of the federal statutory tax rate from 35 percent to 21 percent for corporations. Much of the 2017 Tax Reform becomes effective January 1, 2018. However, portions of the 2017 Tax Reform, such as modifications to bonus depreciation, are effective retroactively to September 27, 2017. Some of the tax provisions are set to expire after varying timeframes; however, the corporate tax rate reduction was made permanent under the 2017 Tax Reform. Therefore, the federal income tax rate used by the Company in its revenue requirement calculation will be reduced to 21 percent, effective January 1, 2018. Bonus depreciation on self-constructed assets acquired on or before September 27, 2017 will be phased out no later than 2020. The 2017 Tax Reform does not allow for bonus depreciation on utility assets acquired after September 27, 2017.

ASC Topic 740, “Income Taxes,” provides guidance on recognition thresholds and measurement of a tax position taken or expected to be taken in a tax return, including whether an entity is taxable in a particular jurisdiction. This guidance applies to all entities, including pass-through entities such as the Company. The Company does not consider any of its tax positions to be uncertain, including the Company’s position that it qualifies as a pass-through entity in the federal and Wisconsin tax jurisdictions. Additionally, the Company had no unrecognized tax benefits and was assessed no material amounts of interest or penalties during 2017, 2016 or 2015. The Company is no longer subject to examination by the Internal Revenue Service for tax years prior to 2014 or any state jurisdiction for tax years prior to 2012. In the event the Company would be assessed interest or penalties by a taxing authority related to income taxes, interest would be recorded in interest expense and penalties would be recorded in other expense in the statements of operations.

(7) Commitments and Contingencies

(a) MISO Return on Equity Complaints

As mentioned in Note 1(c), the Company has been involved in two complaints filed at FERC pursuant to FPA Section 206 by customer and public power groups located within the MISO service area. The primary complaint of these groups is that, at the time the complaints were filed, the base ROE that was in effect for MISO transmission owners, including the Company, was no longer just and reasonable.

The first complaint provided for a statutory refund period of November 12, 2013 through February 11, 2015. The administrative law judge (ALJ) issued an initial decision on the first complaint with a base ROE recommendation of 10.32 percent. On September 28, 2016, FERC issued a final order on the first complaint affirming the ALJ’s base ROE recommendation of 10.32 percent.

The second complaint provides for a statutory refund period of February 12, 2015 through May 11, 2016. The ALJ issued an initial decision on the second complaint in June 2016, recommending a base ROE of 9.7 percent. FERC is expected to rule on this proceeding in 2018 and is not bound by the ALJ decision. FERC could set the base ROE higher or lower than the ALJ recommendation.

The base ROE ordered by FERC in the first complaint was effective prospectively from the date of the order and is currently the authorized base ROE for the Company until FERC rules in the second complaint, or another rate is otherwise established. The base ROE that FERC establishes in any order will then be effective prospectively from the date of that order.

During February 2016, the complainants filed a joint motion with FERC for partial summary disposition and interim relief (the “Motion”). The Motion requested that FERC extend the MISO transmission owners’ base ROE of 10.32 percent recommended by the ALJ in the first complaint prospectively from May 11, 2016 until FERC rules in the second complaint. FERC has not ruled on the Motion.

Based on a request made by the Company and other MISO transmission owners, FERC approved a 50 basis-point incentive ROE adder for participation in MISO, effective January 6, 2015. Inclusion of the adder in the Company’s overall ROE was confirmed as the resulting ROE is within the zone of reasonableness established in the first ROE complaint proceeding. Therefore, beginning on September 28, 2016, the Company’s allowed rate of return on equity was 10.82 percent, inclusive of the 50 basis-point adder. FERC accepted the transmission owners' request to defer collection of the adder pending the outcome of the first complaint proceeding. Collection of the adder partially offset the refund resulting from the first complaint proceeding and will partially offset any refund that may be ordered related to the second complaint.

The Company and other MISO transmission owners worked with MISO on the method and process used to issue the net refund related to the first complaint. The Company refunded $57.4 million, inclusive of interest, during 2017 related to the first complaint and reduced the amount of its estimated refund liability related to the second complaint based on changes in the assumptions used to calculate the probable refund. MISO issued its refund report on July 28, 2017, pursuant to FERC's October 28, 2016 order, on behalf of the Company and the other MISO transmission owners. Additionally, the Company believes it is probable that a refund will be required upon ultimate resolution of the second complaint. The Company's estimate of the range of possible refunds related to the second complaint is between $66.7 million and $99.2 million, including interest. Therefore, the Company recorded regulatory liabilities for the estimated remaining refund amounts, inclusive of interest, of $66.7 million and $140 million as of December 31, 2017 and 2016, respectively, related to these complaints. The Company also recorded reductions to operating revenue of $50.1 million and $63.8 million in the statements of operations for the years ended December 31, 2016 and 2015, respectively, related to this liability. The reduction to the estimated refund liability during 2017 caused an increase in operating revenue of $18 million. FERC's ultimate decision in the second complaint could have a material impact on the Company's financial position, results of operations and cash flows.

On September 29, 2017, the Company and the other MISO transmission owners filed a motion to dismiss the second ROE complaint proceeding ("Motion to Dismiss"). The Motion to Dismiss argued that there was no basis under FPA Section 206 to support a finding that the existing 10.32 percent base ROE determined in the first complaint was unjust and unreasonable. FERC has not ruled on the Motion to Dismiss.

On April 17, 2017, the D.C. Circuit of the U.S. Court of Appeals (the "Court") issued its ruling on appeal of the ISO New England transmission owners' first ROE complaint case. The Court vacated FERC's order and remanded back to FERC stating that FERC did not adequately explain its decision-making under the Federal Power Act. Issues addressed by the Court were whether the existing ROE could be found unjust and unreasonable simply because an updated ROE analysis returned a lower ROE; and whether FERC sufficiently supported its decision to set the ROE at the midpoint of the upper half of the zone of reasonableness. The Company is unable to determine what, if any, impact this decision will have on the MISO transmission owner ROE complaints at this time.

(b) FERC Audit

On November 24, 2015, the Division of Audits and Accounting within the Office of Enforcement of FERC notified the Company that it was commencing a periodic financial audit of the Company. As part of the audit process, FERC staff has challenged certain aspects of the Company's implementation of its formula rate tariff. Although the Company disagrees with FERC staff's interpretation of the tariff, the Company has determined that it is probable that FERC will require a refund that is between $25.6 million and $39.4 million, inclusive of interest. Therefore, the Company recorded an estimated refund liability of $25.6 million, inclusive of interest, in other accrued liabilities in the balance sheet as of December 31, 2017. The Company also recorded an offsetting reduction to earnings via reduced operating revenue and increased interest expense in the statement of operations for the year ended December 31, 2017. The audit is currently ongoing and FERC could require a refund that is different than the amount accrued.

(c) Operating Leases

The Company leases both office and data center space under non-cancelable operating leases. Amounts incurred were approximately $6.4 million during 2017 and $6.5 million annually during 2016 and 2015.

Future minimum lease payments under non-cancelable operating leases for the years ending December 31 are as follows (in millions):

2018	$ 6.5
2019	5.9
2020	5.9
2021	5.8
2022	6.0
Thereafter	22.2
	$52.3

(d) MISO Revenue Distribution

Periodically, the Company receives adjustments to revenues that were allocated to it by MISO in prior periods. Some of these adjustments may result from disputes filed by transmission customers. The Company does not expect any such adjustments to have a significant impact on its financial position, results of operations or cash flows since adjustments of this nature are typically offset by its true-up provisions in the revenue requirement formula.

(e) Interconnection Agreements

The Company has entered into interconnection agreements with entities planning to build generation facilities. The Company will construct the interconnection facilities and the generator will finance and bear all financial risk of constructing the interconnection facilities under these agreements. The Company will own and operate the interconnection facilities when the generation facilities become operational and will reimburse the generator for network upgrade construction costs plus interest. The Company has no obligation to reimburse the generator for costs incurred during construction if the generation facilities do not become operational.

The current estimate of the Company's commitments under these agreements, if the generation facilities become operational, is approximately $67.7 million at completion, with expected completion dates during 2019. In addition, there may be transmission service requests that require the Company to construct additional, or modify existing, transmission facilities to accommodate such requests. Whether such additions or upgrades to the Company's transmission system are required depends on the state of the transmission system at the time the transmission service is requested. The Company reimbursed, inclusive of interest, $6.8 million to generators under these agreements during 2017 and doesn't expect to make any reimbursements to generators in 2018 under such agreements. The Company did not make any reimbursements to generators under these agreements during 2016 or 2015.

(f) Potential Adverse Legal Proceedings

The Company has been, and will likely in the future become, party to lawsuits, potentially including suits that may involve claims for which it may not have sufficient insurance coverage. The Company's liability related to utility activities is limited by FERC-approved provisions of the MISO Tariff that limit potential damages to direct damages caused by the Company's gross negligence or intentional misconduct.

(g) Environmental Matters

In the future, the Company may become party to proceedings pursuant to federal and/or state laws or regulations related to the discharge of materials into the environment. Such proceedings may involve property the Company acquired from the contributing utilities. Pursuant to the asset purchase agreements executed with the contributing utilities beginning January 1, 2001, the contributing utilities will indemnify the Company for 25 years from such date for any environmental liability resulting from the previous ownership of the property.

(8) Related-Party Transactions

(a) Membership Interests

To maintain its targeted debt-to-capitalization ratio, the Company was authorized by Management Inc.'s board of directors to request up to $80 million of additional capital through voluntary additional capital calls (VACCs) during 2018, including $20 million it received in January 2018. The Company received a total of $100 million, $70 million and $20 million through VACCs in 2017, 2016 and 2015, respectively. The participating members receive additional membership units at the current book value per unit at the time of each contribution. Contributions from capital calls are recognized when received.

(b) Corporate Restructuring

Development LLC, was created in 2016 to formally separate the Company's development activities from its operations in its traditional footprint. Those owners of the Company who wish to participate in investments outside the Company's traditional footprint can do so through Development LLC, while the remaining owners can continue to invest only in the Company's traditional footprint. The Company had borne the costs of such external development activities through 2015; however, effective January 1, 2016, Management Inc. charges such costs to Development LLC, which is not a subsidiary of either the Company or Management, Inc.

On July 18, 2017, FERC approved the Company's February 2017 request for authorization to sell its interest in DATC to Development LLC. DATC was created by the Company and Duke Energy to seek opportunities to acquire, build, own and operate new transmission projects that meet potential customers' current and future needs for both capacity and voltage requirements. Prior to the sale, the Company and Duke Energy held equal equity ownership in DATC. In October 2017, the Company sold 98 percent of its interest in DATC for $45.5 million in cash and recognized a $2.2 million gain in its statement of operations. The Company used $22.8 million of the cash proceeds from the sale to make a distribution to its members and used the remaining amount to reduce short-term debt. The Company intends to sell the remainder of its interest in DATC to Development LLC in 2018.

(c) Operations and Maintenance, Project Services and Common Facilities Agreements

The Company operates under Operation and Maintenance Agreements whereby certain contributing utilities, municipalities and cooperatives provide operational, maintenance and construction services to the Company at a fully-allocated cost.

The Company and certain of its affiliates may perform engineering and construction services for each other, subject to the restrictions and reporting requirements specified in orders that have been approved by the PSCW. To prevent cross-subsidization between affiliated entities, the PSCW ordered that services be performed at a fully-allocated cost of the party providing services, and reported annually to the PSCW.

Some operation and maintenance agreements require the Company to utilize a minimum level of service. The amount of services utilized by the Company has exceeded the minimum in each year.

Under these agreements, the Company was billed approximately $32.5 million in 2017 and $38.0 million in both 2016 and 2015. Accounts payable and other accrued liabilities include amounts payable to members of the Company of $2.3 million and $3.8 million at December 31, 2017 and 2016, respectively.

Additionally, the Company billed approximately $1.2 million in both 2017 and 2016 and $1.1 million in 2015 to members of the Company related to Common Facilities Agreements.

(d) Transmission Service

Accounts receivable includes amounts due from the Company's members of $47.0 million and $45.9 million primarily related to transmission service at December 31, 2017 and 2016, respectively. Revenues from the Company's members were approximately 85 percent of the Company's transmission service revenue for the years ended December 31, 2017, 2016 and 2015.

(e) Management Inc.

As discussed in Note 1(b), Management Inc. manages the Company. Management Inc. charged the Company approximately $110 million, $111 million and $106 million in 2017, 2016 and 2015, respectively, primarily for employee-related expenses. These amounts were charged to the applicable operating expense accounts, or capitalized as CWIP or other assets, as appropriate. The amounts are recorded in the Company's accounts in the same categories in which the amounts would have been recorded had the Company incurred the costs directly.

(f) Interconnection Agreements

As discussed in Notes 1(f) and 7(e), the Company has interconnection agreements related to the capital improvements required to connect new generation equipment to the grid. Some of these agreements are with members or affiliates of members of the Company. Liabilities at December 31, 2017 and 2016 included $20.0 million and $0.9 million, respectively, in amounts received related to these agreements from entities that are also members of the Company. The Company did not make any reimbursements to such members during the years covered by these financial statements and does not expect to reimburse members during 2018 for amounts related to these agreements.

(9) Jointly-owned Transmission Line Project

The Company holds a 50 percent undivided ownership interest in the Badger Coulee transmission line project (the “Project”). The Project, which has an estimated total cost of $580 million, is being constructed under a Construction Management Agreement with Northern States Power Company, which is an affiliate of Xcel Energy Services, Inc., Dairyland Power Cooperative, SMMPA Wisconsin, LLC, and WPPI Energy. The Project was approved by MISO in 2011. Related to the Project, the Company had CWIP of approximately $125 million and $91.4 million in its balance sheets at December 31, 2017 and 2016, respectively, and had $63.1 million of gross plant in service and $0.3 million of accumulated depreciation in its balance sheets at December 31, 2017.

(10) Quarterly Financial Information (unaudited)

(In Thousands)	Three Months Ended				
	2017				
	March 31	June 30	September 30	December 31	Total
Operating Revenues	$174,669	$176,610	$171,123	$199,270	$721,672
Operating Expenses	82,388	82,665	85,063	94,819	344,935
Operating Income	92,281	93,945	86,060	104,451	376,737
Other Income, Net	207	612	796	3,670	5,285
Interest Expense, Net	26,616	26,299	28,273	28,206	109,394
Earnings Before Members' Income Taxes	$ 65,872	$ 68,258	$ 58,583	$ 79,915	$272,628
	2016				
	March 31	June 30	September 30	December 31	Total
Operating Revenues	$164,240	$154,225	$158,126	$174,215	$650,806
Operating Expenses	79,065	81,698	80,271	81,483	322,517
Operating Income	85,175	72,527	77,855	92,732	328,289
Other Income, Net	127	1,308	1,128	662	3,225
Interest Expense, Net	24,208	24,882	24,624	25,044	98,758
Earnings Before Members' Income Taxes	$ 61,094	$ 48,953	$ 54,359	$ 68,350	$232,756

Due to seasonal factors impacting the Company's business, particularly the maintenance and construction programs, and the timing of when the Company recorded estimated refund liabilities related to the MISO transmission owner base ROE complaints or the FERC audit, discussed above in Note 7, quarterly results are not necessarily comparable. In general, due to the Company's rate formula, revenues and operating income will increase throughout the year, as the Company's rate base increases through expenditures for CWIP.