ITC Holdings Corp.

Moderator: Pat Wenzel
April 29, 2010
11:00 a.m. ET

Operator: Thank you for standing by, ladies and gentlemen. Your ITC Holdings Corp. first quarter earnings conference call will begin momentarily. Once again, thank you for standing by, ladies and gentlemen. Your conference call will begin momentarily.

Good day, ladies and gentlemen, and welcome to the ITC Holdings Corp. first quarter earnings conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, and instructions will be given at that time.

If anyone should require assistance during the conference, please press star, and then zero, on your touchtone telephone. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Pat Wenzel, Director of Investor Relations and Treasury.

Ma'am, you may begin.

Pat Wenzel: Good morning, and thank you for joining us for ITC's 2010 first quarter earnings conference call. Joining me on today's call are Joseph Welch, Chairman, President and CEO of ITC, and Cameron Bready, our Senior Vice President, Treasurer and CFO.

Last night, we issued a press release summarizing our results for the first quarter of 2010. We expect to file our Form 10-Q with the Securities and Exchange Commission today.

Before I begin, I would like to remind everyone of the cautionary language contained in the following safe harbor statement. Certain statements made during today's call that are not historical facts, such as those regarding our future plans, objectives, and expected performance, are forward-looking statements as defined by the private securities litigation reformats of 1995.

These forward-looking statements represent our outlook only as of today. While we believe that these statements and their underlying assumptions are reasonable, investors should know that actual results may differ from our projections and expectations because they are based on current facts and are subject to risks and uncertainties.

A discussion of the risks inherent in our business that could cause these differences may be found in certain documents filed with the SEC, such as our Form 10-Q expected to be filed today, our other periodic reports filed on Forms 10-Q and 10-K, as well as our other SEC filings. You should consider these risk factors when evaluating our forward-looking statements.

We disclaim any obligation to update or alter our forwarding-looking statements, except as required by law.

At this time, I'd like to turn the call over to Joe Welch.

Joe Welch: Thanks, Pat.

We're very pleased to begin 2010 with another quarter strong financial results. Importantly, we are also off to a very solid start in this the first year of our five-year $3 billion capital investment program. And we believe that we remain on track to deliver on our commitments we have made that will benefit our customers and shareholders. Our investments in transmission infrastructure benefit our customers by improving energy delivery, reliability and efficiencies in interconnecting new renewable resources and are key objectives in our strategic vision of leading the industry of a 21st century transmission system in the United States.

During the first quarter, we continued to make progress on advancing our investment plans, which include investing in our base operating companies, developing regional transmission projects, and investing in interconnections for new generating resources, including renewables.

As you may recall, last year the Michigan Wind Energy Resources Zone board completed its work and issued a final report identifying four potential wind zones with potential wind capacity of 3,400 to over 6,000 megawatts. At the end of November, we submitted transmission plans to the Michigan Public Service Commission to support the wind zones identified in the study.

In January of this year, the MPSC issued an order designating two wind zones out of the four zones that had been identified by the Wind Zone Resource Board. Region 4, which is known as the Thumb Region of Michigan, was designated the primary zone. This zone was determined to have realistic wind generation development potential of approximately 2,300 to 4,200 megawatts. The MPSC also designated Region 1 as a wind zone.

Since the MPSC issued its order we have been working with them and the other stakeholders to identify the optimal transmission solution to support the long-term need for delivering wind resources in the Thumb Region. On April 14th, we submitted our transmission plan to the Midwest Independent System Operator, or MISO, for study and ultimate approval that recommends a 345 kV transmission solution in order to support the maximum wind potential identified by the Wind Resources Board study for Region 4, as required by the statute that approved the wind zone development. The solution we submitted to MISO was selected in close consultation with the MPSC staff and other stakeholders. As detailed in the transmission plan we submitted to the MPSC late last year, the preliminary cost estimate for the recommended 345 kV transmission plan is approximately $510 million. As a reminder, this estimate represents only the cost associated with the backbone transmission necessary to better interconnect to the Thumb Region to support the wind zone projects and does not include any other potential costs associated with interconnecting the wind generation projects themselves. It is premature to estimate those costs as they will largely depend on the size and the location of the specific projects that are ultimately developed in this region.

We requested that MISO complete an out-of-cycle review for the 345 kV transmission plan to interconnect the Thumb Region and asked for MISO's board approval at its August board meeting. Upon receipt of MISO approval we will begin routing and siting activities in Michigan for the projects. Under the legislation passed in 2008, these projects will be eligible for an expedited siting process.

Our regional transmission development projects at ITC Great Plains continue to advance well.

In April we were very pleased when the Southwest Power Pool, or SPP, board approved its new Highway-Byway cost allocation methodology and filed the tariff for approval with the Federal Energy Regulatory Commission. The methodology allocates 100 percent of the cost of regional transmission projects at 300 kV and above broadly across the SPP region. Projects above 100 kV and below 300 kV are allocated one-third regionally and two-thirds to the local zone and projects 100 kV and below are allocated 100 percent to the local zone.

As we have previously discussed, we view SPP as a very capable regional transmission organization and believe its actions are paving the way for the advancements of much-need high voltage transmission in the region. Having a constructive cost allocation policy like the Highway-Byway model in place in SPP is critical to progressing the development of a robust and reliable transmission system.

The Highway-Byway cost allocation approved by SPP is also an important milestone for our V-Plan project in Kansas. Additionally, we were successful in achieving another significant milestone for the V-Plan project when, on April 27th, the SPP board approved the V-Plan project as one of the priority projects. As expected, the V-Plan project was approved for construction as a double-circuit, 345 kV project, as opposed to the originally proposed 765 kV configuration.

SPP has indicated that it will continue to study the benefits of the 765 kV as part of its integrated transmission planning process, which could result in the V-Plan project being approved for construction at the higher voltage level. The results of this process will not likely be known until early 2011. However, regardless of which voltage is ultimately approved, we will build the project as directed by SPP, as we have consistently stated.

In addition to the V-Plan project, our KETA and Hugo to Valliant projects continue to move forward as planned. Both projects have begun preconstruction activities.

Phase I of the KETA project remains on schedule and is progressing as expected. On March 2nd, we filed the siting application for Phase II of the KETA project. We expect a decision from the KCC, or Kansas Corporation Commission, by June 30th.

In February, ITC Great Plains completed route selection for its Hugo to Valliant high voltage electric transmission line project in Oklahoma.

On the legislation front, comprehensive climate and energy legislation is stalled, and it remains unclear as to when and in what form legislation may be advanced.

Although there continues to be strong consensus for the need to expand the transmission grid as part of these federal reform efforts, I am skeptical that we will have comprehensive energy legislation by the end of this year.

The good news is that the key policy reforms are also being considered in other forums. We have long contended that the Federal Energy Regulatory Commission already has authority to address cost allocation and has recently indicated that it plans to move forward with a rule making on cost allocation and is also expected to act on transmission planning issues through a generic rule making.

In addition to the Federal Energy Regulatory Commission's stated plans to address both cost allocation and transmission planning, another effort to advance transmission reforms came through the creation of the bipartisan Governors' Wind Energy Coalition, a coalition representing governors of 29 states, which released a report urging the federal government to take steps to boost wind energy. Their report endorses "developing new infrastructure for electricity transmission to provide access to renewable energy resources".

Likewise, the Department of Energy is now overseeing implementation of interconnection-wide transmission planning, a process in which ITC is actively participating.

We remain optimistic that these efforts will help accelerate the development of regional high voltage transmission projects to enable access to renewable and other types of power generation. But, as we have seen with our efforts to build transmission in the Great Plains regions, this process is lengthy and will be evolutionary, not revolutionary. Despite this, ITC remains well positioned to play an important role in these opportunities.

With the progress we have made during the first quarter of 2010, we believe we are well positioned to continue to deliver an attractive total return to our shareholders. Our five-year plan key goals include best-in-class operation and executing on our $3 billion capital expenditure plan by investing in both our core operations and our development projects. We remain confident in our ability to meet our commitments and deliver the results we have indicated consistent with our performance over the last seven years of our company's history.

At this time, I'll turn the call over to Cameron to provide an update on our financial results and outlook.

Cameron Bready: Thanks Joe and good morning.

Turning our attention to our financial performance in the first quarter of 2010, ITC reported net income of $34.2 million or 67 cents per diluted share. This compares with net income of $28.7 million or 57 cents per diluted share in the first quarter of 2009, and represents a year every year increase in earnings per share of nearly 18 percent.

The key drivers that contributed to the increases in net income and earnings per share in the first quarter results, compared to the corresponding period in 2009 include: an increase in net income for the quarter due to higher rate base and AFUDC at all our operating companies. Net income was also higher in the quarter due to lower non-recoverable expenses compared to the first quarter of last year. These increases in net income for the first quarter were partially offset by higher interest expense associated with our recently completed, long-term financing for ITC Holdings.

As Joe mentioned, we remain on track in this first year of our five-year capital plan to deliver on the commitments that we have made. For the three months ended March 31, 2010, ITC invested $99.5 million in capital projects at its operating companies, including $14.2 million; $31.2 million; $52.5 million; and $1.6 million at ITC Transmission; METC; ITC Midwest; and ITC Great Plains, respectively.

As a result of the progress we have made during the first quarter of 2010, we are again reaffirming our 2010 capital expenditure and diluted earnings per share guidance. 2010 capital expenditures for ITC Transmission, METC, ITC Midwest, and ITC Great Plains are still expected to be approximately $50 to $60 million; $140 to $155 million; $205 to $225 million; and $10 to $20 million, respectively. Our consolidated capital expenditure guidance is therefore $405 to $460 million. We are also, today, reaffirming our 2010 diluted earnings per share guidance in the range of $2.60 to $2.70.

As we have mentioned on previous calls, the economic environment over the last 18 months has been challenging, especially in Michigan. However, we have performed exceedingly well during these times, largely due to our resilient business model and our proactive efforts to address the impact of reduced load. Importantly, our regulatory construct also requires us to reset transmission rates each year, which allows for the timely recognition of the implications of the current economic environment in rates. This aspect of our rate-making model is an important differentiating factor and a key component of our value proposition.

We believe that the economic environment in the area served by our operating companies has largely stabilized and, through March, actual weather normalized loads at each of ITC Transmission, METC, and ITC Midwest are tracking very closely to the projections that underlie our transmission rates for 2010. Consequently, we are not currently anticipating the need to again mitigate the risk of a significant true-up resulting from deteriorating economic conditions. However, we continue to monitor the economic environment and load trends very closely as we remain committed to being good stewards of our rate-making model and want to insure that we continue to deliver quality earnings.

I would like now to turn to our 2010 financing requirements and liquidity position, which was further enhanced at the end of 2009, with the successful long-term financings we completed at ITC Holdings and for ITC Midwest. With the close of these two financings, which I would add were well-received in the financial markets, we have largely completed our financing calendar for 2010. We have one remaining long-term financing to execute this year for METC and expect to do so during the second quarter.

As for our current liquidity position at March 31st, we had $67.1 million of cash-on-hand and $222.6 million of net undrawn revolver capacity bringing our total liquidity position to approximately $289.7 million.

Our revolving credit facilities have a total consolidated capacity of $340 million. Of this total, as of March 31st, we had undrawn capacity of $277.6 million, $55 million dollars of which is held by Lehman Brothers Bank. We do not expect any future draws on the outstanding Lehman commitment, which reduces our undrawn capacity down to $222.6 million.

We continue to believe that we are well capitalized and add the appropriate access to capital in order to effectively fund our capital investment plans for the remainder of 2010 and the balance of our five-year forecast.

I am also pleased to report that the credit profile of the business remains quite strong, which was further evidenced on April 16th when Moody's Investors Service upgraded all of our credit ratings. Moody's upgraded ITC Holding Corp., senior unsecured rating to Baa2 from Baa3. In our three operating subsidiaries secured ratings to A1 from A2. In its press release, Moody's noted the improvements in the cash flow credit metrics of ITC and its subsidiaries, which it believes will be sustainable going forward due to our Attachment O regulatory treatment. Moody's also acknowledged that our results in 2009 reflected proactive steps taken by management to reduce expenses and minimize revenue deferrals in light of significantly reduced load, which helped to improve our credit metrics.

Lastly, I would like to address our capital expenditure plans as a result of some of the recent events discussed by Joe regarding the Michigan wind zones and the V-Plan project in Kansas.

Given the recent developments surrounding the Michigan wind zone investment opportunity, in particular the support for and our advancement of the 345 kV transmission solution, we see potential upside to our five-year plan relative to what we disclosed last September should the 345 kV plan be approved by MISO. As Joe mentioned, the recommended 345 kV transmission plan has a preliminary cost estimate of $510 million.

Based on this, if the project is approved as recommended, the potential upside to our previously disclosed five-year plan could be approximately $225 to $275 million, depending on the timing of the build-out.

In addition, as we have previously noted, our five-year plan assumes that the Kansas V-Plan project will be constructed at 765 kV at an expected cost of slightly more than $400 million. As a result of the recent events surrounding this project, including it being approved by the SPP board as a priority project at the double-circuit 345 kV configuration, there is a possibility that we will not build this project at 765 kV as originally proposed. Should we ultimately construct the project at double-circuit 345 kV, our preliminary cost estimate for this configuration is approximately $300 million. As Joe noted, SPP plans to continue to study the appropriateness of 765 for the V-Plan project, but the results of this work are not expected until early next year.

The total capital expenditures on our original five-year plan for the ITC Great Plains development projects, including Hugo to Valliant, the KETA project, and the Kansas V-Plan, were approximately $640 million. Should we ultimately construct the V-Plan project at 345 kV and after taking into consideration some other small expected cost adjustments for the KETA and Hugo to Valliant projects, we would expect aggregate ITC Great Plains capital expenditures to be approximately $100 million lower, or approximately $540 million.

If we are successful in advancing the Michigan wind zone backbone transmission project at 345 kV, and if the V-Plan project is also ultimately constructed at 345 kV, rather than 765 kV, the net increase to our five-year capital investment plan is expected to be approximately $125 to $175 million.

We will continue to regularly update you on the status of the approvals for these projects and the resulting implications to our capital plans. In the interim, as Joe discussed, we remain keenly focused on delivering on our five-year, $3 billion capital plan and delivering the value premised in it.

With that, I'd like to turn the call over to answer questions from the investment community. Operator?

Operator: Thank you. Ladies and gentlemen, if you have a question or a comment, please press star and then one on your touch-tone telephone. If your question has been answered and you wish to be removed from the queue, please press the pound key. Once again, if you have a question or a comment, please press star and then one on your touch-tone telephone.

One moment for our first question.

Our first question comes from Dan Eggers.

Kevin Cole: Good morning, this is actually Kevin Cole. I just had a quick question on Michigan. Given the MISO approval looks very achievable and the six-month siting window, when will you start begin to procure the materials needed?

Joe Welch: Actually, we'll be able to have everything ready to go for construction, as we discussed in previous calls, actually quite awhile back, ITC developed what we call strategic alliances with our suppliers and we actually have queue space already in place for any of our projects out there. We don't have to identify the queue space until we get ready for production time, but we are able to compress our lead time very significantly by having those strategic alliances and so this will be one of these cases where – for the Michigan wind zone or even the V-Plan project – once we get the go ahead, we'll be able to move and keep our construction schedule right on line and meet all the commitments that we've given in our forecast.

Cameron Bready: And, Kevin, I would just add – this is Cameron – if, ultimately, that MISO approves the project at its August board meeting, as we have requested, we would move from there to begin the siting process back here in Michigan. That's probably, as statutorily required, at a 180-day period, so that pushes into Q1 of 2011, frankly, at the earliest. So, you're looking at kind of later in 2011 before we'd even be in a position to start advancing that given that we need to get siting approval and then begin to acquire right away, and what not, for the project. So those things will begin to move in parallel as we get in to the 2011 timeframe and siting approval looks imminent.

Kevin Cole: OK, so should I think about of the dollars being spent at roughly 10 percent in the back half of '11 and then the remaining split off between '12 and '13?

Cameron Bready: I think 10 percent might be a little light in the back half of '11. It could be a little more than that, but I think the vast majority of the spend would be in that '12, '13 and then even carrying over into the '14 timeframe.

Kevin Cole: OK. The other thing about the upside offered through interconnections, so I would assume that the system pays for interconnections versus the actual builder of the wind turbines?

Joe Welch: Yes.

Kevin Cole: OK. And then with the V-Plan, I guess I can assume a similar six-month order lead time, so if you get final approval for 765 in the first of next year or if you decide to go ahead with the 345, should I assume another six-month window before spending can happen?

Cameron Bready: I think the siting in Kansas is less sort of specified than what we have for the Michigan wind zone project here in Michigan. So, we have been successful in moving through the siting process in Kansas fairly quickly with the first phase of the KETA project and, as we mentioned, we're expecting siting approval for the second phase of the KETA project this summer. It could be a little quicker than six months, but I'm not aware of any sort of statutory requirement that they have to act in any period of time, so I think six months is probably a reasonable estimate for it.

Kevin Cole: Six months for real dollars being spent right now for the purchasing process to begin?

Cameron Bready: Yes.

Kevin Cole: Correct, OK.

Cameron Bready: And, as you know, as far as real dollars begins with acquiring right away and things of that nature, so it takes a little while for the spend to ramp.

Kevin Cole: OK. So can we expect a full comprehensive review of the CapEx by year at the September analyst day?

Cameron Bready: I think that's a good expectation.

Kevin Cole: OK. Thank you. Have a good day.

Cameron Bready: Thank you.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press star and then one on your touch-tone telephone.

Our next question comes from Neil Kalton of Wells Fargo.

Neil Kalton: Just as a follow-on to Michigan. It sounds like the backbone will be substantially completed with these wind projects during the five-year outlook. How should we think about the potential timing of the wind hook-up? Do you need the backbone to be completed before these start to kind of roll in? Or could we see some capital flow in conjunction, in parallel, with the backbone build?

Joe Welch: You'll see capital flow on that in parallel with the backbone being built. We will, obviously, do our level best to facilitate everybody that wants to build. The whole purpose of the legislation was to encourage transmission – excuse me – to encourage wind being built in Michigan, and a lot of developers, now that the transmission plan has been laid out, have stated that they're ready to start. So we will do everything we can to accommodate them.

Neil Kalton: And then I have a second question – a bit open-ended, I guess. Yesterday, these smart groups, I guess, published an initial study of a transmission high voltage network in the upper Midwest. They took great pains to say that it wasn't in competition with any other projects, but clearly, I would imagine, there is some overlap with what you propose with the Green Power Express. They, I think, hope to propose this to MISO at some point in the future. How do you see – I wonder if you've seen the study or have any comments on this? And how does this affect us at all what you're doing with the Green Power Express?

Joe Welch: I haven't seen the study and, candidly, it's great that they've done it. RGOS did it at MISO and everyone continues to look at that. Long story short, things have got to be built up there and we're a major player. And when it comes time to build, we'll be ready to go.

Neil Kalton: Thank you.

Operator: Thank you. Ladies and gentlemen, if you have a question or a comment, please press star and then one on your touch-tone telephone. Once again, if you have a question or a comment, please press star and then one on your touch-tone telephone.

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I'm showing no further questions at this time.

Pat Wenzel: This concludes the question and answer portion of our call. Before I end the call, I'd like to thank everyone who participated today. Anyone wishing to hear the conference call replay available through May 13, 2010, should dial toll-free 800-642-1687 or 706-645-9291. The pass-code is 67791836. The web cast of this event will also be archived on the ITC website at http://investor.itc-holdings.com

Good-bye and have a great day.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may all disconnect.

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