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11 a.m. ET

Operator

Good day, ladies and gentlemen, and welcome to your ITC Holdings Corp. Second Quarter Conference Call and Webcast. 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 call, please press star than zero on your touchtone telephone. And as a reminder, this conference is being recorded.

I would now like to introduce Ms. Gretchen Holloway. You may begin.

Gretchen Holloway – ITC Holdings Corp. - Director, Investor Relations

Good morning everyone, and thank you for joining us for ITC's 2011 second quarter earnings conference call. Joining me on today's call are Joseph Welch, chairman, president and CEO of ITC, and Cameron Bready our executive vice president, treasurer and CFO.

Last night we issued a press release summarizing our results for the second quarter and for the six months ended June 30, 2011. We expect to file our Form 10-Q with the Securities and Exchange Commission today. Before we begin, I would like to remind everyone of the cautionary language contained in the Safe Harbor statement, which can also be referenced on slide two for those of you participating on the webcast.

Certain statements made during today's call that are not historical facts, such as those regarding our future plans, objectives and expected performance, are considered forward-looking statements under federal securities laws. While we believe these statements are reasonable, they are subject to various risks and uncertainties and actual results may differ materially from our projections and expectations. These risks and uncertainties are discussed in our reports filed with the SEC, such as our periodic reports on Forms 10-Q and 10-K and our

other SEC filings. You should consider these risk factors when evaluating our forward-looking statements. Our forward-looking statements represent our outlook only as of today and we disclaim any obligation to update these statements, except as may be required by law.

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

Joseph Welch - ITC Holdings Corp. - Chairman, President and CEO

Thanks Gretchen and good morning everyone. As we reflect on our results for the first half of 2011, we are obviously very pleased with our strong operational and financial performance. We have made very good progress on our 2011 operating plans during the first half of the year and are very much on track to meet our goals and objectives for the full year. While these results help to substantiate our consistent ability to successfully deliver on our commitments, I think they are especially important in 2011, as we begin to significantly expand our capital program and execute on our five-year plan.

A core component of our strategy and five-year plan is achieving and maintaining best-in-class operations for all of our operating subsidiaries. Similar to prior years, ITC once again participated in the 2011 SGS Benchmarking Study in order to provide tangible data to evaluate our effectiveness in achieving our operational goals. I am pleased to report that both *ITC Transmission* and METC ranked within the top decile in the study with respect to sustained outages, continuing to validate the performance improvements that have resulted from our capital investment and maintenance plans. In addition, these improvements served as critical factors in delivering reliable service during the recent heat wave experienced both within Michigan and the Midwest region. During the week of July 18th, when we experienced either all-time peak or near all-time peak loads, our systems operated within normal thermal and voltage limits and had 100% availability over the peak hours, and, consequently, we experienced no issues or disruptions to any customers. While these peak loads are important in demonstrating the operational strengths of our systems and the benefit of our investments, they also suggest a more promising outlook for the state of Michigan and the underlying recovery of the market.

For ITC Midwest, which ranked within the fourth quartile based on sustained outages in the most recent survey, the results continue to highlight some of the challenges associated with this system. Many of the challenges we face with this system reflect operational difficulties inherent in managing a geographically dispersed system with aged infrastructure located in an area of the country that often experiences extreme weather conditions. A prime example of the magnitude of these challenges was the recent storm damage experienced on the ITC Midwest system. On July 11th, severe storms moved across Iowa bringing winds of more than 100 miles per hour and causing significant damages to ITC Midwest's system. The storm damage resulted in over 30 transmission lines being taken out of service, the loss of service to over 60 substations, and the need to replace approximately 300 downed structures. While the damage certainly tested the ITC Midwest system, we were able to mobilize quickly and make necessary repairs. More than 200 contractors were immediately deployed to begin restoring priority lines and substations and significant coordination efforts were undertaken to ensure that all available personnel were efficiently working on repair efforts. I am very proud to report that within 72 hours, ITC Midwest restored transmission service to all customer substations that could take service, pending repairs of their distribution systems. Once these repairs were made, our crews turned to restoring back-up feeds to the substations, which are critical in serving the returning load. Ongoing clean-up and repairs will continue in the weeks ahead to return the system to ITC's standards of reliability. Our timely and effective storm restoration efforts, once again, serve as a very important indicator of the value that ITC Midwest brings to the area and its customers. This event, coupled with others such as the flood of 2008, continue to provide real time evidence around the difficulties in upgrading this system. We are now a little over three years into our ownership of the ITC Midwest system, and, although substantial improvements have been made, it is clear that we still have much to do to achieve our performance targets for this system.

While we remain focused on our operational and fiscal performance, ITC has also continued in its leadership role in shaping the policy reforms that we view as critical to addressing certain of the key impediments to advancing transmission expansion in the United States. As we have been noting for some time now, the landscape for transmission investment in the U.S., in particular for more regional transmission infrastructure expansion, remains very supportive and

continues to evolve positively. On July 21st, we witnessed a pivotal development in this progression when FERC issued Order 1000, its final rule on key transmission policy reforms. Given the length and complexity of the Order, we are still in the process of reviewing and assessing all the various details. However, there are certain broad policy objectives outlined in the Order that I would like to highlight today which generally address three fundamental elements in the process of advancing transmission, planning, cost allocation and Federal rights of first refusal, or ROFR.

With regards to transmission planning, Order 1000 is largely a continuation of FERC's primary objectives under Order 890, which include developing a robust, regional transmission planning process to meet open access requirements. There are two principal enhancements which we see resulting from the Order. The first enhancement is the establishment of a framework for planning inter-regional projects that are not easily accommodated under the current region-by-region planning processes. Second, the FERC broadens the criteria for establishing need for transmission investment by requiring regional planning processes to consider state and federal policy mandates, such as renewable portfolio standards, in the regional planning process. Under the order, Regions must now engage in stakeholder processes to determine how policy mandates will be incorporated into their existing transmission planning process, much like MISO has sought to do in its multi-value project or MVP planning process. This is a fundamental change to current planning processes that traditionally recognized only three types of projects for planning purposes which are reliability, economic and generation interconnection projects. Once implemented, we expect these enhancements to close gaps in existing regional and inter-regional planning processes, thereby facilitating the identification and development of needed transmission system improvements addressing public policy drivers going forward.

FERC's Order also addresses transmission cost allocation principals, which have long served as significant impediments to regional transmission development. While not prescribing any single cost allocation methodology, Order 1000 provides much needed guidance to all regions as to what constitutes a reasonable cost allocation approach. Within the Order, the FERC reaffirms its support for policies that reflect a cost causation philosophy; namely those who

benefit from system enhancements should also pay for a fair share of the costs associated with these facilities. Further, the Order rejects the notion that the broad and varied benefits provided by regional transmission can be discreetly measured and instead allows regions to continue the long held practice of using system flows to estimate future benefits to system users over time. Finally, the FERC asserts the definition of beneficiaries to be far reaching and accordingly prohibits non-voluntary assignment of 100% of transmission costs to interconnecting generators, a methodology known as participant funding, as an acceptable regional allocation methodology. However, in order to provide maximum flexibility, the Order allows transmission developers to opt to use participant funding for individual projects if desired.

ITC has long supported the policies enumerated by the FERC in Order 1000 around cost allocation and we anticipate that these policies will serve to promote regional transmission projects by providing for appropriate broad based, regional cost allocation. While it is inevitable that the debate and rhetoric will continue as to who pays for needed facilities, including a push for legislation by those who oppose regional transmission expansion, the FERC has made its position on the issue clear and has established a strong and comprehensive record supporting its policies. We believe that Order 1000 fully addresses the issues that have been raised by antagonists seeking to impede progress on transmission reform, including ensuring that the allocation of costs for transmission upgrades are appropriately aligned with benefits and allowing regional variances and not providing for a single, federally-mandated cost allocation methodology across the nation. Order 1000 was crafted to address the cost allocation issues that rose out of the well-known 7th circuit court decision that remanded back to FERC its approved cost allocation formula and, we believe, will serve to nullify any real or perceived need for the legislation.

While the FERC's Order provides the needed guidance around cost allocation principles, both MISO and SPP have already implemented their own regional cost allocation methodologies, which are broadly consistent with the policies outlined in Order 1000. Specifically, the policies adopted by MISO and SPP call for the costs for the regional, high voltage transmission facilities that provide multiple, broad-based benefits to be spread across that region, while more

localized reliability upgrades are directly assigned to local rate zones. While each of the approaches has its own nuances, the overall policies align with the new Order. Of course, these regions will be required to file compliance plans through which the FERC can document this consistency. The fact that some RTO regions have acted on the difficult task of regional cost allocation before the FERC Order suggests substantial support for the policies outlined in Order 1000 as well as the recognition of the need for transmission expansion in general.

The last major component of the FERC Order is the requirement to modify existing FERC ROFR provisions currently within wholesale tariffs. In its Order, the FERC calls for the elimination of Federal ROFRs from wholesale tariffs for projects identified in regional plans for purposes of cost allocation. Certain reliability projects, which have no regional cost allocation component, and upgrades to existing facilities will continue to have a Federal ROFR. In the near-term, it is not clear that this will result in any real practical changes, given the number of process hurdles that exist at both at the state and federal level around such items as siting, permitting, and compliance with NERC standards. Longer-term though, as these processes evolve, we may reach a point where there are some shifts in the traditional allocation of rights to transmission projects. However, as this plays out, we would also expect incremental opportunities for ITC as we continue to pursue new transmission development opportunities. Overall, we will be actively engaged in the various federal and state processes addressing the ROFR changes, both near-term and long-term, with a key objective of supporting rational policies that ensure a smooth transition with minimal disruption to the regulatory process required for transmission projects to move forward.

From our perspective, unlike transmission planning and cost allocation, we do not believe that the existence of a ROFR in and of itself has been a major impediment to the development of transmission infrastructure in this country. ITC has long supported the concept of a time-limited right-of-first refusal, which we believe recognizes the important and complex role that the incumbent utility has with respect to planning, maintaining and operating the system and the onerous rules that exist around the operation of the system. The absence of a ROFR introduces a host of issues around responsibilities that have previously been shouldered by incumbent utilities, including coordination of operations, consistency and compatibility of

equipment, implementation of maintenance plans, emergency restoration efforts, planning efforts with the RTO, etc. That being said, the FERC has signaled its views on this issue for some time now, most notably with the NOPR last summer, and has continued to support its position over time. As such, we have anticipated these directional changes to the ROFR construct and are poised to continue to execute on our strategy in this environment. We remain confident that our unique position within the industry resulting from our transmission-only business model, existing strategic footprints coupled with their best-in-class operations, and active development business will serve us well moving forward.

As we have highlighted in the past, ITC has long been an advocate of the planning and cost allocation policy reforms that the FERC has advanced, and as a result, we are very pleased with the final Order issued by FERC and believe that this is another fundamental building block in key policies needed for promoting transmission infrastructure investment across the nation. Under the Order, both RTO and non-RTO regions, working with the impacted stakeholders, must come into compliance with the FERC's Order, which becomes effective in 60 days. Compliance requirements associated with regional planning processes and cost allocation must be filed within 12 months of enactment and compliance plans for inter-regional processes are due 18 months following enactment.

In addition to the issuance of the FERC Order 1000, in May of this year, the FERC also issued a Notice of Inquiry, or NOI, around Promoting Transmission Investment Through Pricing Reform, effectively seeking comments on the scope and the implementation of its transmission incentive regulations and policies under Order 679. Before I will provide some specific thoughts on the NOI on transmission incentives, I would like to first speak more generally about NOIs, which I expect are a relatively new concept for many.

An NOI is an informal solicitation for opinions on a certain policy or issue, in an attempt to establish or enhance a record. After comments are submitted on the NOI, the FERC may hold technical conferences, solicit testimony from various parties and possibly issue the Notice of Proposed Rulemaking in an effort to obtain additional comments on a specific proposal or policy modification addressing certain issues raised through the NOI process. However, there is

no established process for what happens after the close of an NOI comment period. With respect to the NOI on incentives for transmission investment specifically, we believe that this is a reflection of the natural evolution of the policy making and the ongoing desire to evaluate the effectiveness of incentive policies currently in place. We largely view this process as an evaluation by the FERC as to whether or not the incentive structure established five years ago under Order 679 is encouraging transmission infrastructure investments as intended. In issuing the NOI, the FERC also emphasized that any potential policy changes would be commenced on a prospective basis, providing regulatory certainty and signaling a desire by the FERC not to have this proceeding be disruptive to the current investment environment. I would also note that through the NOI, the FERC was careful to highlight the fact that through the Energy Policy Act of 2005, which created section 219 to the Federal Power Act, Congress mandated the FERC to provide incentive rates to encourage the development of transmission infrastructure, particularly to reduce the congestion or deploy advanced technologies. To date, the FERC has met this mandate through Order 679.

Our view is that the current incentive policies are still in their infancy and, while we have witnessed a good number of applications for incentives for new transmission projects, we are still very early in the process with respect to the ultimate build-out and construction of significant transmission infrastructure. Further, we continue to witness the risks and challenges that large-scale transmission projects face, most recently demonstrated by the ongoing delays and ultimate suspension of the PATH project, which provide a good reminder of why transmission incentives are an important element in the FERC's overall transmission policy framework. As I previously discussed, there really is no defined path for a next step to this process beyond the submission of comments, if there is in fact a next step at all. While we fully expect that policies will continue to evolve and adapt to the current environment, it would clearly be contradictory for the FERC to try to significantly promote transmission investment through the recent critical policy reforms and then significantly modify or remove the incentives targeted at promoting this investment.

At the end of the day, we do not anticipate material implications to the ITC business model and, in some ways, we view this as a good opportunity to highlight and reaffirm the benefits of our

independent, transmission-only model, which has served as good examples of the tangible benefits to transmission infrastructure investment, ranging from best-in-class operations to reliability and congestion improvements to the development of competitive power markets.

In closing, the past 12 to 18 months have really served as a turning point in the advancement and evolution of transmission policy reform, which is paramount in order for significant investments in transmission infrastructure to occur. And while challenges still remain, the FERC has and continues to make its position clear on what needs to take place in order for our country to establish a 21st century grid in order to meet our nation's energy goals. As we look to the landscape ahead, we believe now, more than ever, that significant investment in transmission can begin to move forward and that ITC has strongly positioned itself as a leader in those efforts through the execution of our long-term strategy.

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

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Thanks Joe and good morning everyone. For the second quarter of 2011, ITC reported net income of \$43.0 million or \$.83 cents per diluted share. This compares with net income of \$36.3 million or \$0.71 cents per diluted share, for the second quarter of 2010. Net income for the six months ended June 30, 2011 was \$85.0 million or \$1.64 per diluted share, compared to \$70.5 million or \$1.38 per diluted share for the same period last year. The primary drivers contributing to this increase in net income include:

- Higher rate base and AFUDC at all of our operating companies resulting from our capital investments for the quarter and year-to-date period,
- A slightly lower effective tax rate for the quarter and year-to-date period, and
- A \$1.3 million increase in net income for the year-to-date period associated with the recognition of a regulatory asset for development and pre-construction activities for to the Kansas V-Plan project.

- These increases were partially offset in the quarter by slightly lower revenues associated with the ITC*Transmission* rate freeze revenue deferral which was fully amortized in May 2011. The rate freeze deferral, which stems from the 2003 and 2004 periods was amortized for ratemaking on a straight-line basis for five years from June 2006 through May 2011 and was included in ITC*Transmission*'s revenue requirement for those periods. Given that the amortization of this deferral was completed in May 2011, there will be a \$6.9 million reduction in revenues and approximately \$4.3 million reduction in earnings for the remainder of 2011 as compared to 2010. This expectation has been and remains fully reflected in our earnings guidance for the year.

As Joe noted, we are very pleased with our overall financial results for the first half of the year. This strong performance for both the quarter and year-to-date period continues to be driven by our ongoing success in executing on our capital investment plans. For the six months ended June 30, 2011, ITC invested \$271.6 million in capital projects at its operating companies, including \$36.5 million, \$66.0 million, \$133.8 million and \$35.3 million at ITC*Transmission*, METC, ITC Midwest and ITC Great Plains, respectively.

As a result of our year-to-date performance and continued progress with our capital investment plans, we are well positioned with respect to our financial commitments for the year. Consequently, we are today raising our earnings guidance per share from a range of \$3.20 to \$3.30 per diluted share to a range of \$3.25 to \$3.35 per diluted share. We are also modifying our 2011 capital guidance from the range of \$560 to \$640 million to the range of \$600 to \$645 million. This modified range is premised on capital investments at ITC*Transmission*, METC, ITC Midwest and ITC Great Plains of approximately \$70 to \$80 million, \$155 to \$165 million, \$255 to \$270 million, and \$120 to \$130 million, respectively. Our new capital guidance reflects a slight increase in expectations for ITC*Transmission* and ITC Midwest. For ITC*Transmission*, the increase is largely due to timing of certain reliability investments and information technology capital spend. For ITC Midwest, the updates are primarily driven by an acceleration of certain reliability and rebuild projects, and increases associated with the storm restoration activities Joe previously discussed, partially offset by lower capital investment for the Salem to Hazelton

project in 2011. As we discussed last quarter, we were slightly behind schedule in moving forward with the Salem to Hazelton line due to a short delay in receiving our siting certificate relative to expectations coming into the year. We did obtain this siting certificate on April 22nd and have initiated our pre-construction activities. Consequently, some of the investment we expected to make in 2011 associated with this project will be deferred into 2012. These overall increases in capital guidance were partially offset by lower expected capital investment for ITC Great Plains for 2011, primarily due to the cost savings achieved on the first segments of the KETA project. As a result of these realized cost savings, we have modestly lowered the top end of our guidance range for ITC Great Plains.

I will now turn to our overall capitalization requirements and liquidity position, starting with our financing needs. After establishing new revolving credit facilities in the first quarter of 2011 at ITC Great Plains and ITC Midwest with capacities of \$150 million and \$75 million, respectively, we successfully undertook a process in the second quarter to renew and resize our existing revolving credit facilities for ITC Holdings, *ITC Transmission* and METC. In late May, we successfully established new five year revolving credit facilities at ITC Holdings in the amount of \$200 million and at *ITC Transmission* and METC in the amount of \$100 million each. Including these new facilities, we now have an aggregate \$666.0 million of revolving credit facility capacity to support ongoing capital investment plans and the liquidity needs of the business. Our liquidity position continues to be strong and has been significantly bolstered by the new revolving credit facilities established and strong operating cash flows which are partially attributable to realized loads in excess of our forecasts in the first half of the year. As of June 30, 2011, we had \$81.2 million of cash on hand and \$544.0 million of net undrawn revolver capacity bringing our total liquidity position to approximately \$625.2 million.

In addition to addressing our near-term financing needs, we have also continued to actively mitigate interest rate exposure associated with our expected future re-financing of the ITC Holdings \$267 million 5.25% senior notes which are due in July 2013. In May of this year, we once again locked in a portion of the interest rate exposure associated with the re-financing of these notes by entering into an additional forward starting interest rate swap with a notional amount of \$25 million. This swap effectively locks in the underlying treasury rate for the

expected new issuance of the senior notes at 4.20%. As a result, we have now established forward starting interest rate swaps with an aggregate notional amount of \$125 million at an average underlying treasury rate of approximately 4.0%. We continue to believe that these forward starting interest rate swaps are the best available option for us to opportunistically take advantage of the current attractive interest rate environment. As previously discussed, all of these interest rate swaps qualify for hedge accounting treatment and as such, any gains or losses on the effective portion of the swaps will be recorded to accumulated other comprehensive income between the trade date and the effective date of the swaps and will not impact net income.

Lastly, just yesterday, we entered into a new Sales Agency Financing Agreement, which allows the company to issue and sell shares of our common stock from time to time, up to aggregate sales proceeds of \$250 million. The term of this new agreement is up to three years. This new Sales Agency Financing Agreement replaces a similar arrangement that we established in 2008 and expired in June of this year. The Sales Agency Financing Agreement program provides a flexible, cost effective tool by which the company could issue relatively small amounts of equity if deemed necessary to support our growth initiatives. However, we do not currently anticipate the need to issue any new equity to capitalize our current five- year plan as we continue to expect to be able to do so from internally generated cash and debt.

Lastly, I will turn to the overall status of our five-year plan, which supports our long-term compound annual growth expectation for earnings per share in the range of 15 – 17%. We continue to make very good progress against our plan and remain confident that we are well positioned to execute on it. Included within this plan are certain key capital projects which I will update you on now. As we previously discussed, earlier this year, ITC *Transmission* received siting approval from the Michigan Public Service Commission for the Michigan Thumb Loop project, which represents approximately half of our total investment opportunity for generator interconnections outlined in our five-year plan. The project remains on track as we advance our pre-construction activities, including rights-of-way acquisitions. Our expectation is that material capital investment associated with this project will begin in 2012. Further, we continue to see significant progress with our advanced development projects at ITC Great

Plains, including Hugo to Valliant, KETA and the Kansas V-Plan. These projects represent approximately \$517 million of investment opportunity from 2011 to 2015 and all three remain on track to meet targeted in-service dates.

- Right-of-way acquisition is now complete for Hugo to Valliant and construction activities are underway. We officially broke ground on this project on June 21st.
- As for the KETA project, we have completed all of the right-of-way acquisitions for Phase 1 and continue with construction of this phase of the project. We have also obtained nearly all of the rights-of-way required for Phase 2 and are now conducting pre-construction activities for these segments.
- Lastly, in mid-July, ITC Great Plains received siting approval for the Kansas V-Plan project. With this approval we will begin pre-construction activities for the project in the latter half of the year and expect these activities to continue into 2012. The Kansas Corporation Commission's timely approval of this project reflects the efficient processes they have in place to address siting requirements by effectively balancing landowner interests with the need to advance critical transmission projects.

We expect to provide a comprehensive update of our strategy and resulting long-term plans at our annual investor day this fall. This will include a more fulsome discussion of the status of our development initiatives and a refreshed view of our development pipeline. Details regarding this event will be forthcoming.

As Joe discussed, our strong financial performance in 2011 continues our consistent track record of delivering on the commitments that we have made to our customers and shareholders, and reflects favorably on our ability to execute on our five-year plan. We are very pleased with how our entire organization has responded to the challenges inherent in our plan, including now managing significant capital investment programs in five states. As we progress through 2011, we will remain focused on executing against the goals and objectives we have established for ourselves, while also positioning the company for sustained long-term growth.

At this time I'd like to open the call to answer questions from the investment community.

Operator

Thank you, ladies and gentlemen if you do have a question please press star then one on your touchtone telephone. If your question has been answered and you wish to remove yourself from the queue you may press the pound key. Our first question comes from Daniel Eggers from Credit Suisse.

Daniel Eggers – Credit Suisse

Hi. Good morning, guys. Just to make sure -- thanks for all the color on the kind of the FERC activity, but just to make sure that we got the punch line right. Your view of 1000 is effectively it's not going to change the planning or the cost allocation designs that MISO and SPP have so far laid out independent of a comprehensive order?

Joseph Welch - ITC Holdings Corp. - Chairman, President and CEO

I don't think it will, Dan. I think that the processes in both of those RTOs was, it took a long time to get to where they're at. They've gotten everybody on board and it seems to me that Order 1000 really comes around and supports it. I do think that there might be some minor tune-ups around the edges, but nothing significant.

Daniel Eggers – Credit Suisse

Okay. Question number two, are you guys starting to have or have you engaged in conversations with some of the regional generation distribution utilities as far as EPA compliance plans and maybe work or planning work that you guys need to do to help facilitate plant closures and upgrades to keep system reliability up?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Dan, this is Cameron. Certainly, we are assessing the markets in which we're operating to try to identify where we think the implications will result from the implementation of these new rules

and regulations going forward. I think specifically Order 1000, part of what it tries to address, is ensuring that an environment exists where policy-driven transmission investments such as that which might be required to address plant closures resulting from implementation of new EPA rules has the opportunity to advance through a regional planning process.

So I think it's safe to say at this stage we are certainly assessing the landscape that we think will materialize going forward and starting to have a dialog with various owners of generation assets to understand what plans may be, so that we begin to put forth and start to crystallize our transmission thinking around investments that will be necessary to support a stable grid and a reliable grid going forward to the extent that you see material changes in the generating fleet resulting from the implementation of these rules.

Daniel Eggers – Credit Suisse

When do you guys think you're going to have a better handle on kind of what the investment opportunity would be and I guess also along those lines, is that incremental spend in your mind or is that kind of shift, the timing of other spending in the sense that you've tended to keep CapEx to the self-generated equity investment or is this something you would look to issue equity if the growth opportunity was there?

Joseph Welch - ITC Holdings Corp. - Chairman, President and CEO

I think there's still and you're certainly -- you have a good view of this yourself. There's still a lot of uncertainty as to exactly how these rules will get implemented and when they will get implemented and certainly what the implications will be long term. So it's difficult to say specifically that we see ourselves being in a position to give real discrete capital investment guidance with respect to this unique opportunity anytime in the very near future. I think the way we think about it is it's largely incremental to the plans that we already have established, certainly our five-year plan, because we didn't really premise or we didn't really contemplate any of this capital investment opportunity when we established that plan last year.

To your comment around how we fund that plan, I would certainly not want to leave you with the impression that our goal was to go out and establish a plan that we thought we could

capitalize with internally generated cash flow only. What we did was frankly the opposite. We established a plan that we thought was realistic, achievable and was based on the opportunities that we saw available for us, and it's so happened that we can capitalize that plan without the need to issue equity. I think our view is for the right investment opportunities, we would go out and seek to raise equity if we needed to capitalize opportunities above and beyond what's currently contemplated in the five-year plan.

We strongly believe that the returns we can achieve by investing in those projects are far superior to our cost of capital and believe that that would be an appropriate thing to do. So we certainly plan based on the opportunities we see available to us and then we find the most efficient and effective way to capitalize that accordingly. And if that involves issuing equity longer-term we will. We just currently don't envision the need to do so.

Daniel Eggers – Credit Suisse

Got it. Great. Thank you, guys.

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Thanks, Dan.

Operator

Thank you, our next question comes from Jonathan Arnold from Deutsche Bank.

Jonathan Arnold – Deutsche Bank

Hi, good morning.

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Good morning, Jonathan.

Jonathan Arnold – Deutsche Bank

My question has to do with the CapEx shift. Thank you for the color, Cameron, on the different things that contributed to that. It sounded like there was a good amount of acceleration of reliability, but then offset by this deferral of the Salem-Hazelton, some of the spend from '11 into '12. Was this reliability spend sort of would have been done over a number of years and can you give us any sort of sense of what the changes you've just seen for '11 sort of do net to your '12 outlook, for example? Is it higher or same, lower?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

I think '12 isn't going to change materially, Jonathan, for a couple reasons, one is the Salem-Hazelton is getting deferred into '12.

Jonathan Arnold – Deutsche Bank

Yep.

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

And candidly and I think Joe touched on this in his comments more qualitatively, the needs of that system continue to be significant. And the opportunities that we find to invest capital to improve reliability, be it from storm damage or just the ongoing activities that we have in just operating the system and the needs that we identify through that, continue to be relatively daunting from an investment perspective.

So I don't certainly think that accelerating some of the reliability spend into 2011 will have a resulting negative impact of the longer-term plan, because I think as we look forward in time it relates to ITC Midwest in particular there remains a significant amount of investment required to improve the reliability of that system, commensurate with our overall operational objectives.

Jonathan Arnold – Deutsche Bank

Are you talking about things that might have been in the pipeline when you talked to us last fall that it potentially dropping into the -- we need to do this bucket or is it new opportunities you're discovering as you work more on the system?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

I think it's a combination of things. It's new capital investment required as a result of storm damage, it's new reliability investment that we have found as a result of continuing to operate the system and it's acceleration of some things that were further out in the plan. Net-net, as I said, I don't think it has a material impact long-term to the plan for ITC Midwest.

Jonathan Arnold – Deutsche Bank

Okay, and if I could, one just more small thing, non-recoverable expenses in the second quarter and the first half, could you give us a sense of where those are tracking?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

I don't have the quarter number in front of me. For the first half, it's in the neighborhood of sort of \$9 million, \$9 million to \$9.5 million. So again, consistent with the overall annual guidance that we provided for total non-recoverable expenses in that range of \$20 million to \$25 million.

Jonathan Arnold – Deutsche Bank

Okay. Thank you very much.

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Thank you.

Operator

Thank you, our next question comes from Jay Dobson from Wunderlich Securities.

Jay Dobson – Wunderlich Securities

Hey, good morning. Joe, I was hoping you could maybe talk a little and I understand that it's a lot to get through 600 and some odd pages of Order 1000. But talk a little bit about your early read on what this could do to the competitive landscape around transmission?

Joseph Welch - ITC Holdings Corp. - Chairman, President and CEO

Well, I think that it's kind of a two-edge sword. First of all, I think that you're probably -- I think the intent from a good portion especially of that piece that is in the ROFR was to try to create a more competitive landscape for developing transmission.

So from one standpoint, I think that it's going to happen. I think on the other side, as you start to increase competition, there's going to be a compression of margins, which is going to make a lot of people who want to get into the transmission development business back away from it. Because I think there will be a rationalization of ROEs across some level and so net-net, I don't see a big difference from what we have today.

Jay Dobson – Wunderlich Securities

Got you. That's helpful and understand that it's early. And then, Joe, I'll hand it to you and then maybe you might want to hand part of this off to Cameron, but as we look at the equity plan and totally understand you don't have to issue anything under it. Does that give us any read through as we look out to the September analyst meeting and sort of what the next five years of CapEx hold understanding that higher CapEx although higher equity is a fairly high-class problem for you all to have because it produces earnings growth? But should there be any read through to that that you'd like us to have?

Joseph Welch - ITC Holdings Corp. - Chairman, President and CEO

No, not at all. I think that -- I think if you've followed our capital plan and the fact that our Attachment O gives you a really simple way to model this, we actually have -- we are in a really strong position to be able to finance that plan all with internally generated cash and are really well positioned going forward. So we have no plans now or in the foreseeable future as far as just from the pure development and building out of the infrastructure of having to issue any

equity. Long-term of course if there were some unit step there, an acquisition or something else that's not foreseen in that plan and we'd have to come back and review that, but I don't foresee it right now.

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

And, Jay, this is Cameron. I'll just add to that. We think about that arrangement really as a tool and it's a tool that we have available in the event that we find opportunities to invest incremental capital above and beyond our plan that would ultimately necessitate us to issue small amounts of equity to balance out the overall capital structure. So I sort of like to be prepared, it's the way I would think about it. I like to have the tool available in the event that it's needed. We pride ourselves here on being nimble and flexible and more entrepreneurial and we want to be able to move quickly if opportunities present themselves.

So having the tools available for us to do that I just view it as prudent, and again, I wouldn't read through to the update of the five-year plan. I would read through to the fact we had a facility there or an arrangement that was expiring and we didn't want to go a long period without a replacement tool.

Jay Dobson – Wunderlich Securities

Okay. Fair enough. Or maybe the other way and I should know the answer to this question. I apologize. What was issued under the 2008 plan?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Nothing.

Jay Dobson – Wunderlich Securities

Nothing. Perfect. And then last question, Cameron, how do you think of equity vis-a-vis HoldCo debt as you look forward and again, all within the planning context understanding I think in your previous comments, you've indicated that the current five-year plan requires nothing of neither. I don't think that is grammatically correct, but you understand what I'm saying?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

I do. Let me clarify. I mean we certainly envision that we need new long-term debt at the holding company level, looking forward in time to capitalize the plan. I guess the way I think about capitalizing the plan is obviously we generate a fairly significant amount of operating cash flow in the business that's going to fund a little under half of the total capital needs of the business over the course of the five years. The balance will be funded through a combination of new long-term debt financings, as well as revolving credit facilities like the ones that we've recently established.

That'll support a lot of the construction work that we have ongoing. We're targeting, maintaining an investment-grade holding company and our plan I believe allows us to do that. Our debt to total capitalization will remain below 70% and we believe that the credit metrics that are implied in -- out of the cash flows, but coming out of the forecast strongly support FFO to interest and FFO to debt levels that are investment grade or certainly from our perspective, above investment grade for the holding company and that's generally how we think about managing the business and managing the capitalization of the business.

Jay Dobson – Wunderlich Securities

That's great. Thanks so much for the comments.

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Thanks, Jay.

Operator

Thank you, ladies and gentlemen, if you do have a question, please press star then one. Our next question comes from Greg Reiss from Catapult.

Greg Reiss - Catapult Capital Management

Hi, guys, how are you? Can you hear me?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Yes, we can.

Greg Reiss - Catapult Capital Management

Real quick question on the five-year plan, have you guys embedded any of these MISO MVP projects in your forecast?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Greg, as you probably are aware, we have in our capital plans, certainly a component of that is driven by our expectation around investment opportunities for development projects. And within that sort of component of the capital investment plan, obviously, we have a pipeline of projects that we have included and we've risk adjusted to produce an expected investment opportunity associated with development initiatives. And within that, obviously, we have capital that is comprised of opportunities that we see available to us in the North Central region, in the upper Midwest region and in the South Central region.

So clearly, the evolution of the MISO projects going forward the MVP projects are a component of our overall development plan and we will provide an update on that as we get into the fall and we have our new Investor Day. But we certainly do envision that the MVP projects that are currently being advanced through MISO will form a component of that development capital plan going forward.

Joseph Welch - ITC Holdings Corp. - Chairman, President and CEO

Yes. Well, just as a follow-up to that. I mean you do know that the Wind Zone project or the WERZ [Thumb Loop] project that's in the Northern Michigan was part of that five-year plan and that is the first MVP project approved.

Greg Reiss - Catapult Capital Management

I was just trying to get a sense that if all of the MVP projects were approved in their entirety that would result in some upside to your CapEx, because you guys have just probability weighted those projects at this point?

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Yes, I mean I wouldn't start to look at it a discrete project by discrete project, because the pipeline consists of a couple of dozen different projects, some of which we fully expect will move forward and be realized 100%, some of which may not move forward at all.

So I think we generally more think about it in the context of managing a portfolio of projects and the opportunity for investment associated with those is reflected in our capital plan. And as I said, if we roll forward to the fall and we update that plan and we'll provide a more comprehensive assessment as to how we see the pipeline progressing and where our confidence level is with respect to capital investment opportunities associated with that plan.

I say by and large, we're generally more -- we view what's happening in MISOs favorably around the MVP process and we do view that as being bullish relative to where we were last year. But as I said, the plan in and of itself is comprised of a lot of different things, not just the MVP projects. So it would be important to sort of think about it in the context of the entire plan, not just relative to how the MVP process is evolving.

Greg Reiss - Catapult Capital Management

Got it. Thanks, guys. Appreciate that color.

Cameron Bready - ITC Holdings Corp. - EVP, Treasurer and CFO

Thanks, Greg.

Operator

Thank you. And if there are no other questions, I'd now like to turn the conference back over to the speakers for any additional remarks.

Gretchen Holloway - ITC Holdings Corp. – Director, Investor Relations

This concludes the question-and-answer portion of our call. Anyone wishing to hear the conference call replay available through August 2nd should dial toll free 855-859-2056 or 404-537-3406, the passcode is 83322776. The webcast of this event will also be archived on the ITC website at itc-holdings.com. Thanks everyone for joining us for today's call.

Operator

Ladies and gentlemen, this does conclude today's conference. You may now disconnect and have a wonderful day.