



ITC Holdings Corp.

Moderator: Gretchen Holloway
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10:00 a.m. CT

Operator: Good day, ladies and gentlemen, and welcome to the 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 sessions 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. Gretchen Holloway. Ma'am, you may begin.

Gretchen Holloway: Good morning, and thank you for joining us for ITC's 2010 Second 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 second quarter and for the six months ended June 30, 2010. 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. 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.

With that, I'd like to turn the call over to Joe Welch.

Joseph Welch: Thanks, Gretchen. We are pleased with yet another quarter of very strong results, and with our overall operational and fiscal performance for the first half of 2010. ITC continues to deliver on our commitments to our customers and shareholders by successfully executing our five-year plan, which is premised around capital investments of approximately \$3 billion in transmission infrastructure to improve reliability; facilitate access to all generation, including renewable resources; reduce congestion and improve efficiency; and lower the cost of delivered energy.

As we have emphasized previously, ITC's capital investment in maintenance programs directly support our mission of best-in-class performance for all of our operating subsidiaries. Achieving and maintaining best-in-class performance is critical to ITC's overall business strategy as a transmission-only company, as it reflects our ability to improve and maintain the reliability of transmission systems we operate.

We believe that our best-in-class performance serves as a differentiating factor for ITC and provides an important building block for our development efforts and desires to meaningfully participate in the build-out of the regional transmission projects.

The improved reliability we have realized through our investments has once again been demonstrated through the results of the 2010 SGS Statistical Services Transmission Reliability Benchmark Study. For the second year in a row, both *ITC Transmission* and *METC* ranked in the top decile for sustained

outages. In addition, both companies continued their strong performance related to momentary outages, with ITC *Transmission* ranking in the top decile and METC ranking in the top quartile of the performance.

These results represent considerable improvement over ITC's results in 2006, the first year in which ITC participated in the study, and the year in which we acquired the METC transmission system.

The 2010 study results also reflected considerable improvement at ITC Midwest, with a 46 percent reduction in sustained outages from the prior year for the portions of the system which have voltages of 69 kV or above. With the reduction of outages, ITC Midwest moved up to the second and third quartile of performance for sustained and momentary outages, respectively, which is a substantial improvement in just one year.

While we are pleased with the overall improvement we have seen at ITC Midwest, our two years of ownership – we are still early in our capital investment cycle for this system and much work remains to achieve our goal of best-in-class performance for ITC Midwest. Nonetheless, these study results continue to demonstrate the positive impacts of ITC's investment in the transmission system.

In addition to the benchmarking study results, ITC's operational excellence was further demonstrated through the reliability of our system under stress conditions over the past couple of couple of months due to both the extreme heat experienced in Michigan in early July and the severe storms which have consistently made their way through the Midwest region this summer.

Even under these stressed conditions, ITC's systems demonstrated outstanding performance, unlike some of the reports you may have heard regarding transmission systems in other areas around the country. Our performance during the past couple of months is particularly impressive given the fact that electrical demand in Michigan reached its highest levels since 2007.

We have also experienced several major storms in our operating areas this summer, some of which produced high winds and tornados. One example of

the challenges that resulted from this weather included isolated tornado damage to ITC *Transmission* lines serving the Fermi nuclear power plant in Monroe, Michigan. ITC *Transmission* was able to restore these facilities, which are necessary for the safe operation of the nuclear plant, in less than 24 hours due to the impressive actions of our operations team along with our well-designed restoration protocols.

ITC's successes to date around best-in-class performance and proven reliability continue to validate the importance of executing on our capital investment and maintenance plans.

Turning to the legislative front, the Gulf oil spill has served to invigorate the debate surrounding comprehensive energy policy and once again, the President has called on Congress to pass legislation to address a national energy policy that would place a price on carbon and seek to reduce our dependence on foreign oil. The House has already acted on its version of an energy bill so it was initially believed that the environmental disaster might provide the necessary political momentum for the Senate to act on a measure to create a federal renewable efficiency standard and/or place a price on carbon.

However, recent developments suggest that the Senate will focus on a more narrowly crafted legislation to address the Gulf oil spill, natural gas vehicles, and the HomeStar program, and that a more comprehensive energy bill will be delayed until at least this fall or possibly late this year in a lame-duck session.

Given this, I continue to remain skeptical that comprehensive energy legislation will actually materialize this year, especially considering the difficulties that we have seen so far in advancing any legislation, the pending elections in November of this year, and the limited number of days that Congress will actually be in session for the remainder of 2010. With that said, I do believe that, in the long-term, some form of legislation will be passed that will result in an energy policy that will better allow us to plan the transmission system for the future.

While actions on comprehensive energy legislation is waning, we have very encouraging developments in the second quarter at the Federal Energy Regulatory Commission, including the initiation of a notice of proposed rulemaking, or NOPR, focused on regional transmission planning and cost allocation. Specifically, the Federal Energy Regulatory Commission released a proposed rule that changes how transmission is planned, built, and paid for. The rule recognizes the broad benefits transmission provides to customers and requires costs be allocated accordingly.

The rule also seeks to ensure that transmission planning aligns with state and regional public policy goals such as enhanced renewable energy development while establishing a stable process for planning for multi-regional projects. The FERC is currently seeking comments on its proposal, which are due later this summer. Although there is no stipulated time period for the rulemaking process to conclude, we are hopeful that FERC will complete its final rule in the spring of 2011.

The FERC's proposed rulemaking serves to crystallize some measures found in the pending energy legislation and is broadly consistent with ITC's position on both cost allocation and the need for improved planning. We expect the rulemaking will further our goal of developing a robust modern transmission grid, as it should ultimately provide a clearer path for regional transmission projects to advance.

In addition, I believe FERC's action to initiate this rulemaking will expedite the process of providing solutions around regional planning and cost allocation, even in the absence of energy legislation. If energy legislation were passed today, the FERC would still be required to go through a rulemaking process, so the fact that FERC has asserted its authority to address these issues now actually serves in some ways to accelerate the process.

In addition to the FERC's NOPR, both the regional transmission organizations, or RTOs, in which ITC operates – the Southwest Power Pool, or SPP, and the Midwest Independent Transmission System Operator, MISO – continued to advance their own efforts around addressing impediments to regional transmission development within their footprint.

SPP continues to make significant progress with its efforts, which are centered around both its Highway/Byway cost allocation proposal and its Integrated Transmission Planning Process. On June 17th, FERC unanimously approved SPP's Highway/Byway cost-allocation methodology. This cost-allocation 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.

We believe that the implementation of this cost allocation methodology will promote both the construction of EHV transmission facilities and the efficient operation of competitive regional wholesale energy markets within SPP. The FERC's unanimous support of the proposal and the written order approving the methodology are very positive, and a strong validation of the SPP effort over the last year to implement a progressive cost allocation methodology.

In addition, SPP recently filed its Integrated Transmission Planning (ITP) process with FERC and received unanimous approval on July 15th. The ITP is a comprehensive transmission planning process which covers both reliability projects and economic projects, and also incorporates certain public policy initiatives into the planning study inputs. The planning process takes a long-term view around project planning and combines an industry leading 20-year planning horizon with a 10-year and near-term assessment to provide for well coordinated transmission expansion opportunities.

In issuing their order approving the SPP planning proposal, FERC Commissioners praised SPP efforts in developing a comprehensive planning process that should result in facilitating near- and long-term transmission needs. To quote Commissioner Wellinghoff, "Other regions may want to follow SPP's lead so that the transmission infrastructure that is needed to maintain reliability, reduce congestion, and meet policy objectives is built." We are very supportive of both FERC's orders approving SPP's proposal for cost allocation and transmission planning. We believe that FERC's approval and the supporting praise of these proposals provides a good indication of how

they are thinking about these issues, and what solutions they consider appropriate to ultimately resolve them.

MISO also advanced its own proposed cost-allocation methodology through its filing with the FERC on July 15th. MISO's proposed cost allocation methodology creates a new category of projects called Multi Value Projects, or MVPs, which have a regional impact and are part of a regional plan. MVPs are also intended to facilitate both state and federal legislative regulatory and policy mandates that are governing or enacted. The proposal further provides for the cost of MVP projects to be allocated 100 percent across the MISO region. MISO has requested approval of this proposal at the FERC's open meeting in December.

MISO's cost allocation proposal, if approved, is expected to go a long way towards addressing the issues we have previously identified with MISO's transmission planning process by filling the cost allocation void that currently inhibits the advancement of regional projects such as the Regional Generation Outlet Study, or RGOS, or the Green Power Express in its underlying segments.

As designed, the proposed cost allocation mechanism should provide the necessary framework to advance regional and policy driven transmission projects within the MISO footprint that previously had been stalled due to their inability to meet the existing limited planning criteria used to assess projects. While the ultimate implementation and resulting process around the MVP cost allocation proposal need to be fully vetted, we are cautiously optimistic that this is a large step in the right direction for advancing regional transmission in MISO.

As you can see, there was quite a bit of regulatory activity in the second quarter. I think an important takeaway from all of this is that we are starting to see alignment around broader principles for regional planning and cost allocation that, if implemented, should effectively serve to diminish two key impediments to regional transmission development in the United States.

I would note that ITC has long been an advocate of these broad principles and is pleased to see others recognize their merits, which we have continued to highlight over the years. While the process to determine and implement solutions to allow for the build-out of regional transmission continues to be lengthy, the recent developments at the FERC are encouraging and begin to create a clearer landscape to advance these initiatives.

However, that being said, we believe that a fulsome process to address policy reform issues around transmission is necessary in order to properly evaluate various proposals and stakeholder input in order to ensure the appropriate decisions are made at the end of the day.

We also believe that the challenge and the length around these processes play to our strength and serve as a unique competitive advantage to ITC, given our transmission-only focus and the proven sustainability of our business model. This singular transmission focus, along with our current foothold in both MISO and SPP regions, strategically positions ITC to play an important role in future regional transmission opportunities.

During the second quarter, we continued to make process on advancing our investment plans based on our three-pronged growth strategy, which includes investing in our base operating companies, developing regional transmission projects, and investing in interconnection for new generation resources, including renewables.

Some key highlights around this progress include development around certain capital projects that ITC is currently advancing. MISO continues with its review of ITC's 345 kV transmission plan to interconnect the Thumb region of Michigan through an out-of-cycle review process. As previously discussed, ITC has requested MISO Board approval of this project at its August meeting. Upon receiving MISO's approval, we will begin routing and siting activities in Michigan for the projects.

Assuming approval by MISO in mid-August, we expect to be able to file a siting application with the Michigan Public Service Commission by the end of the year. Under the legislation passed in 2008, these transmission projects

will be eligible for expedited siting with a six-month approval process. This timeline would allow for ITC to start acquiring right-of-way in mid-2011, with material capital investment for the project starting in 2012.

Our regional transmission development projects at ITC Great Plains continue to advance as well, with all of the projects remaining on track. The KETA project continues to advance as planned, with Phase 1 on schedule and the preconstruction activities underway, including the acquisition of right-of-way.

In addition, on June 30th, we received approval from the Kansas Corporation Commission, or KCC, of our siting application for Phase 2 of the KETA project. With the siting approval for the next phase, ITC will now begin preconstruction activities for Phase 2 as well as continue to pursue the other remaining regulatory approvals still needed for the project.

We also reached a couple of key milestones for the Kansas V-Plan in the second quarter of 2010. The FERC approval of the SPP Highway/Byway cost allocation proposal provides regional cost allocation for the Kansas V-Plan and served as the catalyst for the SPP to issue the Notifications to Construct for the project at the end of June. We continue to work towards obtaining the remaining regulatory approvals for the project, including siting. We currently expect to file our siting application with the KCC in early 2011.

With the progress we have made during the first quarter of 2010, we believe we are well positioned to continue to deliver a very 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 plans 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 identified consistent with our performance over the last seven years of our Company 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, everyone. I will begin by providing a brief summary of our financial results for second quarter and year-to-date period.

In the second quarter of 2010, ITC reported net income of \$36.3 million, or \$0.71 per diluted share. This compares with net income of \$30.8 million, or \$0.61 per diluted share, in the second quarter of 2009. Net income for the six-months ended June 30, 2010, was \$70.5 million, or \$1.38 per diluted share, compared to \$59.5 million, or \$1.17 per diluted share, for the same period last year.

These increases in net income and earnings per share for the second quarter and for year-to-date 2010, compared to the corresponding periods in 2009, can be attributed primarily to higher return on rate base and allowance for funds used during construction at all operating companies and lower non-recoverable expenses. These increases for both the quarter and year-to-date period were partially offset by higher interest expense resulting from our recently completed long-term financing activities at ITC Holdings.

The improvements in net income and earnings per share for both the quarter and year-to-date periods are also reflective of our continued success in implementing our capital investment planes. For the year-to-date 2010 period, ITC invested \$216.0 million in capital projects at its operating companies, including \$29.3 million, \$65.5 million, \$114.1 million, and \$7.1 million at ITC*Transmission*, METC, ITC Midwest, and ITC Great Plains, respectively.

As Joe mentioned, our operating and fiscal performance for the first half of 2010 reinforces our confidence in our ability to continue to deliver on the commitments we have outlined in our five-year plan, including our capital investment objectives. Our capital plans for both 2010 and for the five-year plan include investments in our base operating companies, transmission upgrades to allow for the interconnection and new generating resources, and regional transmission projects.

It is important to note that in developing our capital plan back in 2009, we were very cognizant of the challenging economic environment in the areas in which we operate and the risks associated with generator interconnections given the level of uncertainty around the location and timing of these interconnections.

Unlike other markets, where we are aware of renewable development having slowed or decreased relative to previously anticipated levels, ITC continues to see momentum for the development and interconnection of renewables in the areas we operate.

For example, the state of Michigan has been, and continues to be, very supportive of the development of renewable energy generation in the state. This can be seen through its recent efforts around the wind energy resources zones, whereby the state has approved two wind zones, with an aggregate capacity opportunity of 2,600 to 4,700 megawatts. As Joe discussed earlier, we continue to pursue the necessary regulatory approvals to construct the required transmission infrastructure to support these wind zones, which consist primarily of our approximately \$500 million 345 kV Thumb Loop project.

The state of Iowa also remains supportive of the development and installation of renewable generation and has created a favorable environment to encourage wind developers to locate within the state. This is evidenced by the amount of activity over the past couple of years to interconnect wind energy in Iowa as well as our backlog of interconnection requests that we are currently working to satisfy. In the past two years alone, ITC Midwest has connected more than 1,500 megawatts of wind energy. Due to these interconnections, Iowa now ranks second in the nation in terms of installed wind capacity.

This ranking is particularly interesting when compared to Iowa's national ranking of potential wind capacity, which is currently around tenth. The difference in rankings between installed capacity and potential capacity further highlights the supportive environment that Iowa has created to promote the development of wind generation within the state.

That being said, longer-term we still believe that comprehensive national energy policy, with clear renewable goals and objectives, as well as policy reforms around transmission planning and cost allocation, are critical to maintaining the viability of wind development in all markets.

As you will probably recall, at this time last year we were in the midst of an unstable and declining economic environment in Michigan, which directly translated into lower peak load demand. In addition, last summer we experienced abnormally cool weather, further reducing our peak load. Given this confluence of events, it was very difficult for us at that time to assess the real impacts on load resulting from the so called great recession versus those that were primarily attributable to weather anomalies.

However, as Joe mentioned, the recent heat experienced in Michigan in early July resulted in the highest load that we have seen in the state since 2007. And perhaps more importantly, also gave us the opportunity to analyze peak load data to better approximate the load degradation resulting from the economic conditions we have experienced over the past couple of years. Based on this analysis, we believe that the economic slowdown in Michigan has resulted in an aggregate reduction in peak load demand of roughly nine percent. This estimate of economic load degradation is slightly better than our initial expectations and reinforces our confidence in the load forecasts used to establish our base capital plans last year.

In addition, based on our analysis for the year-to-date period through June, we are experiencing weather-normalized loads that are approximately two percent better than our forecast. While the economic environment is still challenging, it has stabilized and it appears as if the impacts of the recession are less severe than we originally predicted.

In the near term, this positions us such that we are not currently anticipating the need to again mitigate the risk of a significant true-up receivable. In fact, we are currently forecasting that we will end the year in an aggregate payable position with respect to our Attachment O true-up. In the longer term, we remain confident the economic forecast that underpins our capital investment expectations is realistic and perhaps slightly conservative.

I would like now to provide an update to our 2010 financial requirements and liquidity position. Starting with our long-term capitalization requirements, in May of this year we successfully completed a private placement of \$50 million of 30-year first-mortgage bonds with a coupon of 5.64 percent at

METC. With the completion of this financing, and the financings executed at ITC Holdings and ITC Midwest in late 2009, we have now satisfied our entire long-term financing calendar for 2010. We are very pleased with the execution and the results we were able to achieve with all of these transactions.

As for our current liquidity position, at June 30, 2010, we had \$81.4 million of cash on hand and \$270.5 million of net undrawn revolver capacity, bringing our total liquidity position to approximately \$351.9 million. Our revolving credit facilities now have a total consolidated capacity of \$285 million.

Historically, the total revolving credit facility capacity balances we have provided included \$55 million of Lehman capacity that has not been available to us since Lehman's bankruptcy filing back in 2008. Earlier this month, we executed amendments to our revolving credit agreements which removed Lehman from our facilities, and, as a result, lower the overall revolving credit facility capacity by \$55 million, which represented the aggregate Lehman commitment.

We continue to believe that we are well capitalized and have the appropriate access to capital in order to efficiently and effectively fund our capital investment plans going forward.

Turning now to our outlook for the remainder of 2010 – as a result of the progress that we have made during the first six months of the year, we are raising our 2010 diluted earnings per share guidance and revising our capital expenditure guidance range. For 2010, diluted earnings per share guidance is increasing from a range of \$2.60 to \$2.70 to a range of \$2.70 to \$2.75. In addition, we are revising our 2010 capital expenditure guidance for each of our operating companies. Capital expenditures for *ITCTransmission*, METC, ITC Midwest, and ITC Great Plains are now expected to be at approximately \$50 million to \$60 million, \$130 million to \$140 million, \$220 million to \$235 million, and \$20 million to \$25 million, respectively. Our consolidated capital expenditure guidance is now \$420 million to \$460 million, compared to our previous guidance of \$405 million to \$460 million.

Our increased diluted earnings per share guidance reflects the strong financial performance we have seen in the first half of 2010 and our expectation that we will deliver on our capital investment and plans for the year consistent with the revised guidance we are providing today.

Our revised capital expenditure guidance reflects increased capital estimates at both ITC Great Plains and ITC Midwest. For ITC Great Plains, the increases are largely due to progress we have made with our right-of-way acquisition for the Hugo to Valiant project and for Phase 1 of the KETA project. This has allowed us to accelerate some capital spending for these projects.

For ITC Midwest, the increase is largely due to the acceleration of some generator interconnect projects and better than expected progress with certain of our asset replacement activities.

I would also like to note that the capital guidance for ITC Midwest includes approximately \$17 million for the acquisition of certain transmission assets from Northern States Power Company, a subsidiary of Xcel Energy. ITC Midwest assumed the contractual right to purchase these assets as part of its acquisition of the Interstate Power and Light transmission assets in 2007. We have filed for approval of this transaction at both the Minnesota Public Utilities Commissions and at FERC, and currently expect approval of these filings by the end of the year. However, to the extent that these approvals are not received this year, this capital investment will likely be delayed until early in 2011.

Our revised capital expenditure estimates also include a slight reduction to the capital expenditure range for METC, which is largely reflective of some small delays we have seen around the construction of certain projects the company is undertaking. Most of this difference will flow into our 2011 capital plans.

Lastly, I am pleased to note today that ITC will be hosting an investor conference in New York on September 27th at the New York Stock Exchange. On this date, we expect to provide updates to our business strategy

and strategic plans. More details will be forthcoming, and we hope that you will make plans to join us for this event.

With that, I'd like to open up the call to answer questions from the investment community. Devon?

Operator: Thank you, ladies and gentlemen, if you have a question at this time please press star and then one on your touchtone 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 touchtone telephone. One moment for our first question. Our first question comes from Neil Kalton, Wells Fargo Securities.

Neil Kalton: Hi, everybody. Just a question – first question on the five-year CapEx forecast. So if I may, can I walk through? It sounds like the pluses to the original guidance would include the Michigan Thumb project and potential higher base CapEx from Michigan due to the economy offset by a slight negative of lower voltage for the KETA and V plans. Are there any other moving pieces in that five-year forecast?

Cameron Bready: Neil, I think – this is Cameron. Yes, that's a pretty good summary of the potential upsides. I would say, with respect to the Michigan wind zone opportunities we highlighted on the last call, we see the potential up side to that being \$225 to \$275 million – in that range.

As it relates to the economic environment, I don't think we're really in a position to say that we expect material changes to base capital plans as a result of that. I think what we were trying to express, to a large degree, is that the economic environment is stable, perhaps not quite as bad as what we had originally anticipated. And it certainly reinforces the confidence we have in being able to achieve those base capital plans.

As it relates to the downside exposure, I think you're right – as we sit here today, we have the V-Plan approved at 345 double circuit. As we discussed, again, on the last call, given some slight increases in expectations for the costs of Hugo and KETA, offset by a reduction in the voltage of V-Plan from 765 to

345, we would see about \$100 million less capital potentially associated with the development projects in ITC Great Plains.

Neil Kalton: Okay. And then, a follow-up on the Michigan opportunity, wind. There was a report recently that suggested that that project could qualify for MVP status. I'm wondering how that might work. Might that complicate the MISO approval process and potentially push back a decision? I guess you're hopeful for something in August. Is that, could that be a complicating factor here?

Joseph Welch: I don't necessarily think it's a complicating factor. If you look at the proposal that MISO put forward to FERC, their proposal suggested that it would apply to any projects that are approved by the MISO Board after the filing date, which I believe was July 15th. So to the extent that the Board approves the project in August, as we would hope that they would, the MVP status, to the extent it is granted to the Michigan wind zone project, would apply, assuming that the FERC approves the MISO cost allocation proposal in December.

Ultimately, regardless of whether or not it is designated as an MVP project or not, we have an existing cost allocation methodology for the Michigan wind zone project. We are advancing with it regardless of whether or not it ultimately is approved as an MVP project. To the extent that MISO and the state of Michigan desire to spread the costs more broadly, we certainly are supportive of that. But nonetheless, we're going to continue to move forward regardless.

Neil Kalton: Okay, thanks.

Cameron Bready: Thank you.

Operator: Our next question comes from Dan Eggers of Credit Suisse.

Dan Eggers: Hey, good morning. Joe, I know it's still early from the SPP and MISO plans for rate allocation and planning purposes, but can you just share your thoughts as what you think the highlights of the two plans are? And do you see any chance that these plans could get merged into one more comprehensive design, just to make life easier for all the multi-region participants on a long-run basis?

Joseph Welch: Well, I think first of all, just from a high level, there's actually a lot of similarities in the plans. It's just that SPP, when they put their plan together, they weren't quite as far along with their cost allocation process early on. So when they developed their process, they developed it with kind of an eye for regional transmission development.

MISO was more mature at that point and had developed other cost allocation processes. So what MISO did was they added the MVP process to what they had, which, for the most part, appears from the outside to be somewhat confusing. But I think you'll find that that's going to dovetail together pretty well. SPP had a more comprehensive regional plan right out of the get-go, and so it's going to move forward.

I think that, over the long haul, some of the provisions of the MISO cost allocation process, especially the stuff that they had for their economic projects, because, just to quote some of the MISO officials, that process wasn't of much benefit since nothing ever got built. And so I think that over time, you'll see MISO eliminate some of the cost allocation processes that they have, go strictly with their MVP process for regional transmission. And at that point, there's not a lot of difference between them and the Highway/Byway process. So they might merge it, but I think FERC is going to be in a position where they're going to allow those regional differences to take place just to see which one's the most effective.

Cameron Bready: And Dan, this is Cameron – that was one point I was going to make, is I do think FERC has a history of being willing to accept regional differences as long as, broadly, the principles are aligned with what they would like to see. So for intra-regional projects, I think you can see some differences, like those that exist between MISO's filing and SPP's filing. I think the important thing about the FERC NOPR as well is it also will address inter-regional transmission projects. So there will need to be some clarification as to how, not only are those projects planned, but ultimately how the cost allocation for those will work as well. And that's, perhaps, the point where you will see some convergence of rules for inter-regional activity.

Dan Eggers: And I guess the inter-regional rule or thought process would come after they finalize the regional plans? Is there another sit-down at that point in time, or will that be kind of worked out on an ad-hoc basis as they go?

Joseph Welch: I believe that the FERC, with their notice of proposed rulemaking, is really going to start to push it. While they'll allow the regional differences for the intra-regional projects, for the inter-regional projects they are going to look to start to get some commonality on those cost allocations. Because as you move from the West to the East, there's huge differences, especially when you go east of MISO.

And I think that FERC is going to start to focus on those Eastern RTOs and start to get this to move forward because that's where the big differences are. I think they're less concerned about the differences between SPP and MISO at this point.

Dan Eggers: Okay. And then, I guess the next question – picking your brain a little bit today, Joe – but what is your thinking on kind of independent, unregulated transmission lines out in the market? And are you seeing opportunities where they might make more economic sense, if only to avoid some of the planning headaches that come with even the FERC design?

Joseph Welch: Well, I think that – there'll always be a spot out there for some of these unregulated lines but, by and large, I believe those will have to be DC because once you start to have an AC line, I really, from a physical, operational standpoint, I don't know what it means to have a merchant AC line. These things are all synchronous with the system and they are free-flowing. I'd have a rough time comprehending how one of these lines would integrate in a system that wasn't comprehensively planned across the region in the right way.

A lot of people get frustrated with the planning process, but let me tell you this – if you want to remember how integrated we are, just remember August 14th of 2003. And I just don't see a role on the AC system for it.

Dan Eggers: Okay, thanks. Cameron, on the CapEx for this year, what are going to be the big variabilities within the range? And there's still a 10 percent band with half a year left.

Cameron Bready: Quite frankly, with the remainder of the year left, it's largely going to be dependent upon weather and our ability to continue to make good progress in advancing some of the projects that are currently underway. And then, in certain situations we still have permits and other local approvals that are required to advance some of the projects that we have on the calendar for the balance of the year.

But in general, being this far into the year, and hence our willingness, today, to refine our capital guidance, we feel pretty good about the ranges. They're reasonably narrow, given the scope of the activities that we have underway. A \$10 million, roughly, band, and \$5 million for ITC Great Plains is pretty narrow given the scope of the activities that we are still executing against in Michigan, Iowa, and down in Kansas and Oklahoma. So we feel good about that range and obviously, there's some variability that will exist as we work through the year, but we think that's kind of the right point at this stage.

Dan Eggers: I guess one last one, on Michigan spending around wind. What's the thought process on an expedited approval process? And it seems like the guys who are building the wind, or running the wind, are making pretty good progress and advancing on their side. Is there an acceleration opportunity that's getting more clear at this point?

Cameron Bready: In Michigan, to build the Thumbway project? I think the schedule we laid out is fairly expedited, quite frankly. We're a little bit hamstrung until we get that MISO approval. We are working in parallel to do as much as we can to prepare for filing our siting application as quickly as possible on the heels of getting MISO approval.

There is some, presumably, opportunity for the MPSC to do an expedited, even shorter than the six months statutory period. I wouldn't hold out a great deal of hope for that, but there is that potential that that could happen. Our

goal is to be prepared to move as soon and as quickly as possible upon getting all the regulatory approvals that we need.

So if they can accelerate their approval process, we can accelerate, I think, to some degree our activities. But I think the schedule that we outlined is fairly realistic, just given all the issues that have to be addressed at both the MISO level and the MPSC level.

Dan Eggers: Okay. Thank you, guys.

Joseph Welch: Thank you.

Operator: Thank you, our next question comes from Stefka Gerova of JP Morgan.

Stefka Gerova: Good morning, and congratulations on a good quarter. Based on year-to-date results, your full-year guidance seems to imply that earnings in the second half of the year should decline modestly relative to 2009 levels. Can you elaborate what factors may be causing this?

Cameron Bready: Sure, Stefka; it's Cameron. I think to some degree the back half of the year has some development expenses that are in excess of what we would have spent in the first half of this year, which, as you know, puts a drag on the overall earnings for the company.

I think the other item I would highlight is, as we look at the effective tax rate through the first half of the year, there is the potential that in the back half of the year that rate could be a little bit higher, and we expect it to be a little bit higher for the year, which, again, would be a little bit of a drag relative to where we are for the first six months of the year.

So again, not terribly large impacts on either of those fronts, but we do expect rate base to continue to grow, and return on rate base to grow, but that will be potentially slightly offset by those two factors. I think given the activity we've seen on the policy and regulatory landscape, we have some development initiatives in the back half of the year that are likely require a little more support than what we have put forth in the first half of the year.

Stefka Gerova: Okay. And are there specific development initiatives or projects that you can highlight at this stage?

Cameron Bready: No, I don't think so. I think in keeping with our historical approach, when we have projects that are advanced to the point where we have confidence in our ability to deliver on those, we will talk about them more specifically. In the interim, I think you should rest assured that we view development and our ability to develop new projects as a critical aspect of our strategy, and it's one that we spend a tremendous amount of time focused on. And we are working diligently to develop new projects in the markets where we're active, and I think we have a great deal of confidence in our ability to do that, and as we have more details to share around specific activities, we will.

Stefka Gerova: Great; thank you very much.

Cameron Bready: Thank you.

Operator: Thank you. Ladies and gentlemen, if you have a question or a comment please press star and then one on your touchtone telephone. Our next question comes from Jonathan Arnold of Deutsche Bank.

Jonathan Arnold: Hi, good morning.

Cameron Bready: Good morning.

Jonathan Arnold: My question – Cameron, thank you for the analyst meeting in September. I just was curious – you said you would give a business update. Will you anticipate rolling forward the five-year plan by another year, as you've done, or is this more of a general update?

Cameron Bready: No. I think, Jonathan, it's fair to assume that our expectation is we'd roll out a new five-year forecast that rolls forward our outlook another year and reflects some of the changes that we've talked about with respect to those developments that are material that have changed relative to the plan we put forth last year, but also give a glimpse into our outlook for 2015 as well.

Jonathan Arnold: So similar content, basically, to last year and the same kind of format?

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

Jonathan Arnold: Thank you very much.

Cameron Bready: Thank you.

Operator: And our next question comes from Jay Dobson of Wunderlich Securities.

Jay Dobson: Hey, good morning.

Cameron Bready: Morning, Jay.

Jay Dobson: A question, Cameron, on G&A expenses. I think in your answer to an earlier question, you were beginning to get at the question I'm about to ask – but as we look at the last three – certainly three quarters, we've seen G&A declining. What's sort of the run rate of that number. And I think in an earlier question you were responding that development expenses ought to trend a little higher. So should we expect those to go higher? Just give us a little run rate around G&A and what we ought to expect for the balance of the year.

Cameron Bready: Yes, through the first half of the year, we spent about \$3.9 million on development activities. I think at this point last year, we had spent about \$5.2 million. It's a little bit of apples and oranges, to be honest with you, Jay. Last year, as you'll recall, we had not yet recognized the regulatory assets for ITC Great Plains. And this year, some of the development costs we've been incurring go to those regulatory assets as opposed to going to expense. So it's a little hard to always put forth an apples-to-apples comparison of those numbers, but I think over the last couple of quarters, you've seen G&A come down a little bit, largely because a lot of the development activities that we've had going on have been focused on projects that have regulatory assets associated with them that have been recognized.

I think going forward, as our development activities transition to, and continue to transition further to, developing new projects, you'll see the expense side of the equation increase slightly as we look to deploy development dollars to advancing new projects that do not have regulatory assets associated with them.

So I think it's fair to assume that, over the next few quarters, the run rate around that would be a little bit higher than what we've seen in the first half of the year because we won't have the opportunity to put those toward regulatory assets.

Jay Dobson: Got you; no, that's perfect. And if I were to drill down on G&A to non-development-related G&A, would you say we're sort of at – minimum, not minimum level, but certainly the level that's a decent run rate right now? I know, going back to fourth quarter last year, you had some austerity measures that were sort of continuing to cut that. It seems like that's continued, at least in reading your press release. Would you say we're about at a run rate for those non-developmental G&A?

Cameron Bready: Yes. I think the first thing I'd highlight is those are all, for the most part, recoverable costs, and are simply a factor in the Attachment O revenue requirements. So we are recovering all those costs through our Attachment O mechanism.

I think we've had a philosophy here of always running a very lean organization, and I think we've done a very good job at running a very lean organization. We're highly efficient. But I think with any business, you can only get so much productivity gain – as we continue to grow in size and in scale, obviously there will need to be incremental G&A support to accomplish that. As with everything we try to do, we will add it in the most efficient way possible, and the least amount that we think is necessary to support the objectives that we have.

But I think in terms of going forward, assuming that we can do that on the backs of productivity gains of our existing workforce is probably a little bit optimistic. I do think the G&A will have to expand somewhat to be able to achieve the growth that we have premised in our plan. That being said, it certainly won't, in my mind, grow at the level that certainly rate base and revenue will grow as we continue to execute on our forecast. Does that help?

Jay Dobson: That's great; yes, that helps tremendously, thanks. And Joe, maybe just sort of taking that, and so you're going to be spending more developmental dollars.

And in a sort of answer to an earlier question, you clearly suggested you didn't have anything advanced enough that you wanted to disclose on this call. But maybe if you could, just talk a little bit about the environment for new development.

I guess I'm sort of thinking outside of the Iowa and Michigan area, where you predominately operate franchises, but for Kansas-type, SPP-type development, which it sounds like what you'd be pursuing in that realm, since they'd be development dollars. Just what the environment's like for that.

Joseph Welch: Well, the environment clearly has improved tremendously. When we started in Kansas, we had a long period of just working through the process because of two major issues – one was the planning process, which was very immature, which has changed dramatically. And the second one, which has allowed us then to move forward with the V-Plan, was that around the cost allocation.

With those two items set, now you really have broad based plans starting to come together. And now it really starts to set the stage for the development work to really, in my mind, have a much broader scope and a lot more opportunities out there.

And hopefully, we can compress some of the times on the front end of this. I mean, everyone wants to compress time, but that front-end process should get shorter for us. So we're very optimistic across the whole footprint, both in the Western portions of MISO and in SPP.

Jay Dobson: Got you. And then, just last question – on the competitive environment and sort of an add-on to that, because certainly there's at least more people saying they're going to chase transmission investments relative to the time period that you were pursuing, or developing, SPP. Just sort of how you view that landscape. Clearly, you-all have a competitive advantage here.

Joseph Welch: Well, I view that landscape as I always did – that you'll always have competition. When we started this business, there were other people out there that were going to go into the transmission business. And we have sustained and grown.

And in some ways, I look forward to the competition because it really gets you going – and candidly, for me, it gets my juices flowing. But having said that, you've got a lot of big companies that have announced that they want to form transcos or ITC-like companies.

I don't think, one, any of them can get the financial performance that we get. And the second thing is – and Cameron said it a little differently when he was answering the question – we run a pretty lean organization. The decision-making processes here at ITC are pretty quick and we are a pretty nimble company.

And so, while I'm sure that the other companies can do a lot of good things, and they will make us get better, but I think we've got the competitive advantages. We've got the skill sets and the demonstration of those skill sets to deliver. So, there's plenty of work out there, and there's plenty of stuff for a lot of people to do. We'll get our fair share; of that, I feel very confident.

Jay Dobson: Yes, nice to compete with a competitive advantage, definitely. Thanks a lot Joe, I appreciate it.

Joseph Welch: Thanks Jay.

Operator: Thank you, we have a follow up questions from Neil Kalton of Wells Fargo Securities.

Neil Kalton: Here's an open-ended question, but you were recently appointed to a task force in New Mexico. And I wonder if you could maybe share the background on that. And then maybe also provide some thoughts about the longer-term opportunities that you see in the state.

Cameron Bready: Neil, I think generally when we look at expanding our development activities, we look for markets that we think have, number one, a need for transmission; number two, have sort of the need being recognized; and three, frankly, that there's support for it. I think in New Mexico it is, at least in some degree on the eastern side, connected to SPP. They do have good renewable expansion opportunities as it relates to both wind and solar. And we think potentially,

longer-term, it might make for an interesting market for us to try to participate.

That being said, very early in our thinking as it relates to New Mexico and what activities ultimately might be available to us there. But certainly, by being appointed to this task force and having an individual kind of actively monitoring the environment there and participating in the dialog, we'll continue to assess it and make a determination as to whether, longer-term, it's worthy of our further development effort. This is a pretty inexpensive way to explore a new market and we try to find those opportunities when we can and we make decisions from there as to whether or not it warrants a lot of further investment, quite frankly, in both personnel and financial resources.

Neil Kalton: Got you. That's helpful; thanks.

Operator: Thank you. I'm showing no further questions at this time, sir.

Gretchen Holloway: This concludes the question-and-answer portion of our call. Before I end the call, I would like to thank everyone who participated today. Anyone wishing to hear the conference call replay, available through August 13, 2010, should dial toll free 1-800-642-1687 or 706-645-9291. The pass code is 87281817. The webcast of this event will also be archived on the ITC website at ITC-holdings.com under our "Investor" section.

Have a great day, everyone.

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

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