

**ITC HOLDINGS CORP.
AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER**

I. PURPOSE

The Audit and Finance Committee (the “Committee”) shall:

- A. Provide assistance to the Board of Directors in fulfilling its responsibility to the Company, stockholders, potential stockholders and investment community with respect to its oversight of:
 - (i) The quality and integrity of the Company’s financial statements;
 - (ii) The Company’s compliance with legal and regulatory requirements;
 - (iii) The independent auditor’s qualifications and independence; and
 - (iv) The performance of the Company’s internal audit function and independent auditors.

- B. Provide oversight regarding matters of financial significance to the Company, particularly those of a long-term nature, and recommend appropriate action by the Board of Directors. Specifically, the Committee shall:
 - (i) Review and recommend for approval by the Board of Directors the annual operating budget and, from a financial perspective, the capital budget including the proposed financing for such budgets.
 - (ii) Periodically review the performance of the Company’s pension funds and approve the Company’s recommendations regarding investment objectives, strategies and/or managers as warranted;
 - (iii) Periodically review the range of investment vehicles available to participants under the Company’s 401(k) Plan;
 - (iv) Oversee development and monitor execution of the Company’s financial policies, including financial objectives, strategies and plans and the execution thereof;
 - (v) Convene, at the request of management or the Board of Directors, for the purposes of providing insight and guidance on issues of financial significance, including any long-term financial plans of the Company; and
 - (vi) Periodically review the Company’s capital structure and dividend policy in view of management’s plans and future financial requirements.

- C. Prepare the report that Securities and Exchange Commission (“SEC”) rules require be included in the Company’s annual proxy statement.

II. STRUCTURE AND OPERATIONS

Composition and Qualifications

The Committee shall be comprised of three or more members of the Board of Directors, each of whom is determined by the Board of Directors to be “independent” under the rules of the New York Stock Exchange, Inc. and the Sarbanes-Oxley Act.

No member of the Committee may serve on the audit committee of more than three public companies, including the Company, unless the Board of Directors (i) determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee and (ii) discloses such determination in the annual proxy statement.

All members of the Committee shall have a working familiarity with basic finance and accounting practices (or acquire such familiarity within a reasonable period after his or her appointment) and at least one member must be a “financial expert” under the requirements of the Sarbanes-Oxley Act of 2002. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or by an outside consultant.

No member of the Committee shall receive compensation from the Company other than (i) director’s fees for service as a director of the Company, including reasonable compensation for serving on the Committee and regular benefits that other directors receive and (ii) a pension or similar compensation for past performance, provided that such compensation is not conditioned on continued or future service to the Company.

Appointment and Removal

The members of the Committee shall be appointed by the Board of Directors and shall serve until such member’s successor is duly elected and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority vote of the Board of Directors.

Chairperson

Unless a Chairperson is elected by the full Board of Directors, the members of the Committee shall designate a Chairperson by the majority vote of the full Committee membership. The Chairperson shall be entitled to cast a vote to resolve any ties. The Chairperson will chair all regular sessions of the Committee and set the agendas for Committee meetings.

III. MEETINGS

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet separately with each of management, the director of the internal auditing department and the independent auditors to discuss any matters that the Committee or each of these groups believe would be appropriate to discuss privately. In addition, the Committee should meet with the independent auditors and management quarterly to review the Company's financial statements in a manner consistent with that outlined in Section IV of this Charter. The Chairperson of the Board or any member of the Committee may call meetings of the Committee. All meetings of the Committee may be held telephonically.

All non-management directors that are not members of the Committee may attend meetings of the Committee but may not vote. Additionally, the Committee may invite to its meetings any director, management of the Company and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in Section I of this Charter. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Committee outlined in Section I of this Charter.

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside legal, accounting or other advisors for this purpose, including the authority to approve the fees payable to such advisors and any other terms of retention.

The Committee shall be given full access to the Company's internal audit group, Board of Directors, corporate executives and independent auditors as necessary to carry out these responsibilities.

Notwithstanding the foregoing, the Committee is not responsible for certifying the Company's financial statements or guaranteeing the auditors' report. The fundamental responsibility for the Company's financial statements and disclosures rests with management and the independent auditors pursuant to their professional responsibilities.

Documents/Reports Review

1. Review with management and the independent auditors prior to public dissemination the Company's annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and a discussion with the independent auditors of the matters required to be discussed by Statement of Auditing Standards No. 61.
2. Review and discuss with management and the independent auditors the Company's earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the Company may provide earnings guidance.
3. Perform any functions required to be performed by it or otherwise appropriate under applicable law, rules or regulations, the Company's by-laws and the resolutions or other directives of the Board of Directors, including review of any certification required to be reviewed in accordance with applicable law or regulations of the SEC.

Independent Auditors

4. Retain and terminate independent auditors and approve all audit engagement fees and terms.
5. Inform the registered public accounting firm responsible for certifying the Company's financial statements that such firm shall report directly to the Committee.
6. Oversee the work of the registered public accounting firm employed by the Company, including the resolution of any disagreement between management and the auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or related work.
7. Approve in advance any significant audit or non-audit engagement or relationship between the Company and the independent auditors, other than "prohibited non-auditing services".

The following shall be "prohibited non-auditing services": (i) bookkeeping or other services related to the accounting records or financial statements of the audit client; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, providing fairness opinions or preparing contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer,

investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service that the Public Company Accounting Oversight Board prohibits through regulation.

Notwithstanding the foregoing, pre-approval is not necessary for minor non-audit services if: (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than \$10,000; (ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee. The Committee may delegate to one or more of its members the authority to approve in advance all significant audit or non-audit services to be provided by the independent auditors so long as it is presented to the full Committee at a later time.

8. Review, at least annually, the qualifications, performance and independence of the independent auditors. In conducting its review and evaluation, the Committee should:

- (a) Obtain and review a report by the Company's independent auditor describing: (i) the auditing firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and (iii) to assess the auditor's independence, all relationships between the independent auditor and the Company;

- (b) Ensure the rotation of the lead audit partner at least every five years, and consider whether there should be regular rotation of the audit firm itself;

- (c) Confirm with any independent auditor retained to provide audit services for any fiscal year that the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has not performed audit services for the Company in each of the five previous fiscal years of the Company; and

- (d) Take into account the opinions of management and the Company's internal auditors (or other personnel responsible for the internal audit function).

Financial Reporting Process

9. In consultation with the independent auditors, management and the internal auditors, review the integrity of the Company's financial reporting processes, both internal and external. In that connection, the Committee should obtain and discuss with management and the independent auditors reports from management and the independent auditor regarding: (i) all critical accounting policies and

- practices to be used by the Company; (ii) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Company's management, the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditors; (iii) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles; (iv) major issues as to the adequacy of the Company's internal controls and any specific audit steps adopted in light of material control deficiencies; and (v) any other material written communications between the independent auditors and the Company's management.
10. Review periodically the effect of regulatory and accounting initiatives on the financial statements of the Company.
 11. Review with the independent auditors (i) any audit problems or other difficulties encountered by the auditors in the course of the audit process, including any restrictions on the scope of the independent auditors' activities or on access to requested information, and any significant disagreements with management; and (ii) management's responses to such matters. Without excluding other possibilities, the Committee may wish to review with the independent auditors (i) any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise), (ii) any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditors to the Company.
 12. Review and discuss with the independent auditors the responsibilities, budget and staffing of the Company's internal audit function.

Legal Compliance / General

13. Review periodically, with the Company's counsel, any legal matter that could have a significant impact on the Company's financial statements.
14. Discuss with management and the independent auditors the Company's guidelines and policies with respect to risk assessment and risk management. The Committee should discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
15. Set clear hiring policies for employees or former employees of the independent auditors. At a minimum, these policies should provide that any registered public accounting firm may not provide audit services to the Company if the Chief Executive Officer, President, Controller, Chief Financial Officer, Chief Accounting Officer or any person serving in an equivalent capacity for the

Company was employed by the registered public accounting firm and participated in the audit of the Company within one year of the initiation of the current audit.

16. Establish procedures for: (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Reports

17. Prepare all reports required of the Committee to be included in the Company's proxy statement, pursuant to and in accordance with applicable rules and regulations of the SEC.
18. Report regularly to the full Board of Directors including:
 - (i) with respect to any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors or the performance of the internal audit function;
 - (ii) following all meetings of the Committee; and
 - (iii) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities.

The Committee shall provide such recommendations as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairperson or any other member of the Committee designated by the Committee to make such report.

19. Maintain minutes or other records of meetings and activities of the Committee.

Financial Oversight

20. Periodically meet with management, and third parties to the extent necessary, to review financial matters to accomplish the Purpose set forth in I.B. above.

V. ANNUAL PERFORMANCE EVALUATION

The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members, including by reviewing the compliance of the Committee with this Charter. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary or valuable. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.