Who is ITC?

- ITC is the first and only fully independent transmission company in the U.S.
- ITC is the eighth largest transmission-owning company in the U.S.
- Transmission systems in Michigan’s lower peninsula and portions of Iowa, Minnesota, Illinois, and Missouri
  - Serves combined peak load in excess of 25,000 megawatts (MW)
  - Approximately 15,000 transmission line miles
- Also actively seeking opportunities to build, own, operate and maintain transmission in Kansas, Oklahoma and Texas
ITC = Independent

- ITC focuses on ownership, operation, maintenance, and construction of transmission facilities as a single line of business
- There is no internal competition for capital; it is dedicated for prudent transmission investment
- ITC is singularly focused on transmission and aims to bring significant benefits to customers
- Our Goals:
  - Improve reliability
  - Reduce congestion, improve efficiency
  - Increase access to generation, including renewable resources
  - Lower cost of delivered energy

ITC System Statistics

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>ITC Transmission</th>
<th>METC</th>
<th>ITC Midwest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System Peak Load</td>
<td>12,745 MW</td>
<td>9,469 MW</td>
<td>3,100+ MW</td>
</tr>
<tr>
<td>Total Transmission Miles</td>
<td>More than 2,700</td>
<td>Approximately 5,400</td>
<td>Approximately 6,800</td>
</tr>
<tr>
<td>Membership</td>
<td>Midwest ISO</td>
<td>Midwest ISO</td>
<td>Midwest ISO</td>
</tr>
</tbody>
</table>
Where are we today?

- Wind energy is the most rapidly growing type of generation resource
  - Wind forecasts expect wind generation to grow 6,000 MW annually for the next five years – 8,500 MW of wind was added in 2008
  - The MISO and SPP regions have some of the most abundant wind resources in the United States
- The current cost recovery protocols for economic transmission projects have resulted in construction of very few economic projects
  - Lack of transmission capacity is the largest barrier to future wind development
  - The wind industry supports the concept of base funding for a portfolio of economic transmission projects
  - Assurance of cost recovery for transmission owners is necessary for construction of a reliable and efficient transmission grid

State RPS Targets

- State renewable portfolio standard targets are driving the demand for renewable energy resources

Notes: Alaska has no RPS; DC is district generation; * Iowa has a goal of 1,008 MW of wind by 2010
Source: Derived from data in EIA, NREL, PLIUs, State legislative tracking services, Database of State Incentives for Renewables and Efficiency, and the Union of Concerned Scientists
Source: Federal Energy Regulatory Commission

Updated April 22, 2008
Wind Energy Requires a Robust Transmission System

◆ Wind IS different:
  — Today’s transmission planning and resource interconnection processes are well suited to support traditional generation that has freedom to site.
  — In contrast, wind energy sites are dictated by nature
  — Typically, the best wind energy sites are distant from the existing transmission grid and load centers

◆ Wind IS different:
  — Normally, firm generation resources are scheduled to meet a variable load
  — Incorporating wind resources requires the ISO/RTO to schedule a variable generation resource to meet a variable load
  — Wind resources behave more like load than generation
  — Therefore, we must understand the load statistics with and without wind resources

◆ Wind IS different:
  — Transmission service for wind energy is classified as economic rather than reliability
  — Significant expansion of the transmission system is required so that wind energy potential can be maximized
  — Wind resources are new and must compete for transmission with established generators
  — Project financing of new wind resources requires transmission certainty
  — Transmission issues have the potential to derail wind resource development

Robust Transmission System Barriers

◆ There is little dispute around the following issues:
  — The nation’s transmission systems need to be upgraded and modernized
  — Public policy should be aimed at improving the grid to support a competitive wholesale energy market
  — Without significant regional transmission expansion wind energy will be limited

◆ Major barriers include:
  — Siting and approval processes that differ widely from state-to-state
  — FERC Order 888 policy stating that the entity requesting new or changed transmission service must pay for all upgrades required to grant that service
  — The tension between the particular interests of generator owners and improvements in the overall efficiency of the transmission grid
  — Uncertainty about return of and return on an investment in transmission expansion
  — Cost allocation for economic projects as opposed to reliability projects
  — Transmission financing is not a barrier to transmission expansion!!!
“Experience has shown that the use of well-functioning hour-ahead and day-ahead markets and the expansion of access to those markets are effective tools for dealing with wind’s variability. A deep, liquid real-time market is the most economical approach to providing the balancing energy required by wind plants with variable outputs (IEA 2005).

“As an example, the Midwest ISO covers a footprint of 15 states, so there is a deep pool of generators that can ramp up and down in response to wind output.”

20% Wind Energy by 2030
Increasing Wind Energy’s Contribution to U.S. Electricity Supply
U.S. Department of Energy
July 2008

“Stated simply, a consolidated large balancing authority, as contemplated in the February 15 Filing, will make it easier for large quantities of wind generation to interconnect to the Midwest ISO . . . The particular operating characteristics of wind generation increase the need for flexible generation to compensate for changes in the net of load and wind generation. The larger the balancing authority, the more capability the balancing authority will possess to accommodate the needs of wind generators.”

Comments of Otter Tail Power Company
Federal Energy Regulatory Commission
Docket Nos. ER07-550-000 and ER07-550-001
March 30, 2007
Independent Regional Planning: To ensure that needed transmission is planned in the most cost effective manner, building on existing plans and processes while avoiding duplication, legislation should:

- direct the FERC to approve one or more qualified planning entities in each Interconnection;
- ensure the process builds on planning already undertaken by RTOs, utilities, states and multistate organizations;
- require that planning entities be independent and that their activities be conducted in an open, transparent and non-discriminatory manner; and
- authorize FERC to conduct the necessary regional or interconnection-wide planning if the Commission does not receive applications from qualifying entities within time frames specified.

Independence – preventing market participants from exerting undue influence in the planning process – requires that the function be mandatory and it be funded through an assessment, (similar to the funding system for NERC), not via voluntary dues as done today.

Federal Transmission Siting Authority: States are best situated to make optimum routing decisions and the process is more likely to be cooperative if states maintain a leadership role.

- FERC should be given new authority under the Federal Power Act to certify interstate transmission facilities needed to support regional electricity markets and delivery of renewable resources to load centers that are identified through the new planning process on the basis of public convenience and necessity.
- Once an applicant has received a certificate of public convenience and necessity from the Commission, it would constitute sufficient evidence of public need and no additional state or other approvals would be required.
- Projects not identified in the new planning process would remain subject to existing processes for need determination.

States should retain the ability to do the actual routing of these certificated facilities, with a FERC backstop authority if the state does not act in a timely manner, or acts in a manner that makes the certificated facilities either physically or economically impractical to construct.
Waiting for Gadot: A Tragicomedy in Two (Three?) Acts

- **Cost Allocation**: Federal legislation must address the issue of cost allocation.
  - EHV transmission lines are inherently regional in nature and they confer significant regional as well as local benefits.
  - If encouraging the development of location-constrained renewable resources is a national priority, as ITC believes it is, there are national benefits associated with the development of these resources.
  - Since the benefits of EHV lines extend well beyond the states in which they are located, their costs should be widely allocated as well.
- FERC should be given the authority to allocate the costs of these facilities either on a regional or Interconnection-wide basis.

"Current cost sharing NOT based on goals to improve social well-being. Wind mandates will require new thinking."

*David W. Hadley, Vice President, State Regulatory Relations
Midwest ISO, May 19, 2008*

Transmission Expansion Conclusions

- Transmission needs to be a market enabler and not just a necessary means to deliver bulk power from central generators to load centers – transmission expansion is a must!
- We need to continue to address the economic project process from a public policy perspective
  - Economic projects should be treated no different than reliability projects for cost allocation or pricing since there is no such thing as a purely economic project
- Regional transmission expansion needs regional siting and it is time to promote FERC siting for such projects
- The time for change is now if we truly want to be in the national forefront for wind energy and a robust transmission system
- Industry, regulators, and policymakers must move towards encouraging independence, regional planning, and regional pricing as a means to provide a robust transmission system that enhances customer service and reliability
- Transmission is environmentally friendly which helps overcome "not in my backyard" syndrome
President Obama’s Vision

“One of… the most important infrastructure projects that we need is a whole new electricity grid. … if we’re going to be serious about renewable energy, I want to be able to get wind power from North Dakota to population centers, like Chicago.”

Since early 2008 ITC has been studying how to effectively and efficiently bring wind power to the demand centers.

Aligned with the objectives of the Regional Generation Outlet Study (RGOS), the Upper Midwest Transmission Development Initiative (UMTDI), and the Joint Coordinated System Planning initiative (JCSP),

Includes approximately 3,000 miles of extra high-voltage (765kV) transmission at a projected cost of $10 to $12 billion.
Green Power Express Benefits

- Increases electric reliability and system efficiency
- Facilitates the movement of approximately 12,000 MW of power from the high efficiency wind abundant areas
- More efficient use of land
- Creates jobs in the U.S.
- Avoidance of system congestion
- Reduces carbon emissions by up to 34 million metric tons, equivalent to seven to nine 600 MW coal plants, or nine to eleven million autos\(^1\)
- Largely resolves Midwest ISO generation interconnection queue issues for region
- Can be staged to optimize the realization of benefits

\(^1\) According to an independent study by CRA International

Why Not 345kV?

- Local fix; does not support regional solution
- Same power carrying capacity would require six 345kV lines
  - Inefficient use of land
  - More costly
  - May take more time to site and construct
- Ad hoc solution resulting in suboptimal solution
DC is a good technology solution, if used in proper application and setting.

However, fundamental limitations prevent serious consideration for projects like this one:

- DC generally used from point A to point B with little opportunity for intermediate on-ramps and off-ramps.
- DC does not allow for easy redirection of power in the case of a line outage.
- DC would make system vulnerable from a reliability standpoint if used as first step.
- Region required networked solution that would allow wind to be gathered from disparate areas within region and transmitted to multiple states / population centers.

Why Not DC?

Affected Utilities
State/Federal Rules and Contractual Rights

Underlying system planning
- ITC will support incumbent to address planning concerns and submit to RTO
- Substation location and other planning items
- Strong backbone to build on to support future development on local utility system

Local Siting Issues
- Local color on approaches to siting, including location

Partnership Structure
- Must be developed in a way that maintains independence

On April 10, 2009, the Federal Energy Regulatory Commission (FERC) approved Green Power Express LP’s request for favorable transmission investment incentives:

- Regulatory Asset
  - Approved effective April 11, 2009 and January 1 each year for subsequent year
  - 205 filing required to show prudence and just and reasonableness
- CWIP
  - Compliance filing for authorization to include in rates required at least 60 days prior to requested effective date
- Abandoned Plant
  - Must file future 205 to show costs are just and reasonable and identify the cost allocation method that will be applied
- Hypothetical Capital Structure
  - 60 percent equity and 40 percent debt until any portion of the project is placed in service

ROE: Approved total ROE of 12.38%, which includes 100 points for independence, 10 points for scope of project, and 50 points for RTO participation which is effective when entity becomes an RTO member and places project under RTO operational control

Formula rate and protocols – set for hearing and subject of ongoing settlement discussions

Requires filings on partnership structure as development occurs to ensure independence is maintained
The Green Power Express addresses a recognized lack of electric transmission infrastructure needed to integrate wind energy.

This plan supports a national energy vision, and the work of the Upper Midwest Transmission Development Initiative.

Consistent with ITC’s traditional approach, the company intends to partner with local utilities on the Green Power Express to bring the project to fruition.

ITC is uniquely positioned and qualified to see this project built.

Summary

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