

Fall 2011 Partners In Business

October 25, 2011



AGENDA

9:00 a.m.	Greetings	
9:05 a.m.	Gregory Ioanidis	2011 Highlights
9:25 a.m.	Kwafo Adarkwa	Regulatory/Legislative Update
9:45 a.m.	Jason Sutton	Projects Update
10:15 a.m.	BREAK	
10:30 a.m.	John Andree	MTEP Project Review
11:20 a.m.	Karen Hilton	Stakeholder Survey Results
12:00 Noon	LUNCH BREAK	
1:00 p.m.	Hank Schwab & Mike Taylor	Load Forecast Recaps
1:30 p.m.	Cynthia Crane	Attachment 'O'
2:30 p.m.	Closing Remarks	

2011 Highlights

Gregory Ioanidis
President, ITC Michigan





Michigan Regulatory & Legislative Activities

- Michigan's New Energy Policy Chief is Valerie Brader
 - Chief Energy Policy Officer for the Michigan Economic Development Corporation
 - Works closely with the Governor's Office, Michigan Energy Office and MEDC to make energy policy recommendations for the state
- Governor Snyder appointed John D. Quackenbush, Chair of the Michigan Public Service Commission
 - Appointment was eligible to be filled on July 2, 2011
 - Commissioner seat previously held by Monica Martinez
 - New Chair has experience in the financial services industry



MISO EPA Study Generation Retirement Analysis for Michigan

- MISO EPA study identified 12.6 GW of “at risk” generation throughout the MISO footprint that will possibly be retired
- Attachment Y studies will be required prior to actual retirement.
- ITC is currently performing aggregate studies focusing on transmission adequacy in Michigan under three scenarios:
 - **Scenario #1:** Forcing off all Michigan coal units with a maximum power capability less than 300 MW’s
 - **Scenario #2:** Forcing off all Michigan coal units with a maximum power capability less than 150 MW’s
 - **Scenario #3:** Forced off all Michigan coal units with a maximum power capability less than 600 MW’s

Summer Challenges

Storm: Delhi – Tompkins #1 and #2 Circuits
47 poles fell during Memorial Day weekend storm



Field crews worked 16-hour shifts to put lines back in service in less than a week



Summer Challenges

Project 1

- Several hot days in July combined with the Project 1 generator outage and high load flows resulted in overloading on the Verona – Barnum Creek line
- ITC worked with Consumers Energy to mitigate an overload in the Coldwater area
- Support from all parties prevented customer load shed
- ITC has a project constructing a line between Simpson and Batavia substations providing an additional source to the area eliminating an overload for the outage of Project 1 generation
- In service date set for Spring 2012

Summer Challenges

Adams – Spokane Constraint

- The 230kV Jewell – Spokane line was removed from service in April 2010 due to vegetation encroachment along the Macomb Orchard Trail
- Macomb County did not want ITC cutting trees around the Jewell – Spokane line
- Having the line out of service during the summer introduced real-time overloads and next contingency overloads on the Adams – Spokane line
- Managing Constraints
 - MISO re-dispatched generation causing financial implications to market
 - ITC redirected power through an open end 120kV transmission line
 - DTE transferred load out of the area



Summer Challenges

- ITC worked with Macomb County and Macomb County Orchard Trail to reach a solution to remove the encroaching vegetation along the trail
- Work began in late June 2011 to prepare line for re-energization and was accelerated in mid July in anticipation of upcoming peak loads
- Jewell – Spokane line was placed back into service ahead of schedule on July 18th 2011 to support the system during the high system demand days later

Questions?



Regulatory & Legislative Update

Kwafo Adarkwa





Regulatory Update

- FERC issued an NOI on Transmission Incentives (RM11-26).
- FERC issued Order 1000 on July 21st (RM10-23).
 - The Order touched on:
 - Cost Allocation
 - Transmission Planning
 - Removal of the Right of First Refusal
- First Energy filed a petition for a declaratory order and complaint against MISO(EL11-56).
- FERC denied MISO's Entergy waiver filing (ER11-3728).
- 2012 Attachment O rates were posted on September 1, 2011 for METC and ITC *Transmission*.

Legislative Update

- Governor and Lt. Governor move forward on Personal Property Tax reform
 - Will be unveiling a plan to overhaul the personal property tax with relief for industrial personal property; changes to commercial and utility property will wait
 - Proposal would make changes occur over a period of years and will include replacement revenue
- Legislative Redistricting signed into law by the Governor
 - New districts for 2012 election
 - Plan is not likely to result in major shifts in party representation in the Legislature

Legislative Update

- Recall Efforts – both Democrats and Republicans
 - Rep. Paul Scott's (R-Grand Blanc) recall was dead but is alive again as a result of recent Supreme Court ruling; targeted him on votes on pension tax and teacher tenure reform
 - Recalls of members based on votes for teacher tenure reform and on votes dealing with tax reform
- Senate Hearings on Effectiveness of PA 286 and PA 295 of 2008
 - Chairman Mike Nofs has begun hearings in the Senate Energy and Technology Committee
 - Testimony on PA 295 by DTE, ITC, Consumers Energy, Citizens for Wind Energy, ABATE, Michigan Environmental Council, and several others
 - Testimony on PA 286 in the coming weeks
- House Bill 4499: Representative Franz
 - Prohibits the state from leasing land to support off-shore wind energy development
 - Remains in the House Committee on Energy and Technology

Legislative Update

- House Concurrent Resolution No. 9: Representative Amanda Price
 - Amended in the House to correct inaccuracies; amended in the Senate to correct additional inaccuracies stated in the resolution
 - Adopted in the Senate on a non-roll call vote
- House Bill 4107: Representative Peter Pettalia
 - Mandates a 6-month turnaround for a permit for a coal fired plant
 - Remains in the House Energy and Technology Committee
- House Bill 4687: Representative Mark Meadows
 - Removes the 10% cap on “customer choice” for schools, colleges & universities
 - Remains in the House Energy and Technology Committee

Questions?





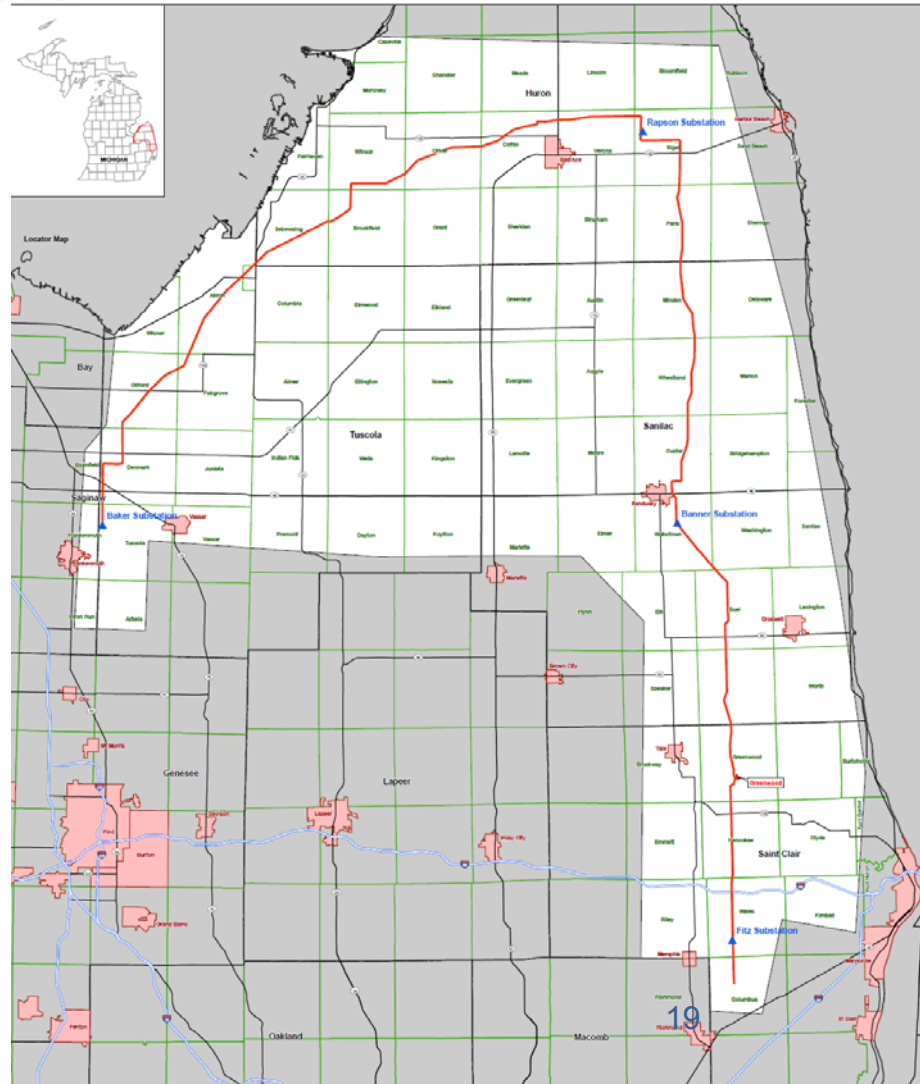
PROJECT UPDATES

Jason Sutton



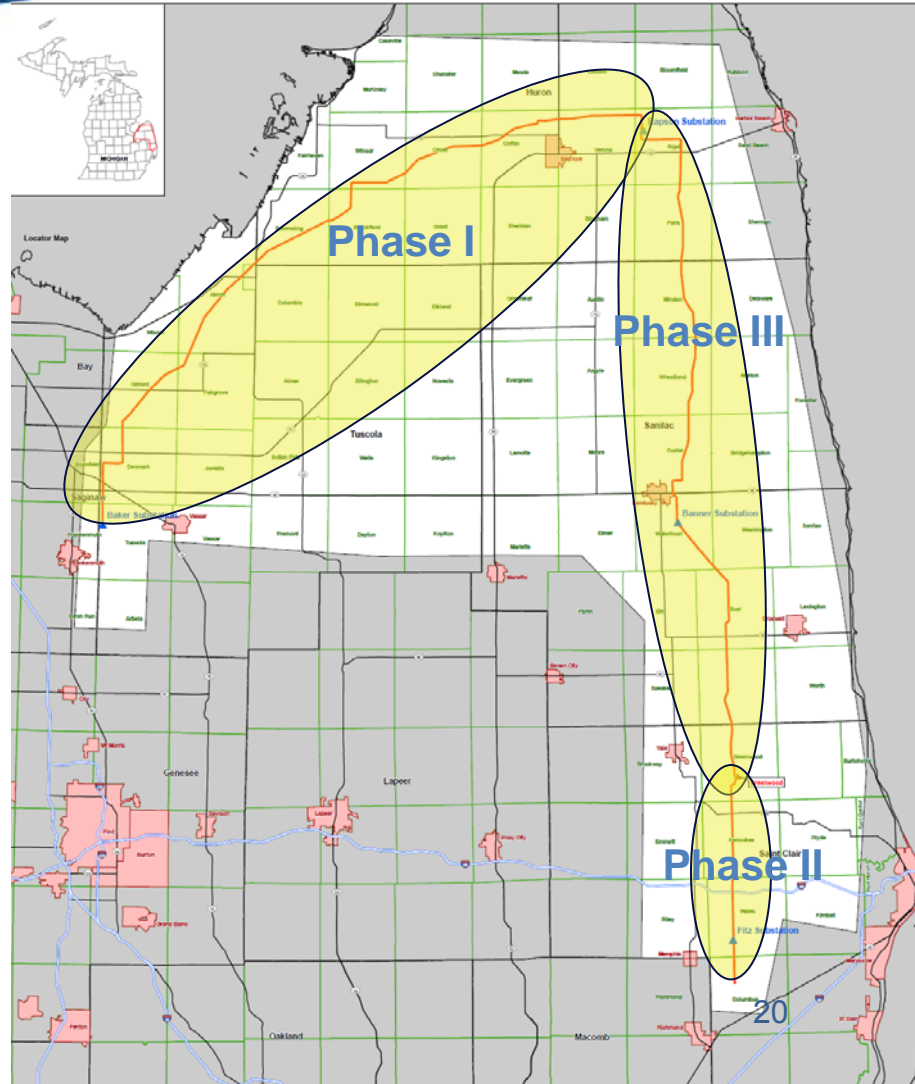
Thumb Loop Project Overview

- **Line length:** Approximately 140 miles
- **Line route:** Tuscola, Huron, Sanilac and St. Clair counties
- **Voltage:** 345,000 (345 kV)
- **Right-of-way width:** Approximately 200 feet
- **Structure type:** Steel monopole, double circuit
- **Distance between structures:** Approx. 800 to 1,100 feet
- **Towers per mile:** Typically six
- **New substations:**
 - Baker (Tuscola County)
 - Rapson (Huron County)
 - Banner (Sandusky County)
 - Fitz (St. Clair County)



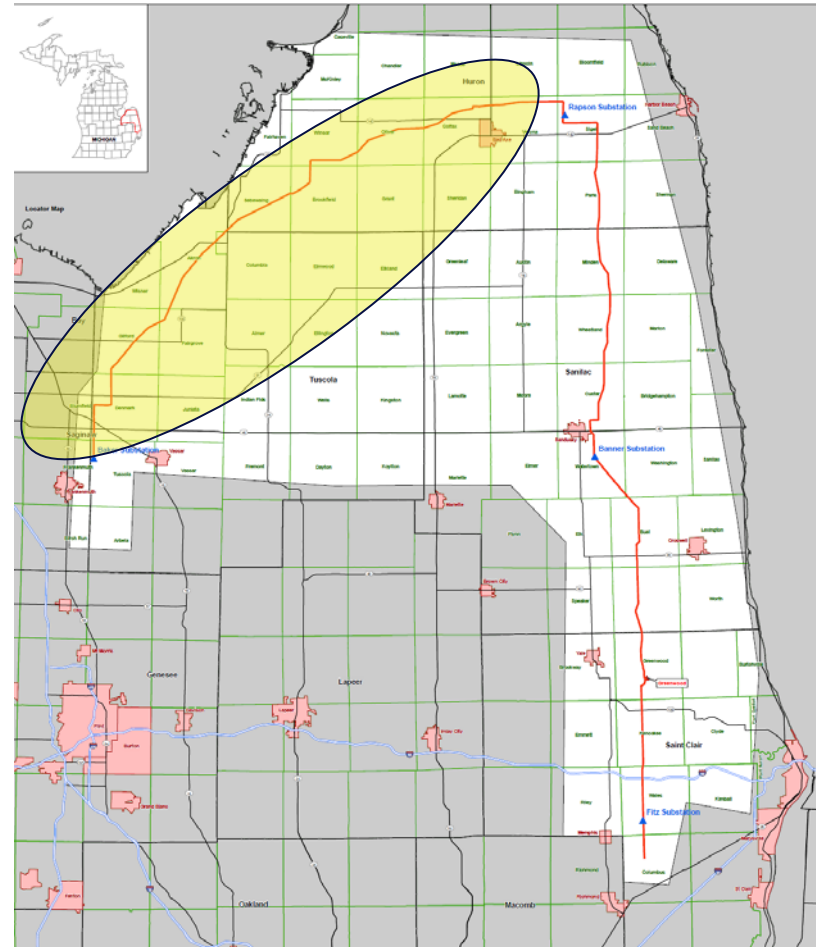
Thumb Loop Project Overview

Constructed in
three phases
2012 - 2015

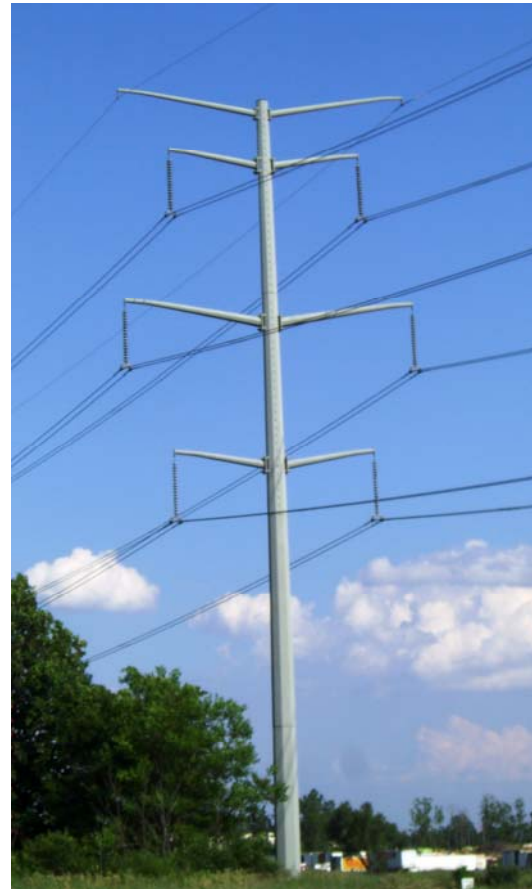


Phase I – Baker to Rapson

Construction start: Early 2012
In-Service: December 2013



Baker to Rapson Design Criteria



- 61 line miles
- Double-circuit steel monopole construction (tangents)
- Steel lattice towers (deflection and turning locations)
- 200-ft easement
- Ruling span: 950-ft
- Structure Height: 130-ft to 150-ft
- NESC + 5-ft clearance criteria
- Drilled pier foundations

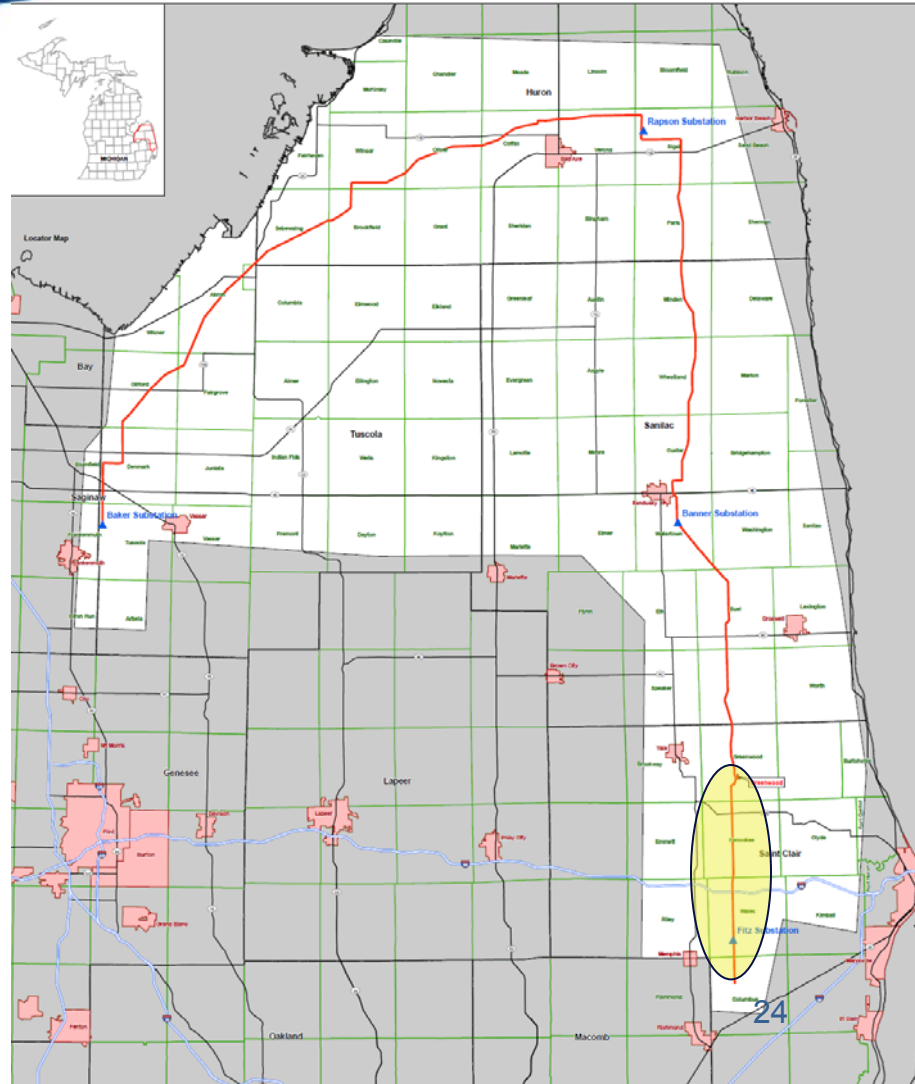
Thumb Loop Project

- **Status**

- Line ROW Acquisition is Underway for First 61 Miles
- Substation Properties have Been Optioned or Purchased
- Substation Construction is Underway at Bauer Substation (Near Frankenmuth)
- Line Construction is Expected to Begin in March, 2012
- Project Target Completion is 2015.

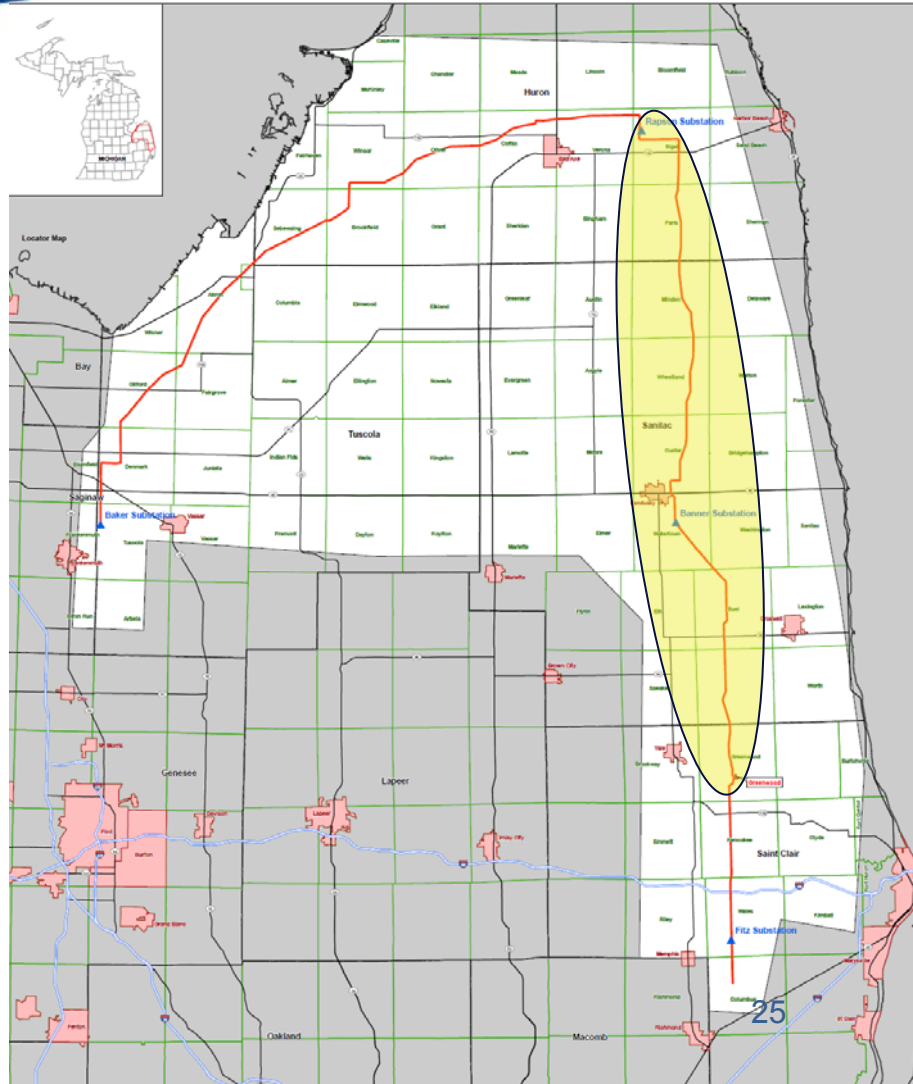
Phase II – Greenwood to Fitz

2013 - 2014



Phase III – Rapson to Greenwood

2013 - 2015



- **Scope**
 - New 345-138 kV Substation Near Kalamazoo, Mi
 - 7 Miles of New 138 kV (4 Ckts.)
- **Status**
 - Line ROW Acquisition Underway
 - Potential Substation Properties have Been Optioned
 - Substation Construction to Begin in September, 2012
 - Project Target Completion is June, 2013



Simpson-Batavia

- **Scope**

- ~22 Miles of New Single Circuit 138 kV Line
- Addition of New Line Position at Batavia Substation
- Conveyance of ~22 Miles of Existing 138 kV

- **Status**

- Line Construction is Underway
- Batavia Modifications are Underway
- Project Target Completion is April, 2012



Questions?





15-minute Break



*ITCT & METC
Capital Project
Review*

John Andree
Manager,
ITCT/METC Planning



Agenda

- MISO 2012 MTEP
 - ITC *Transmission* Projects
 - METC Projects
- Status of 2011 MTEP Projects

Cases MISO will be using to analyze the systems

- 2 Year Out Model

- Peak and Shoulder Peak

- 5 Year Out Model

- Peak and Shoulder Peak

- 10 Year Out Model

- Light Load Model

- Flows both IN and OUT on the IESO and ATC interfaces

- MISO will also be setting up and studying sensitivity cases as appropriate for different study areas to evaluate projects for MTEP12

- Set schedule for project review in SPM and Technical Task Force meetings for Michigan

Where ITC is at

- Planning – Has identified potential issues on the grid using the current forecasts and identified potential proposals to solve the issues
- Engineering – Has identified infrastructure issues with the system and programs to resolve these issues
- Proposed projects within the appropriate time horizon were submitted to MISO for consideration to be moved to Appendix A in MTEP12

ITC Transmission – 2012 MTEP

Distribution Interconnections

- Inergy Automotive (2011): 120/13.2kV Substation in New Boston
- Phoenix (2012): 120/13.2 kV Substation in Ann Arbor
- Detroit Wastewater (2013): 120/13.8kV Substation in Detroit

Serving Economic Growth



ITC Transmission – 2012 MTEP

Capacity/System Reinforcement Projects

- Bismarck-Stephens 120kV
- Lee-Menlo 120kV
- Quaker-Southfield 120kV #2
- Southfield-Sunset 120kV
- Superior-Wayne 120kV
- Trenton Channel Reactor Replacement
- Bloomfield Station Equipment
- Monroe 345kV Station Equipment
- Wayne 345kV Station Equipment

*Improving Reliability
Reducing Congestion
Reducing System Losses*

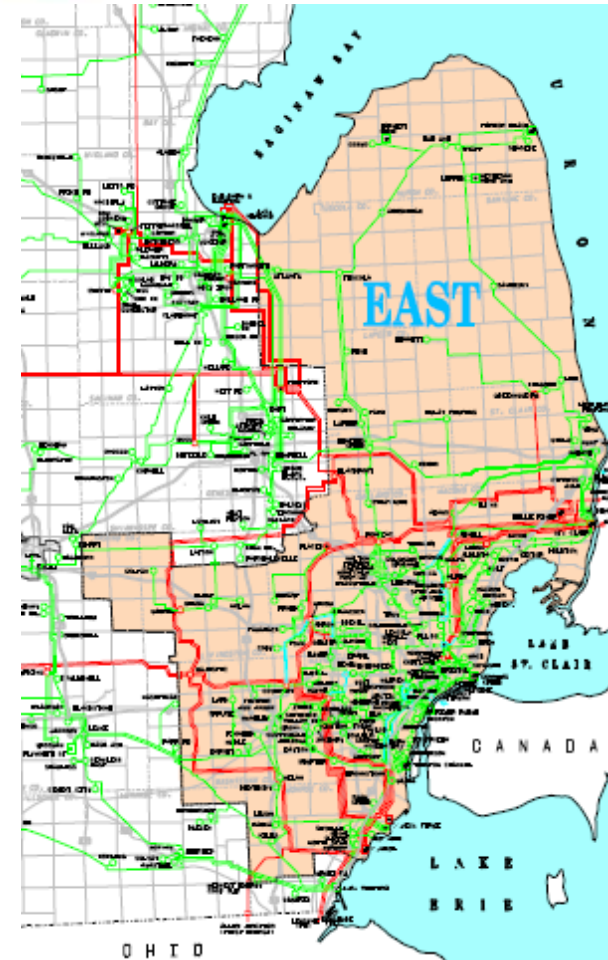


ITC Transmission – 2012 MTEP

Infrastructure Improvement

- Battery Replacement Program
- Breaker Replacement Program
- Potential Device Replacement Program
- Pole Top Switch Additions
- Relay Betterment Program
- Surge Arrestor Replacement Program
- Wood Pole Replacement Program

*Maintaining Safety
Improving Reliability
Modernizing the Grid*

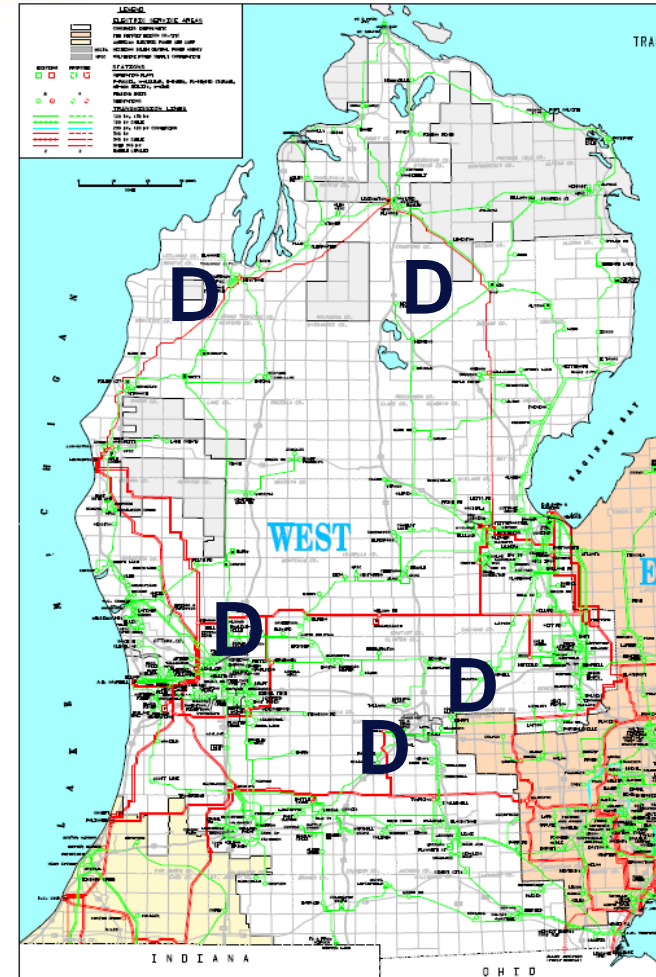


METC – 2012 MTEP

Distribution Interconnections

- Eaton Rapids (2012): 138/12.47kV Substation in Eaton Rapids, new 138 kV Transmission lines
- Ratigan (2012): 138/24.9 kV Substation in Kent Co.
- Fausset (2012): 138/24.9kV Substation in Livingston Co.
- Ryno (2012): 138/24.9kV Substation in Oscoda Co.
- Chums Corner (2013): 138/24.9kV Substation in Co.
- Egan (2014): 138/24.9kV Substation in Grand Traverse Co.

Serving Economic Growth



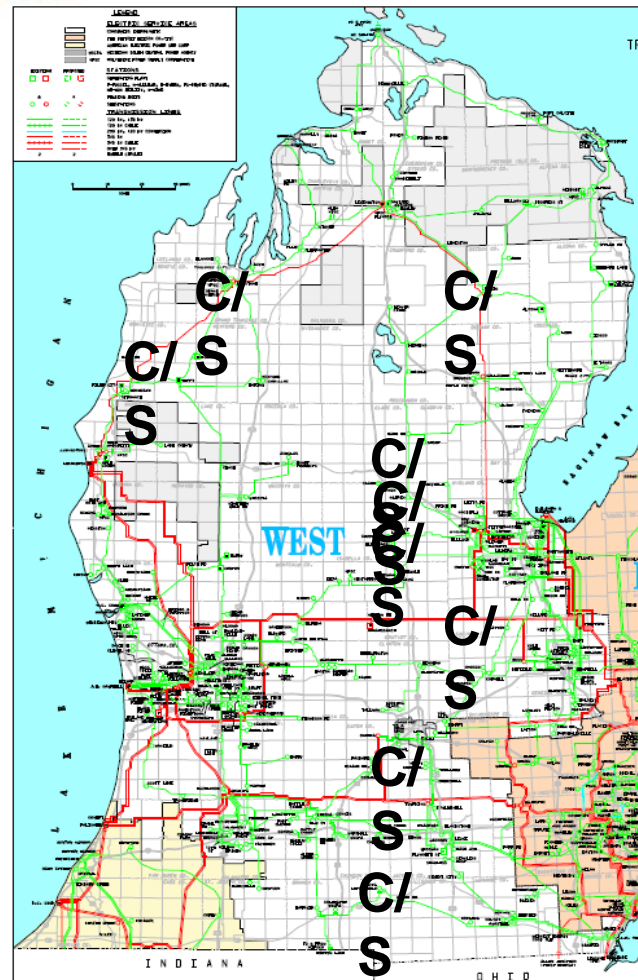
METC – 2012 MTEP

Capacity/System Reinforcement Projects

- Batavia-Moore Rd. 138kV Pilot Relay
- Bell Road – Cornell 138kV
- Bullock-Summerton 138kV
- Canal Jct. – Delhi 138kV Sag
- Edenville Jct.-Warren 138kV
- Warren – Bard Rd. 138kV
- Gallagher 345kV Breaker and a Half
- Keystone Breaker Additions
- Pere-Marquette-Keystone 230kV

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Improving Reliability
Reducing Congestion
Reducing System Losses



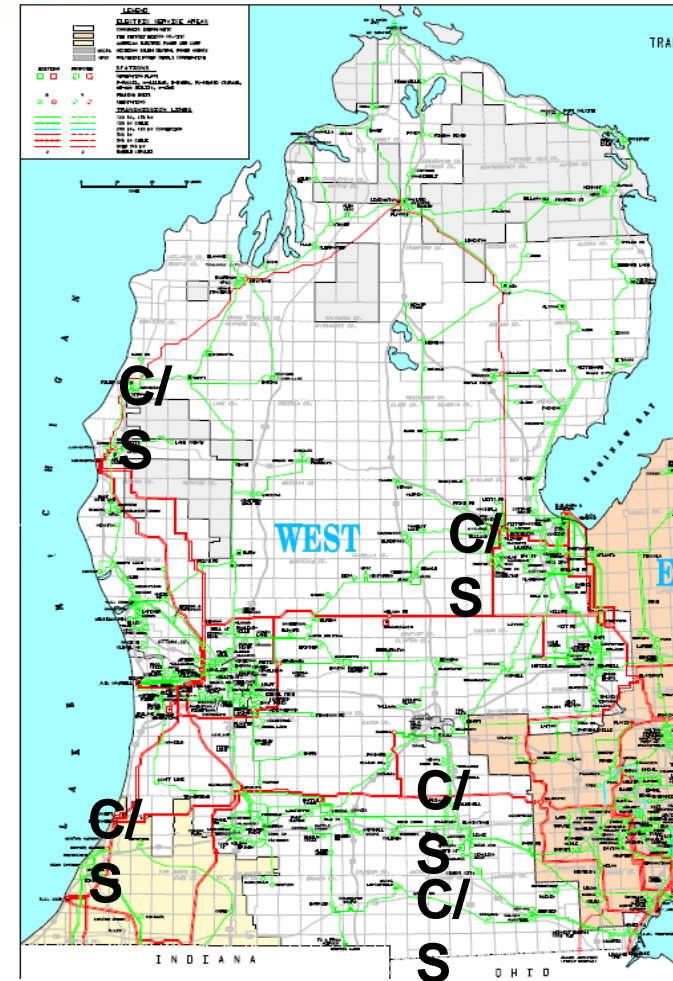
METC – 2012 MTEP

Capacity/System Reinforcement Projects

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- Stronach-Pere Marquette 138kV Pilot Relay
- Beecher 138kV Station Equipment
- Palisades 345kV Station Equipment
- Tittabawassee 345kV Station Equipment
- Tompkins 138kV Station Equipment

*Improving Reliability
Reducing Congestion
Reducing System Losses*

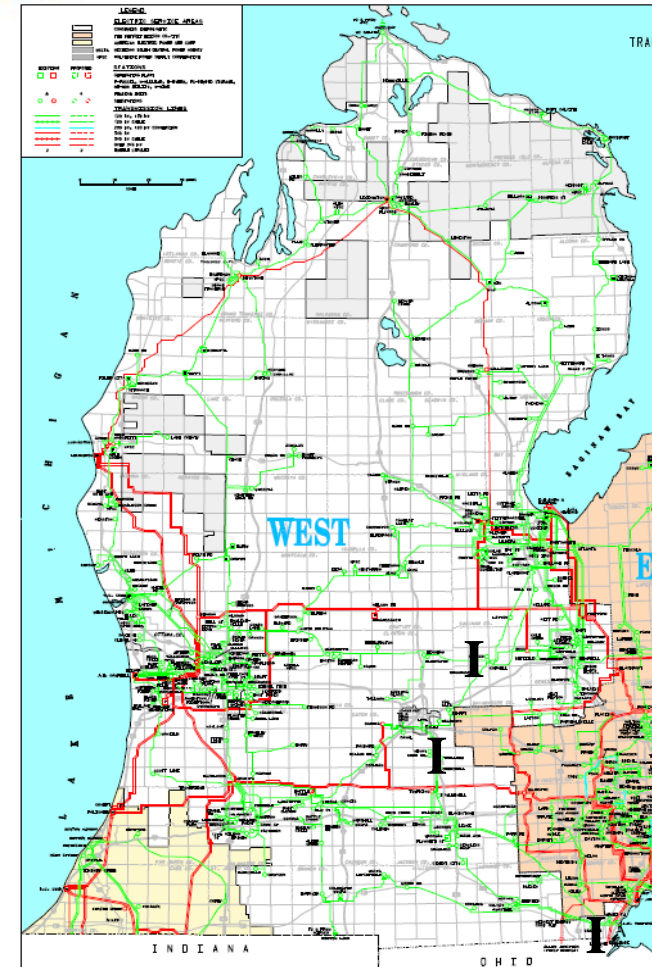


METC – 2012 MTEP

Infrastructure Improvement

- Cornell 138kV Bus Rebuild
- Delhi – Tompkins 138kV Rebuild
- Whiting Transformer Replacement
- Battery Replacement Program
- Breaker Replacement Program
- Potential Device Replacement Program
- Pole Top Switch Additions
- Power Plant Relocation Program
- Relay Betterment Program
- Surge Arrestor Replacement Program
- Wood Pole Replacement Program

*Maintaining Safety
Improving Reliability
Modernizing the Grid*



ITC Status of 2011 MTEP Projects

- Fermi 120kV Capacitor - caps split between Fermi and Shoal: Move to Appendix A
- Southfield – Sunset 120kV rebuild: Move to Appendix B
- All Infrastructure improvement programs: Move to Appendix A
- All Distribution Interconnections: Move to Appendix A

METC Status of 2011 MTEP Projects

- Cottage Grove – East Tawas 138kV: Move to Appendix A
- Croton – Nineteen Mile 138kV: Move to Appendix A
- Karn – Cottage Grove (Karn) relay replacement: Move to Appendix A
- Keystone – Hodenpyl 138kV: Move to Appendix A
- Livingston – Gaylord Pilot Relay: Move to Appendix A
- Tippy – Wexford (Tippy) terminal equipment : Move to Appendix A
- Twining – Alcona 138kV: Move to Appendix A
- NERC Alert Facility Ratings: Move to Appendix A
- Chase – Mecosta 138kV: Move to Appendix B
- Plum - Stover 138kV rebuild: Move to Appendix B
- All Infrastructure Improvement Programs: Move to Appendix A
- All Distribution Interconnections: Move to Appendix A

Next Steps

- MTEP 2012 Schedule posted by the Midwest ISO for rest of 2011
 - *The list of projects and project justification documentation was submitted to MISO by Sept 15*
 - *Preliminary plans posted by the Midwest ISO on Sept 23*
 - *Initial comments by stakeholders due Nov 5 (approx.)*
 - *1st East SPM Meeting Dec 14 (Detroit MI)*
 - *ITC Assessments will be completed by Oct 31*
- Focused area studies ongoing for Northern Michigan and Southern ITCT Areas

Questions?



Stakeholder Relations Survey Review

Karen Hilton
Scott Madden
Management
Consultants



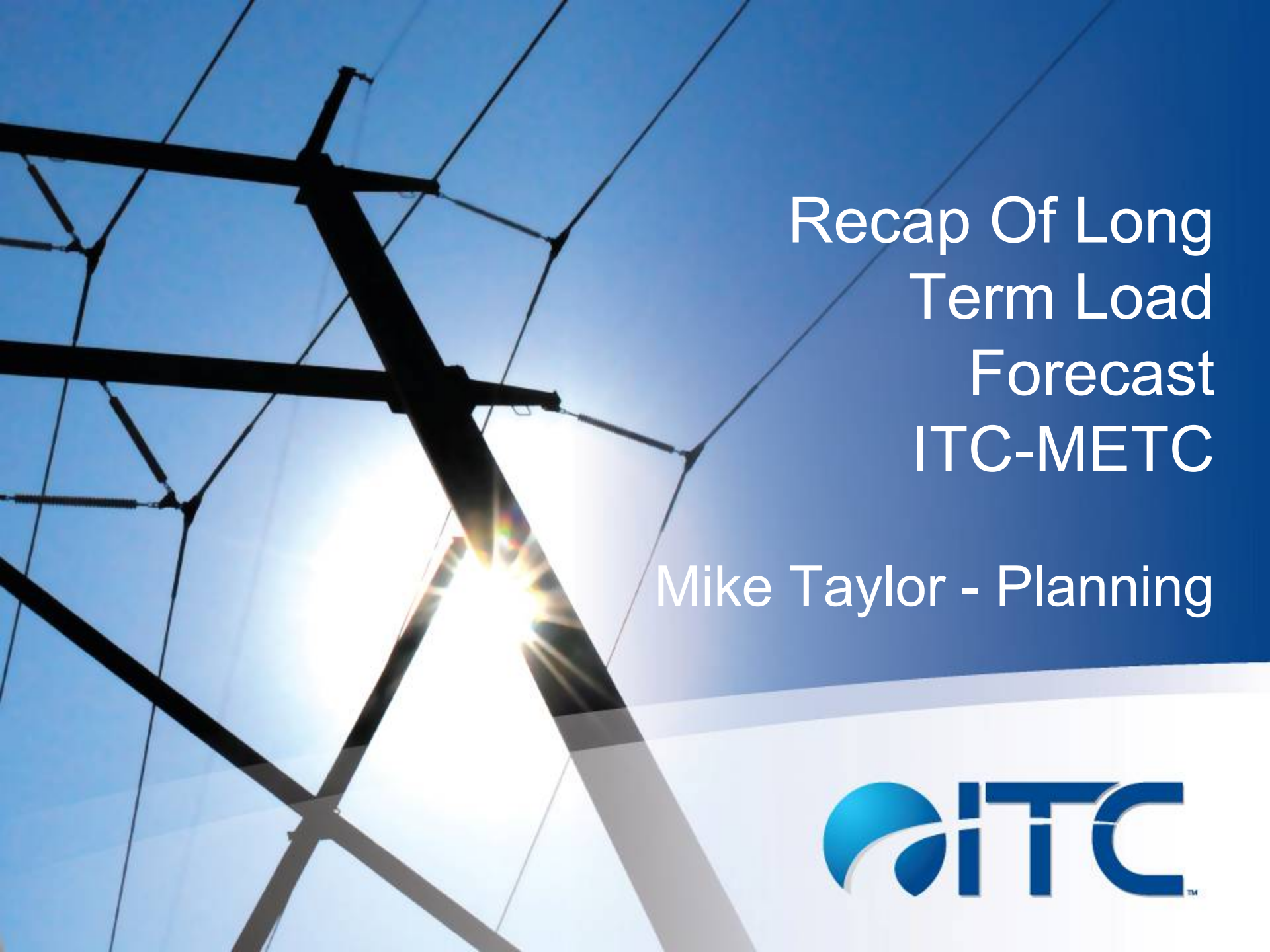
Stakeholder Relations Survey Action Items

- **Flexibility**
- **Accountability**
- **Continuous Improvement**
- **Proactive Engagement**
- **Added Value**
- **Measurable Results**





One-Hour Lunch Break



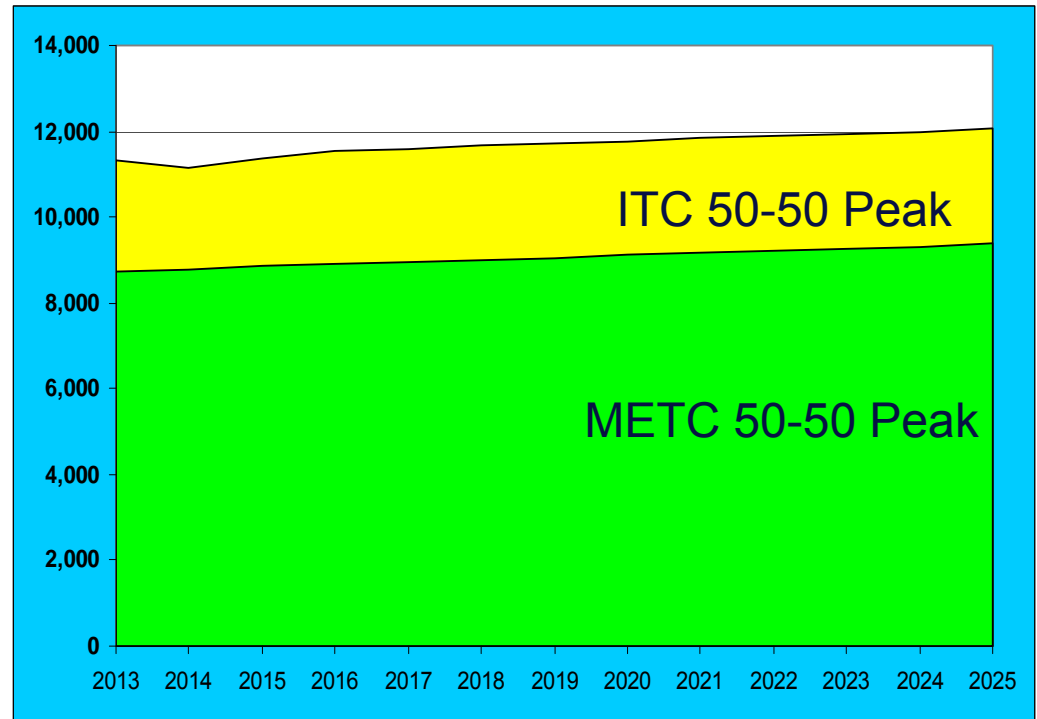
Recap Of Long Term Load Forecast ITC-METC

Mike Taylor - Planning



Long Term Load Forecast

- Highlights and Analysis
- Risks



Long Term Forecast

Highlights of Forecast

- Long term peak demand growth in Michigan will occur at a subdued rate over the forecast horizon
 - Demographic trends:
 - 2010 Census showed a population decline in Michigan, primarily arising from metropolitan areas in the eastern half of the State
 - SEMCOG predicts that population growth will continue to be negative for at least the short term
 - Average age is rising, as many younger people have moved out of the state

Long Term Forecast Highlights and Analysis

- Long term peak demand growth in Michigan will occur at a subdued rate over the forecast horizon
 - Economic trends:
 - GDP growth is forecast to grow at a slow rate in the near term (till 2013) of 2% or less
 - GDP in the ITC service territory is forecast to grow at a compound average growth rate of roughly 2% per annum over the forecast horizon (till 2026)
 - GDP in the METC service territory is forecast to grow at a 2.5% rate over this horizon
 - Unemployment remains high in the near term
 - Given the aging population, labor force participation rates are lower in the forecast period than what has been observed historically
 - Manufacturing employment is predicted to be stable, but with fewer employees per unit of output than historical levels, a trend that is forecast to continue, as higher levels of automation are deployed
 - The housing market remains weak
 - Housing starts remain very low for most of the forecast period, as the rate of household formation is moving at a rate historically faster than the rate of new house construction

Long Term Forecast Highlights and Analysis

- Load growth is also declining due to demand side factors
 - Lighting loads have declined considerably, and are forecast to continue to decline
 - Building codes and efficiency upgrades resulting from state and national polices (Energy Optimization, EISA, ARRA)
 - Consumer preferences and energy management technology
 - Price increases
 - Less disposable income for consumers and free cash for businesses, due to long lasting economic slump
 - High vacancy rates in residential and commercial properties, especially in Southeast Michigan

Long Term Forecast Risks

- Positive Risks to Forecast
 - Continued growth of domestic autos market share
 - Continued improvement in Michigan employment markets
 - Grand Rapids and Ann Arbor metropolitan areas have shown some improvement
 - Economic development initiatives bear fruit on wider scale
- Negative Risks to Forecast
 - National economy re-enters recession
 - Further decline in employment due to public sector budget cutting
 - Financial problems arising from precarious state of European banking sector

Long Term Forecast

ITC

PEAKS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
10	8,819	10,050	10,102	10,265	10,295	10,328	10,361	10,402	10,265	10,295	10,328	10,361	10,402
20	9,767	10,525	10,566	10,736	10,768	10,801	10,836	10,879	10,736	10,768	10,801	10,836	10,879
30	10,324	10,797	10,888	11,064	11,096	11,131	11,167	11,211	11,064	11,096	11,131	11,167	11,211
40	10,831	10,999	11,143	11,322	11,356	11,391	11,428	11,473	11,322	11,356	11,391	11,428	11,473
50	11,307	11,169	11,348	11,542	11,599	11,656	11,713	11,770	11,828	11,886	11,944	12,003	12,062
60	11,763	11,619	11,805	12,007	12,066	12,126	12,185	12,244	12,305	12,365	12,425	12,487	12,548
70	12,241	12,091	12,285	12,495	12,557	12,619	12,680	12,742	12,805	12,868	12,930	12,994	13,058
80	12,815	12,658	12,861	13,081	13,145	13,210	13,275	13,339	13,405	13,471	13,536	13,603	13,670
90	13,603	13,437	13,652	13,886	13,954	14,023	14,092	14,160	14,230	14,300	14,369	14,440	14,511

Long Term Forecast

METC

PEAKS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
10	6821	6861	6901	6940	6981	7022	7062	7103	7145	7186	7227	7270	7312
20	7554	7598	7642	7686	7731	7776	7821	7867	7912	7958	8004	8051	8097
30	7984	8031	8078	8124	8172	8219	8267	8315	8363	8412	8460	8509	8559
40	8377	8426	8475	8524	8573	8623	8673	8724	8775	8825	8876	8928	8980
50	8745	8796	8847	8898	8950	9002	9054	9107	9160	9213	9266	9320	9374
60	9097	9150	9204	9257	9311	9365	9419	9474	9529	9584	9639	9696	9752
70	9467	9522	9578	9633	9689	9745	9802	9859	9916	9974	10031	10090	10148
80	9911	9969	10027	10084	10143	10202	10261	10321	10381	10441	10501	10563	10624
90	10521	10582	10644	10705	10767	10830	10893	10956	11020	11084	11148	11213	11278

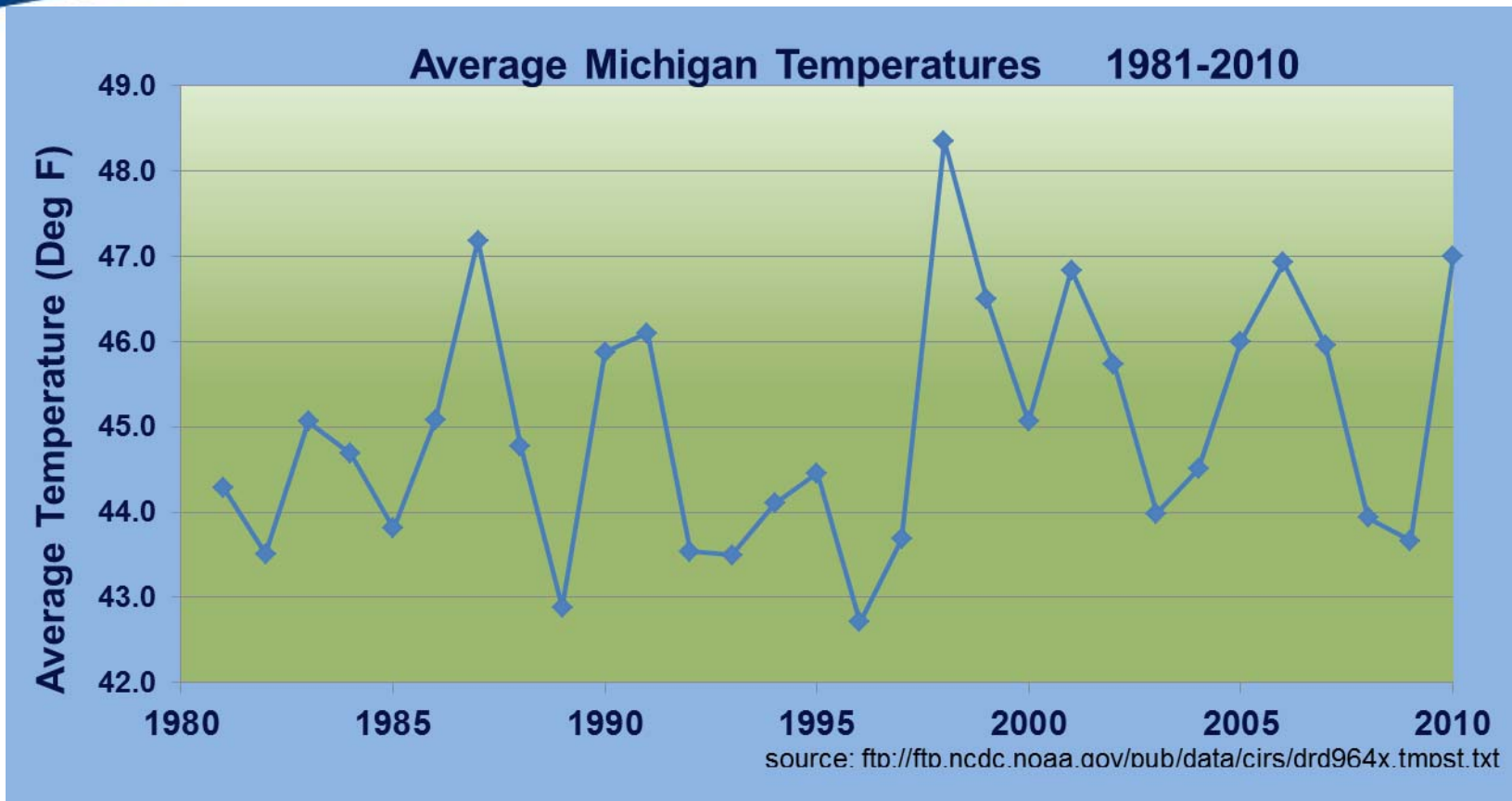
ITC Michigan Short Term (Att. O) Forecast

Henry Schwab

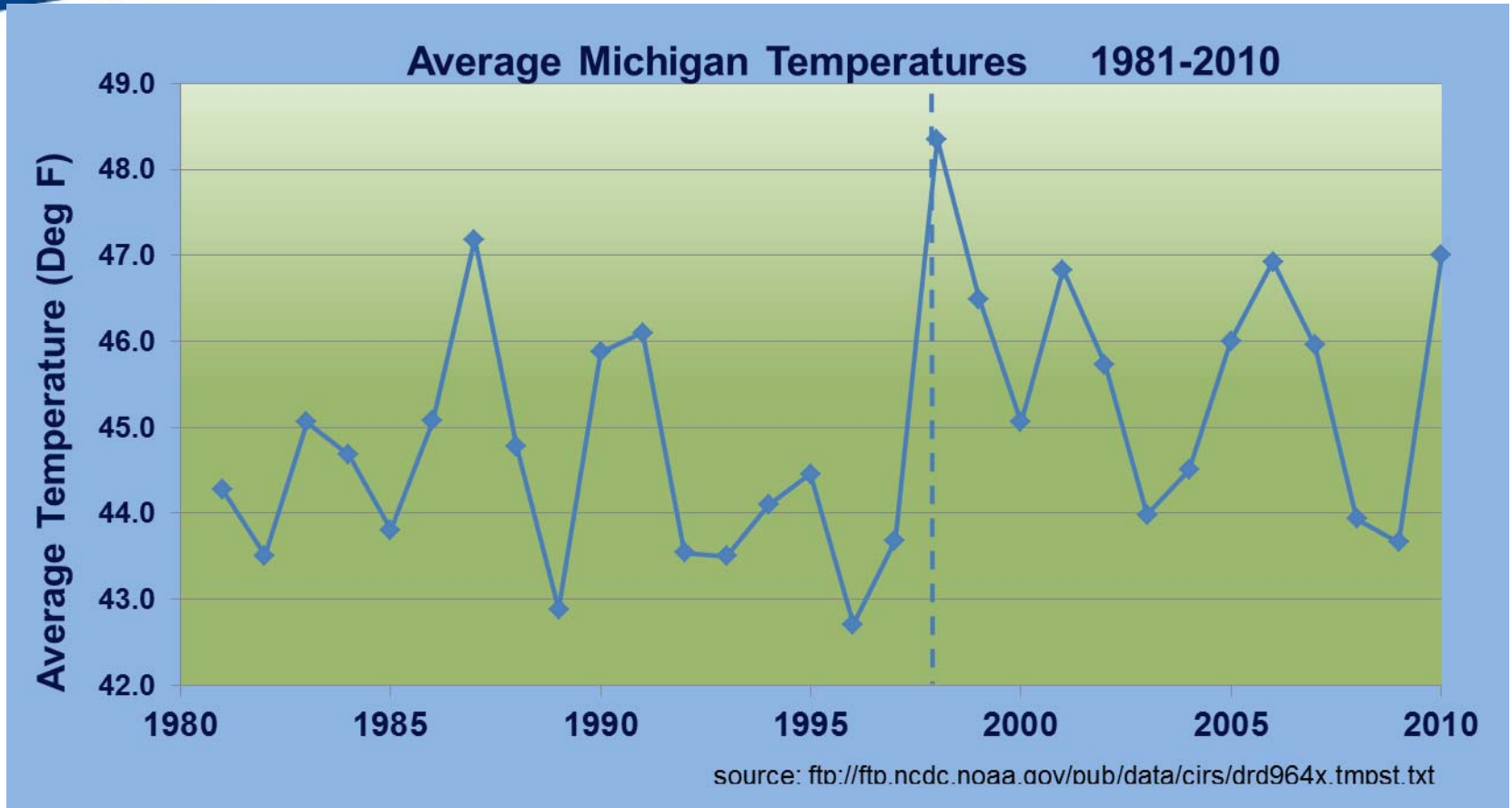
Load Forecast &
Market Analysis



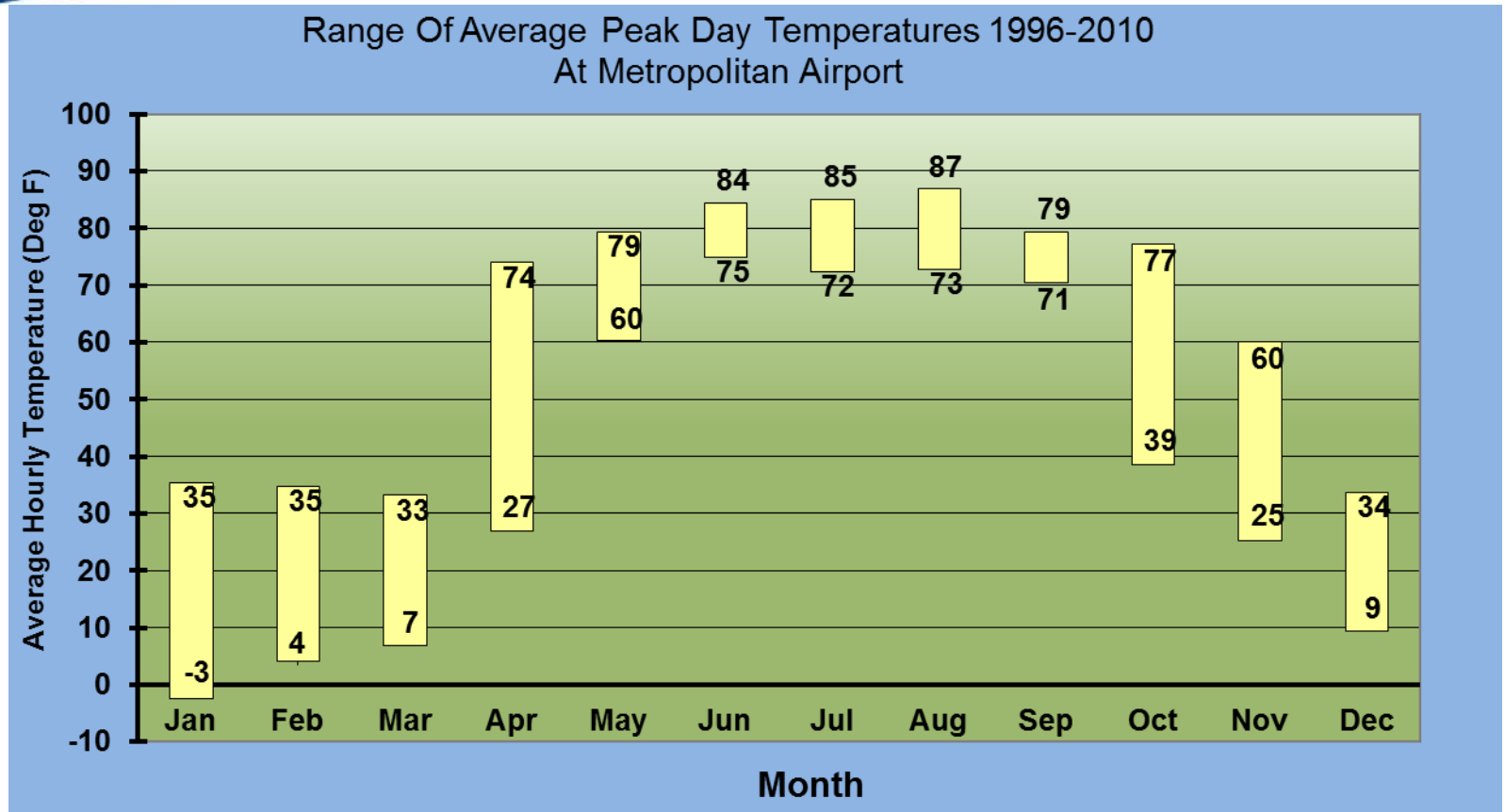
Short Term Forecast



Short Term Forecast



Short Term Forecast



Short Term Forecast

Major Economic Assumptions For 2012

- Job additions will be subdued
 - While increases are expected, the number will be lower in all sectors compared to 2011
- Auto employment continues to grow
- Car and Light Truck sales are expected to be in the 12-13 million range, increasing by 1 million from 2011
 - The Big Three's share will remain constant
- Jobs created/supported by the first stimulus will no longer be supported
- New home construction will remain depressed
- Personal disposable income will increase modestly

Short Term Forecast

Major Risks To Forecast For 2012

- Economic slump – will it deepen?
 - Economic growth revisions continue to be in the negative direction
- Gridlock in Washington as elections approach
- World economic conditions weighting on the U.S. economy
- There are more downside than upside risks

Short Term Forecast

2012 Att. O forecast by month

In Megawatts		
Month	ITCT	METC
Jan	7,016	6,055
Feb	6,955	5,876
Mar	7,011	5,842
Apr	6,683	5,513
May	8,118	5,912
Jun	10,541	7,885
Jul	10,680	8,026
Aug	10,787	8,393
Sep	9,404	7,181
Oct	7,434	5,529
Nov	7,269	5,881
Dec	7,641	6,527
Total	99,539	78,620

Short Term Forecast

QUESTIONS ?

ITC *Transmission* & METC 2012 Attachment O Rate Presentation

Cynthia Crane



Meeting Purpose

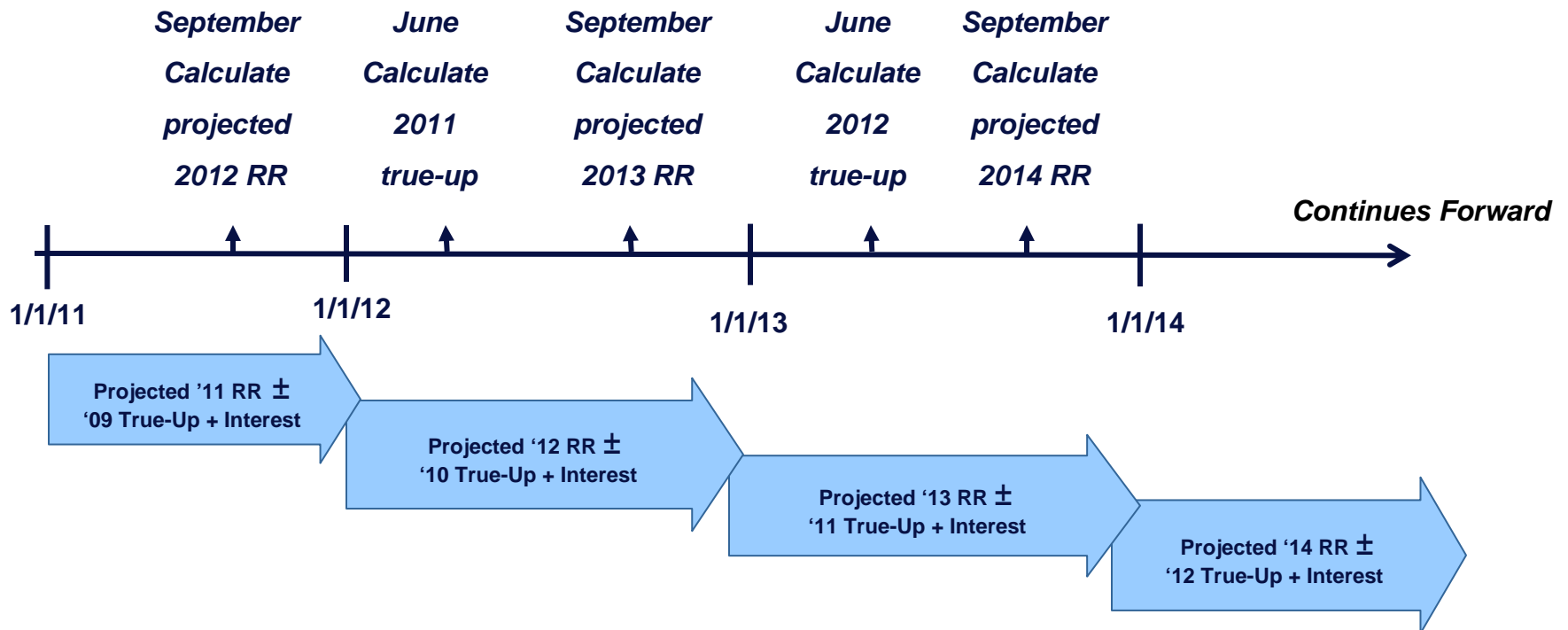
The purpose of today's meeting is to review the 2012 Attachment O formula rates, the input projections, and cost details for ITC*Transmission* and Michigan Electric Transmission Company (METC).

The proposed network rates will be effective January 1 through December 31, 2012. The rates were calculated using the Midwest ISO Tariff Attachment O using projected net revenue requirement and projected load.

The timeline for calculating both the Attachment O Projected Rate and the True-up will be followed by a detailed description of the ITC*Transmission* and the METC projected 2012 rates in turn.

Forward Looking Attachment O Timeline

Forward Looking Attachment O Timeline



The Rates are posted on OASIS: Projected on September 1st and True-up on June 1st.



2012 Planned Capital Additions

The development of the annual Rate Base begins with a forecast of planned capital additions. The ITC *Transmission* and METC Planned Capital Addition slides identify expected line and substation construction projects as they are currently known.

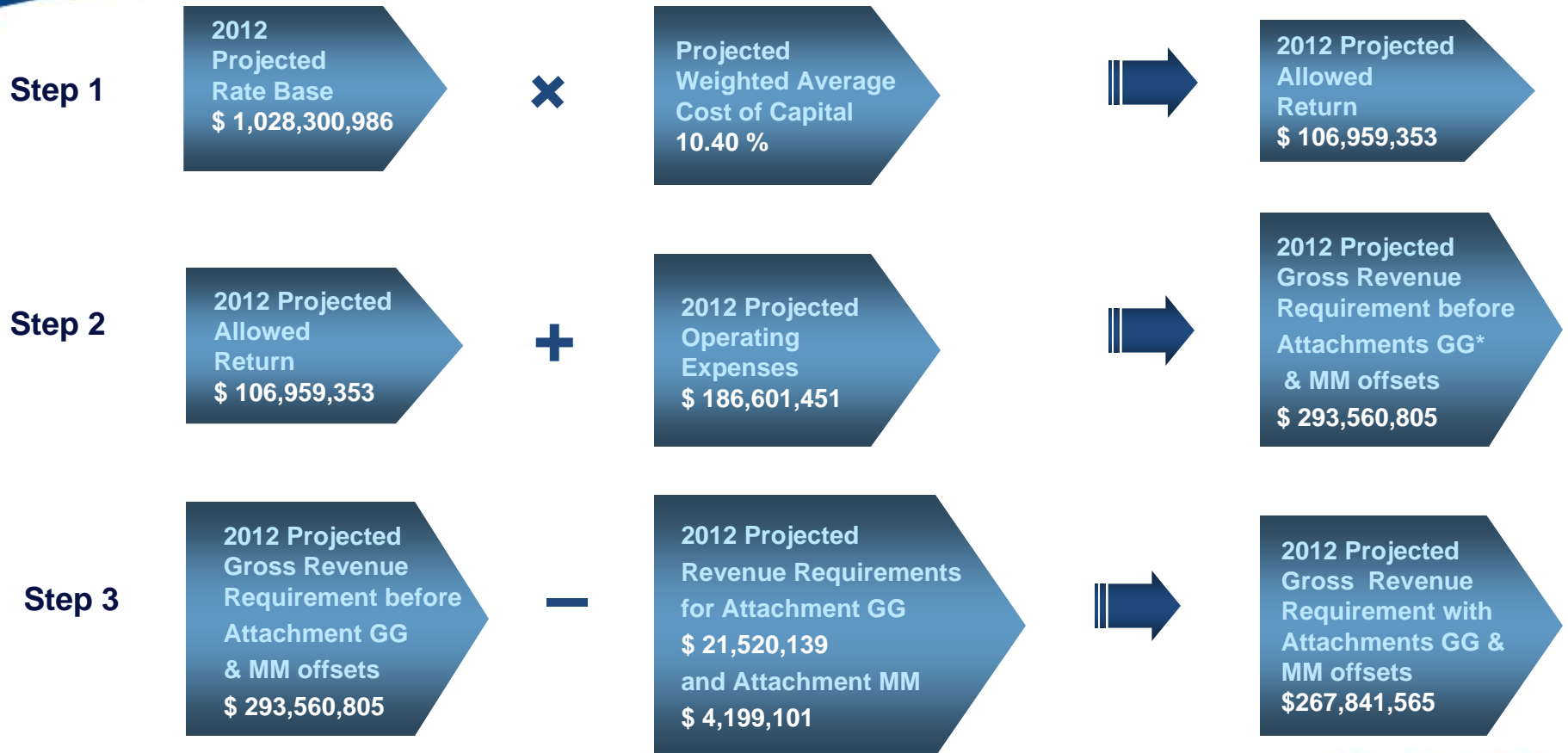
The dates and schedules, and even the projects themselves, identified represent our best estimates for projects to be initiated and completed. Please be aware that many factors could alter those schedules, including regulatory approvals, construction resources, availability of materials, weather, and other unforeseen events.

ITC Transmission
2012 Projected
Attachment O Rate



ITC Transmission Attachment O

Using Attachment O to Derive the 2012 Billing Rate

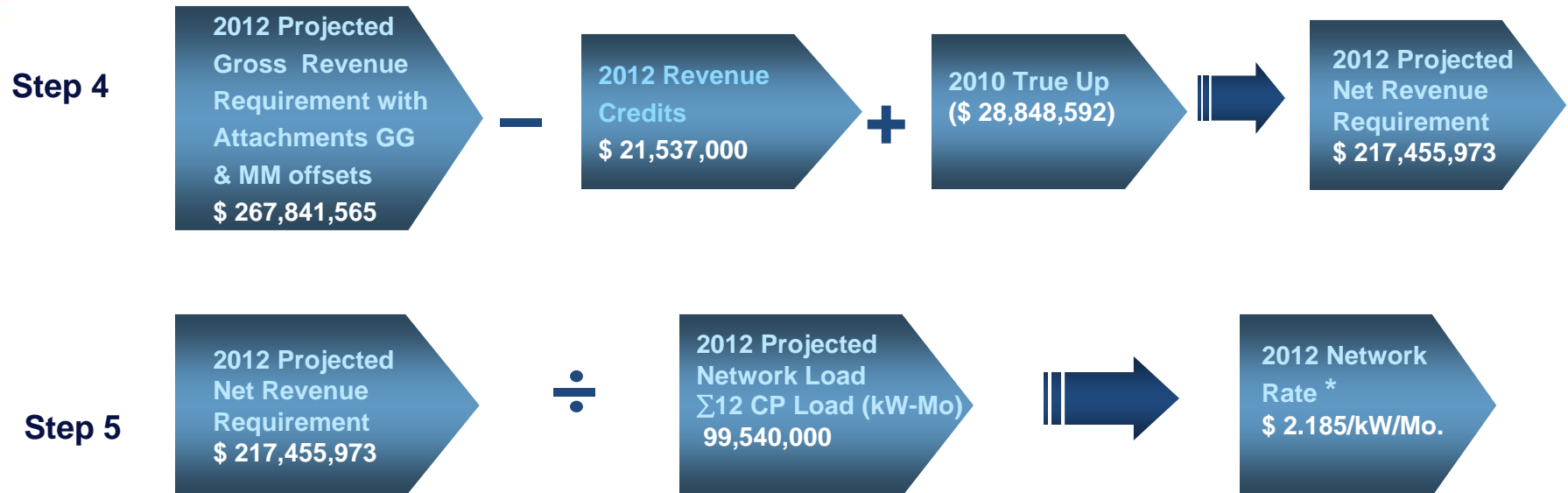


Numbers directly from posted Attachment O template; there is some rounding.

* Attachment GG & MM projects are those subject to regional cost sharing under Schedules 26 & 26A, respectively.

ITC Transmission Attachment O

Using Attachment O to Derive the 2012 Billing Rate



*This represents only the ITC Transmission portion of the joint zone network rate.

Schedules 1, 26, & 26A are billed separately by Midwest ISO.

2012 ITC Transmission Planned Capital Additions

MISO Project ID	Projects ⁽¹⁾	Forecasted Construction Start Date	Forecasted In-Service Date	Forecasted Plant Additions ⁽²⁾
	<u>Reliability-System Capacity Improvements</u>			
3168	Michigan Region 4 Thumb Loop	Oct '11	Dec '12	\$ 44,721,673
	<u>Reliability-Infrastructure Improvements</u>			
1308	Bunce Creek PAR	Jun '07	Jan '12	\$ 47,161,738
2519	Breaker Replacement Program		Ongoing	9,839,759
2534	Wood Pole Replacement Program		Ongoing	4,452,334
1868	Cato GIS Replacement	Sept '12	Dec '12	4,010,363
3286	Fermi 3rd Row (Fermi 345kV Engineering Design)	Oct '11	Apr '12	3,813,718
2531	St. Clair PP120kV Yard	Aug '11	Dec '12	3,778,368
2521	Relay Betterment		Ongoing	2,347,182
	Normal and Emergency Retirement Unit Changeouts		Ongoing	2,233,176
3495	NERC Alert	Aug '11	Jan '12	1,855,367
3596	Replacement of Trenton Channel Reactors	Mar '12	May '12	1,416,775
2541	Hemphill - Hunter Creek Structure Replacement	Jan '12	Mar '12	932,088
3601	Battery Replacement Program		Ongoing	468,356
2528	Potential Device Replacement Program		Ongoing	280,314
2531	River Rouge PP120kV Switchyard Disconnect	Feb '11	Jun '12	116,740
	<u>Customer Connections</u>			
2929	Ariel Substation	Aug '12	Dec '12	\$ 2,717,289
3283	Calla Substation	May '12	Nov '12	2,564,489
	<u>General Plant</u>			\$ 1,518,273

⁽¹⁾ Projects are listed if one or more associated work orders are forecasted to go into service in 2012.

⁽²⁾ Includes previous years' expenditures for multi-year projects.



ITC Transmission Step 1 – Establish Rate Base

Rate Base Item	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Gross Plant in Service	\$ 1,677,751,000	\$ 1,603,189,000	\$ 74,562,000	Reflects additions to plant including updates for 2010 actuals, 2011 forecast & 2012 projection (see details on the capital additions page for 2012 additions)
Less Accumulated Depreciation	627,267,000	603,576,000	23,691,000	Additional year of depreciation expense
Net Plant in Service	1,050,484,000	999,613,000	50,871,000	
Deferred Taxes	(109,815,000)	(101,717,000)	(8,098,000)	Higher deferred tax liability attributable to property additions
ADIT Deferral	30,805,985	33,836,000	(3,030,015)	Amortization of balance
Materials & Supplies	40,291,036	40,687,093	(396,056)	
Land Held for Future Use	6,723,000	6,723,000	-	
Prepayments	2,224,000	995,000	1,229,000	2012 projection reflects higher vendor prepayments that ITC Transmission has experienced in 2011
Computed Working Capital	7,587,964	7,253,026	334,939	Increase in recoverable O&M expenses
Total Rate Base	\$ 1,028,300,986	\$ 987,390,118	\$ 40,910,868	

ITC Transmission Step 1 – Establish Cost of Capital & Allowed Return

Cost of Capital	Ratio	Cost	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Equity	60%	13.88%	8.33%	8.33%	0.00%	
Debt	40%	5.18%	2.07%	2.17%	-0.10%	Higher percentage of debt financed with lower cost revolver
Rate of Return			10.40%	10.50%	-0.10%	

Allowed Return	
Rate Base	\$ 1,028,300,986
x Return (above)	10.40%
= Allowed Return	\$ 106,959,353

ITC Transmission Step 2 – Determine Operating Expenses & Gross Rev. Requirement

Operating Expense Items	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Operation & Maintenance Expense	\$ 32,153,000	\$ 32,009,000	\$ 144,000	
Administrative & General Expense	28,550,715	26,015,206	2,535,509	Increase in staffing & general business expenses
Depreciation Expense	38,531,000	38,088,000	443,000	Higher depreciable asset base
Amortized Revenue Deferral	-	4,973,000	(4,973,000)	2011 reflected last 5 months of amortization
ADIT Adjustment	3,030,097	3,030,000	97	
Taxes Other Than Income Taxes	29,811,000	30,020,000	(209,000)	Lower property taxes
Income Taxes	54,525,639	52,924,982	1,600,658	Greater rate base
Total Operating Expenses	\$ 186,601,451	\$ 187,060,187	\$ (458,736)	

Gross Revenue Requirement

Allowed Return	\$ 106,959,353
+ Total Operating Expenses (above)	186,601,451
= Gross Revenue Requirement Before Attachments GG & MM Offsets	<u>\$ 293,560,805</u>

ITC *Transmission* Step 3 – Establish Gross Rev. Requirement w/ Attachments GG & MM offsets

Attachments GG & MM Offsets	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Total Attachment GG Offset	\$ 21,520,139	\$ 22,168,613	\$ (648,474)	2012 projection reflects full year impact of 2011 projects in-service, MTEP '11 regionally shared projects and previous MTEP regionally shared projects
Total Attachment MM Offset	\$ 4,199,101	\$ -	\$ 4,199,101	2012 projection reflects 2012 in-service amounts for the Thumb Loop Wind Zone project

Gross Revenue Requirement with Attachments GG & MM Offsets	
Gross Revenue Requirement Before Attachments GG & MM Offsets	\$ 293,560,805
- Attachments GG & MM Offsets (above)	(25,719,240)
= Gross Revenue Requirement with Attachments GG & MM Offsets	\$ 267,841,565

ITC Transmission Step 4 – Establish Net Revenue Requirement

Revenue Credit Item	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Point to Point	\$ 4,915,000	\$ 4,067,000	\$ 848,000	2012 projections based on PTP revenues that ITC Transmission has experienced in 2010 & 2011
Rental Revenue	16,622,000	15,681,000	941,000	Higher rental revenues for shared assets with other ITC business units
Total Revenue Credits	\$ 21,537,000	\$ 19,748,000	\$ 1,789,000	

2010 Attachment O True-up Calculation	Explanation
Actual Net Revenue Requirement	\$ 240,347,958
Actual Network Revenues	267,440,926
True-up Principal Under/(Over) Recovery before Interest	\$ (27,092,968)
Monthly Interest Rate	0.0027
Number of Months	24
True-up Interest	\$ (1,755,624)
True-up Principal and Interest - Under/(Over)	\$ (28,848,592)

Payable is due to higher load, higher revenue credits, lower recoverable operating expenses

Net Revenue Requirement	
Gross Revenue Requirement with Attachments GG & MM offsets	\$ 267,841,565
- Revenue Credits (above)	(21,537,000)
+ True-up (above)	(28,848,592)
= Net Revenue Requirement	\$ 217,455,973

ITC Transmission Step 5 – Establish Billing Rate

Coincident Peak Loads	2012 Projected Load	2011 Projected Load	Increase/ (Decrease)	Explanation
Sum of 2012 Monthly Coincident Network Peak Loads (in kW-Mo)	99,540,000	97,848,000	1,692,000	Based on internal short term weather normalized peak demand forecast model

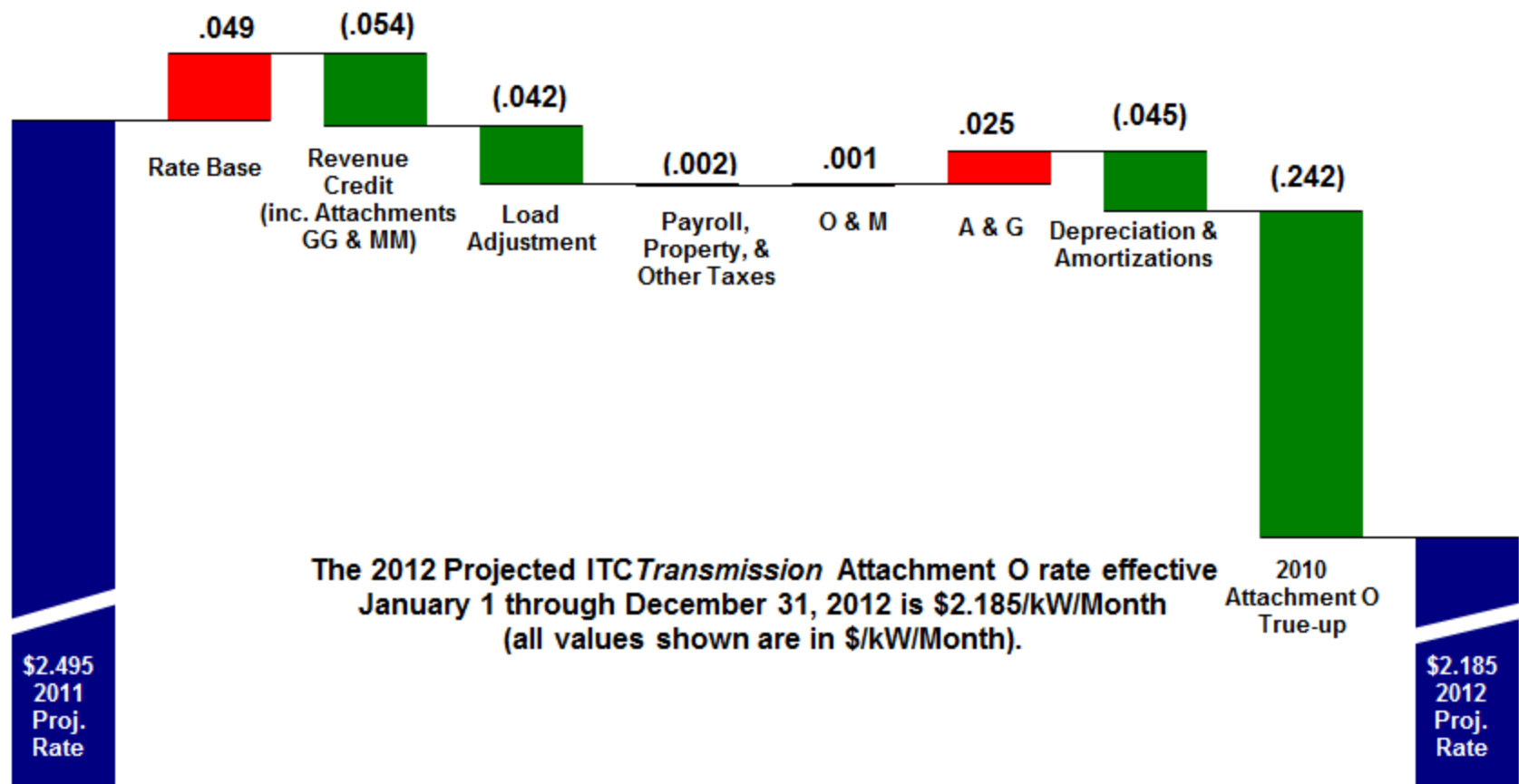
ITC Transmission 2012 Network Rate Calculation

Net Revenue Requirement	\$ 217,455,973
÷ \sum 12 CP Load (kW-Mo)	99,540,000
= ITC Transmission 2012 Network Rate (per kW-Mo)	<u>\$ 2.185</u>

This represents only the ITC Transmission portion of the joint zone billing rate. The final rate paid by customers is determined by MISO.

Schedules 1, 26, & 26A are billed separately by MISO.

ITC Transmission Year Over Year Change in Rate

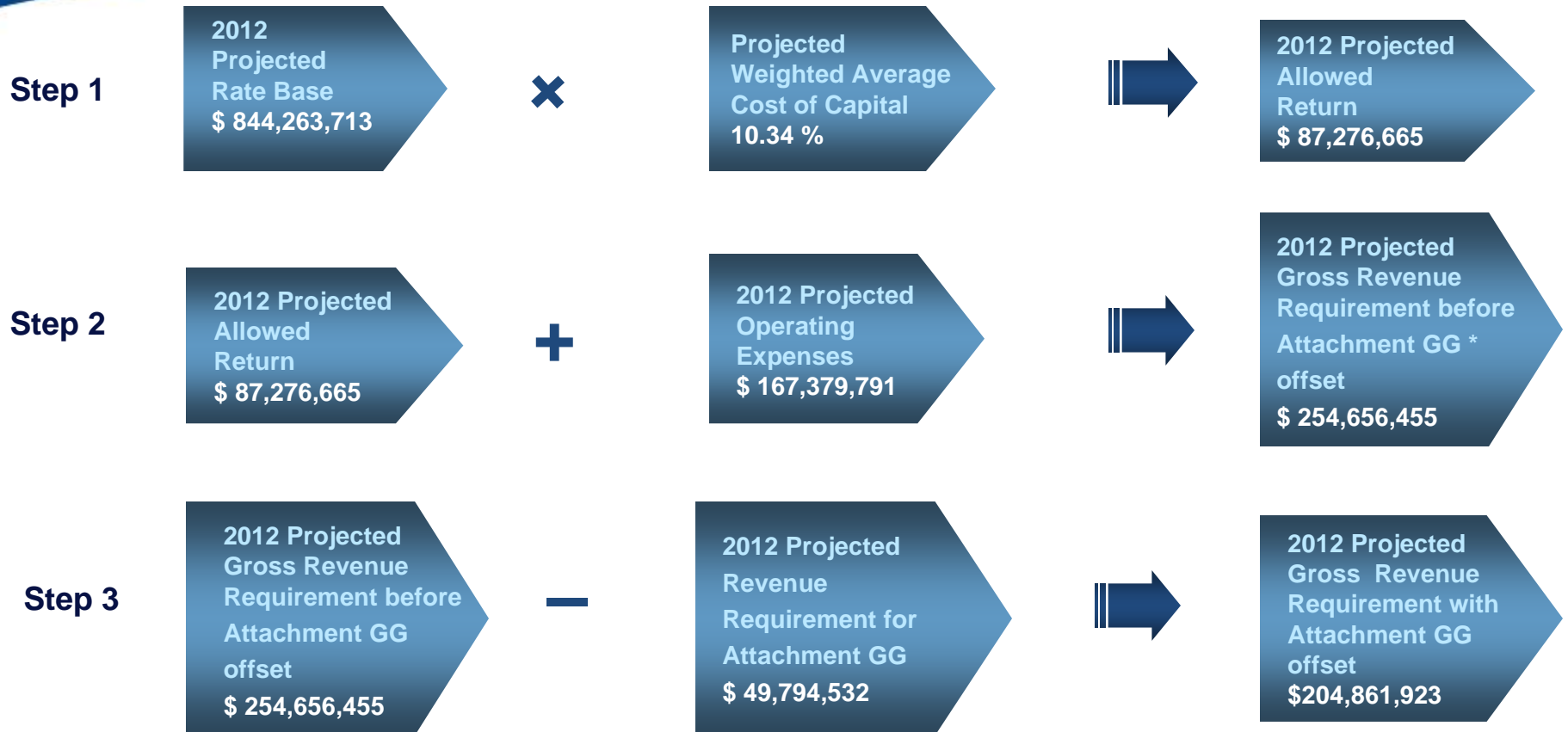


METC
2012 Projected
Attachment O Rate



METC Attachment O

Using Attachment O to Derive the 2012 Billing Rate

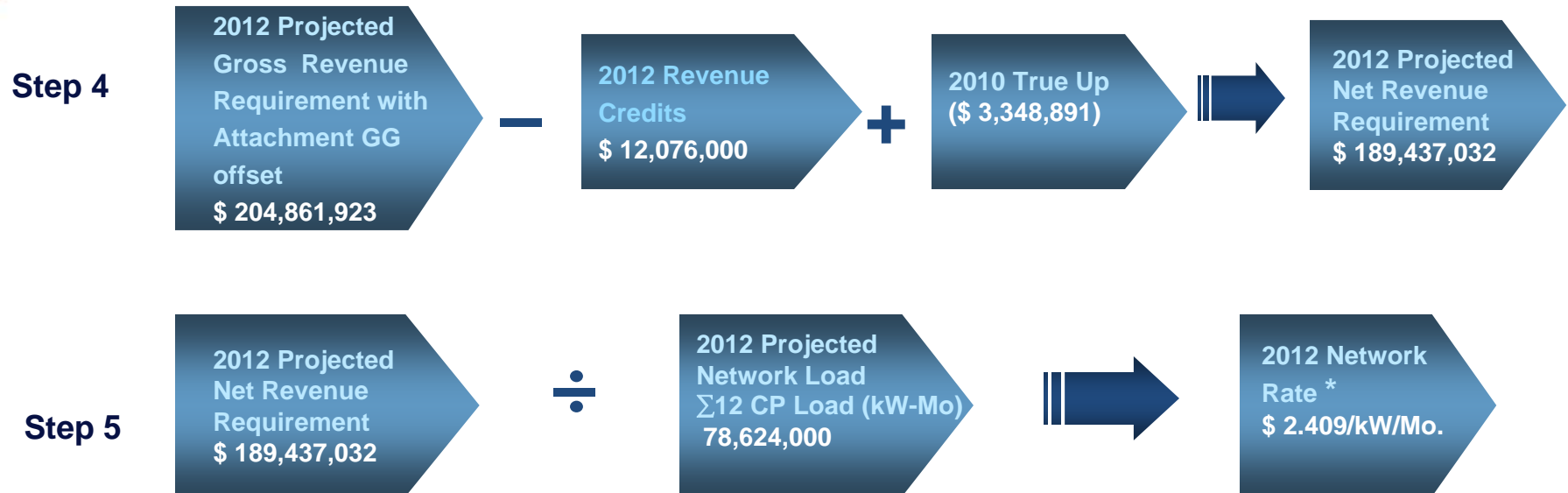


Numbers directly from posted Attachment O template; there is some rounding.

* Attachment GG projects are those subject to regional cost sharing under Schedule 26.

METC Attachment O

Using Attachment O to Derive the 2012 Billing Rate



*This represents only the METC portion of the joint zone network rate.

Schedules 1, 26, & 26A are billed separately by Midwest ISO.

2012 METC Planned Capital Additions

MISO Project ID	Projects ⁽¹⁾	Forecasted Construction Start Date	Forecasted In-Service Date	Forecasted Plant Additions ⁽²⁾
<u>Reliability-Infrastructure Improvements</u>				
2812	Au-Sable (Mio to Twining Rebuild) / (Alcona-Mio Dam)	Oct '11	Dec '12	\$ 21,028,310
1655	Breaker Replacement Program		Ongoing	7,459,865
2510	METC Wood Pole Replacement Program		Ongoing	4,748,421
2499	METC Relay Betterment Project		Ongoing	4,708,695
3296	SPCC Compliance Upgrades		Ongoing	4,706,260
	Normal and Emergency Retirement Unit Changeouts		Ongoing	2,945,437
1833, 3491	NERC Alert Rating Analysis	Feb '11	Dec '12	2,360,036
3584	Cornell Bus Rebuild/Switch Replacement	Apr '12	Jun '12	2,028,887
2910	Hemphill-Hunters Creek Structure Replacement	Jan '12	Mar '12	953,171
2522	METC Power Plant Control Relocations	Jan '12	Jun '12	939,899
3608	Surge Arrester Replacement Project		Ongoing	231,345
2903	METC Battery System Replacements		Ongoing	118,069
2906	Potential Device Replacement Program		Ongoing	10,307

⁽¹⁾ Projects are listed if one or more associated work orders are forecasted to go into service in 2012.

⁽²⁾ Includes previous years' expenditures for multi-year projects.



2012 METC Planned Capital Additions, cont.

MISO Project ID	Projects ⁽¹⁾	Forecasted Construction Start Date	Forecasted In-Service Date	Forecasted Plant Additions ⁽²⁾
<u>Reliability-System Capacity Improvements</u>				
988	Simpson - Batavia 138kV Line	Sept '11	Mar '12	\$ 44,340,526
1814	Tippy - Chase Rebuild	Dec '11	Dec '12	14,632,380
2916	Livingston-Vanderbilt 138 kV Rebuild	Jan '12	Jun '12	12,157,971
3308	Livingston to Gaylord 138 kV Dual Pilot Relay Installation	Oct '12	Dec '12	306,143
3139	Tippy -Wexford 138 kV Circuit Upgrades	May '12	Aug '12	22,601
<u>Customer Connections</u>				
2012 Conveyances			Feb '12	\$ 8,813,253
3073	Traverse City Light & Power East Substation	Jul '12	Oct '12	4,572,555
2912	Ratigan Interconnection	Sept '12	Sept '12	172,232
2487	Birchwood Interconnection	Apr '12	May '12	168,503
2484	Scenic Lake Interconnection	May '12	Jun '12	165,922
2481	Forest Grove Interconnection	May '12	Jun '12	165,922
<u>Generator Interconnections</u>				
3517	G905 Redstone Wind Farm (200 MW Gratiot County Wind	Sept '12	Dec '12	\$ 20,079,142
3516	J052 100 MW Tuscola Wind Project	Jan '12	Sept '12	9,589,586
	Blanket for 2012 Interconnections w/o agreement	Jan '12	Dec '12	2,902,000
	H075 43.2 MW Elbridge Wind Farm LLC	Sept '12	Dec '12	2,268,297
<u>General Plant</u>			Ongoing	\$ 3,423,711

⁽¹⁾ Projects are listed if one or more associated work orders are forecasted to go into service in 2012.

⁽²⁾ Includes previous years' expenditures for multi-year projects.

METC Step 1 – Establish Rate Base

Rate Base Item	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Gross Plant in Service	\$ 1,203,597,000	\$ 1,054,548,000	\$ 149,049,000	Reflects additions to plant including updates for 2010 actuals, 2011 forecast & 2012 projection (see details on the capital additions page for 2012 additions)
Less Accumulated Depreciation	348,934,000	338,553,000	10,381,000	Additional year of depreciation expense
Net Plant in Service	854,663,000	715,995,000	138,668,000	
Deferred Taxes	(128,323,000)	(115,810,000)	(12,513,000)	Higher deferred tax liability attributable to property additions
Revenue Deferral	41,250,000	44,000,000	(2,750,000)	Amortization of balance
ADIT Deferral	44,265,918	47,671,000	(3,405,082)	Amortization of balance
Materials & Supplies	20,815,809	23,212,282	(2,396,473)	Lower projected capital inventory
Land Held for Future Use	-	-	-	
Prepayments	1,952,000	906,000	1,046,000	2012 projection reflects higher vendor prepayments that METC has experienced in 2011
Computed Working Capital	9,639,986	9,249,016	390,971	Increase in recoverable O&M expenses
Total Rate Base	\$ 844,263,713	\$ 725,223,297	\$ 119,040,416	

METC Step 1 – Establish Cost of Capital & Allowed Return

Cost of Capital	Ratio	Cost	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Equity	60%	13.38%	8.03%	8.03%	0.00%	
Debt	40%	5.77%	2.31%	2.35%	-0.04%	
Rate of Return			10.34%	10.38%	-0.04%	

Allowed Return

Rate Base	\$ 844,263,713
x Return (above)	10.34%
= Allowed Return	<u>\$ 87,276,665</u>

METC Step 2 – Determine Operating Expenses & Gross Rev. Requirement

Operating Expense Items	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Operation & Maintenance Expense	\$ 48,920,000	\$ 48,351,000	\$ 569,000	Higher O&M for mandated NERC Alert response expenses
Administrative & General Expense	28,199,891	25,641,124	2,558,767	Increase in staffing and general business expenses
Depreciation Expense	22,431,000	21,819,000	612,000	Higher depreciable asset base
Regulatory Deferral Amortization	2,750,000	2,750,000	-	
ADIT Amortization	3,405,071	3,405,000	71	
Taxes Other Than Income Taxes	18,523,000	15,272,000	3,251,000	Increase in property taxes due to higher asset base
Income Taxes	43,150,829	36,450,278	6,700,550	Greater rate base
Total Operating Expenses	\$ 167,379,791	\$ 153,688,402	\$ 13,691,388	

Gross Revenue Requirement

Allowed Return	\$ 87,276,665
+ Total Operating Expenses (above)	167,379,791
= Gross Revenue Requirement Before Attachment GG Offset	<u>\$ 254,656,455</u>

METC Step 3 – Establish Gross Rev. Requirement w/ Attachment GG offset

Attachment GG Offset	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Total Attachment GG Offset	\$ 49,794,532	\$ 34,086,546	\$ 15,707,986	2012 projection reflects full year impact of 2011 projects in-service, MTEP '11 regionally shared projects and previous regionally shared projects

Gross Revenue Requirement with Schedule 26 Offset	
Gross Revenue Requirement Before Attachment GG Offset	\$ 254,656,455
- Attachment GG Offset (above)	(49,794,532)
= Gross Revenue Requirement with Attachment GG Offset	\$ 204,861,923

METC Step 4 – Establish Net Rev. Requirement

Revenue Credit Item	2012 Projected Amount	2011 Projected Amount	Increase/ (Decrease)	Projected Amount Explanation
Point to Point	\$ 8,278,000	\$ 7,424,000	\$ 854,000	2012 projections based on PTP revenues that METC has experienced in 2010 & 2011
Rental Revenue/ Other	3,798,000	378,000	3,420,000	Higher revenues for utilization payments
Total Revenue Credits	\$ 12,076,000	\$ 7,802,000	\$ 4,274,000	

2010 Attachment O True-up Calculation	Explanation
Actual Net Revenue Requirement	\$ 170,564,857
Actual Network Revenues	173,709,946
True-up Principal Under/(Over) Recovery before Interest	\$ (3,145,089)
Monthly Interest Rate	0.0027
Number of Months	24
True-up Interest	\$ (203,802)
True-up Principal and Interest - Under/(Over)	\$ (3,348,891)
	Payable is due to higher revenue credits and higher load partially offset by higher rate base, higher operating expenses and lower Attachment GG offsets

Net Revenue Requirement	
Gross Revenue Requirement with Attachment GG Offset	\$ 204,861,923
- Revenue Credits (above)	(12,076,000)
+ True-up (above)	(3,348,891)
= Net Revenue Requirement	\$ 189,437,032



METC Step 5 – Establish Billing Rate

Coincident Peak Loads	2012 Projected Load	2011 Projected Load	Increase/ (Decrease)	Explanation
Sum of 2012 Monthly Coincident Network Peak Loads (in kW-Mo)	78,624,000	77,556,000	1,068,000	Based on internal short term weather normalized peak demand forecast model

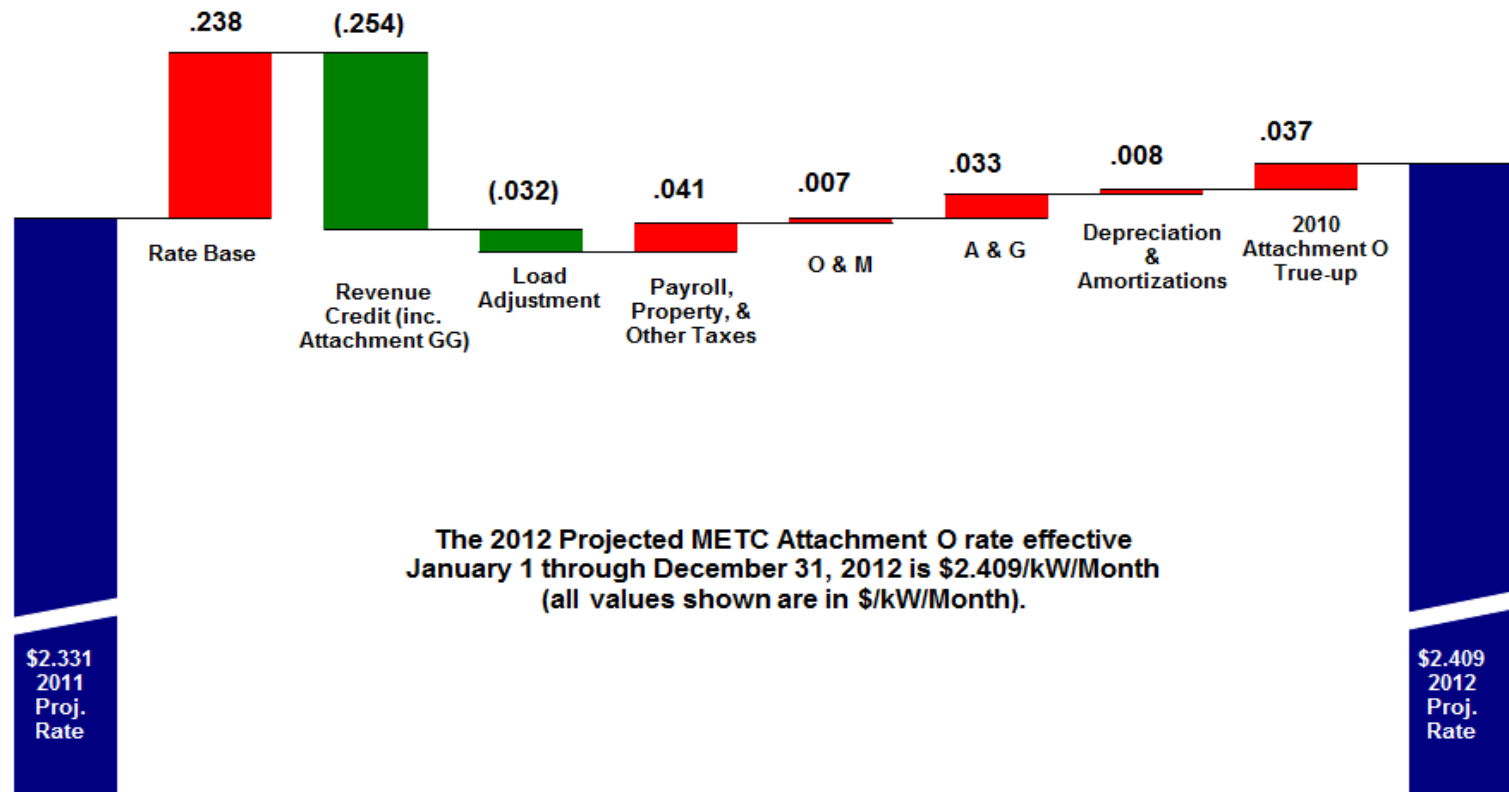
METC 2012 Network Rate Calculation

Net Revenue Requirement	\$ 189,437,032
÷ \sum 12 CP Load (kW-Mo)	78,624,000
= METC 2012 Network Rate (per kW-Mo)	<u>\$ 2.409</u>

This represents only the METC portion of the joint zone billing rate. The final rate paid by customers is determined by MISO.

Schedules 1, 26, & 26A are billed separately by MISO.

2012 METC Year Over Year Change in Rate



Questions

If there are any questions regarding the 2012 Attachment O rate, please submit them in writing to:

Cynthia Crane (ccrane@itctransco.com) (248-946-3485)

All questions and their answers will be distributed by email to the person who asked, and all attendees at this meeting. They will also be posted on the OASIS website.

- <http://oasis.midwestiso.org/oasis/ITC>
- <http://oasis.midwestiso.org/oasis/METC>

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