

Additional Attachment O Follow-Up Questions

- 1) Please provide detailed accounting for METC's Caledonia facility.

Response:

For the period October 11, 2006 through September 29, 2007, the facility was recorded as plant-in-service for \$18.7 million and was included in rate base (net of accumulated depreciation).

On September 30, 2007, the following journal entries were recorded to remove the facility from plant-in-service:

1. To reclassify the facility to non-utility plant:

Dr. non-utility plant	\$18.7MM
Cr. plant-in-service	\$18.7MM
Dr. accumulated depreciation -plant in service	\$0.4MM
Cr. accumulated depreciation -non-utility	\$0.4MM

2. To recognize adjustment for fair value of the facility as non-utility plant through purchase accounting:

Dr. goodwill	\$13.3 MM
Dr. accumulated depreciation –non-utility	\$0.4 MM
Cr. non-utility plant	\$13.7 MM

3. To remove goodwill for Federal Energy Regulatory Commission accounting and ratemaking:

Dr. equity	\$13.3 MM
Cr. goodwill	\$13.3 MM

From September 30, 2007 through current date, the facility has remained in non-utility plant which is not included in rate base under Attachment O. Additionally, subsequent to September 30, 2007, we have recorded the costs of the facility, including utilities and property taxes, to non-utility expenses,. Non-utility expenses are not recoverable under Attachment O.

- a) METC's response to the MPSC's prior Attachment O questions (question 13(c) in OASIS posting) stated that the Caledonia building will be reflected in the 2007 actual revenue requirement through August 31, 2007. Will the 2007 rate true-up calculation include the building in the actual plant-in-service balance for each month from

December 1, 2006 through August 31, 2007? What is the effect on the 2007 actual revenue requirement and rate if the building was not included?

Response:

Yes, the 2007 true up will include plant-in-service balances through August 2007. A calculation of the effect of removing the facility from plant-in-service in August 2007 has not been performed but will be available when the true-up is posted. A calculation of the total removal of the building has not been performed.

- b) METC's response to the MPSC's prior Attachment O questions (question 10d) indicated that "there are no ongoing expenses associated with this property reflected in METC's current rate or 2008 rate." Will any operating expenses (e.g., maintenance, security, utilities, taxes, etc.) associated with this facility or the property be reflected in the actual 2007 revenue requirement used to calculate the 2007 rate true-up? If so, please identify those amounts by type.

Response:

Yes. The 2007 revenue requirement would include approximately \$150,000 of property taxes and \$300,000 of depreciation expense. In addition, certain O&M expenses associated with the facility will be included in the 2007 revenue requirement.

- c) Does METC's 2008 rate base include the Caledonia facility for each month of the 13 months used to calculate the projected rate base (December 2007-December 2008)? If that facility had been excluded from METC's 2008 rate calculation, please provide the change in revenue requirement and the final rate.

Response:

Yes, METC's 2008 rate base included the Caledonia facility. The reduction in rate base described above will be reflected in the 2008 cost year true-up. METC has not made any calculation of what its 2008 rate might have been without the Caledonia facility in rate base.

- d) When was construction of this facility completed? How was the facility used by METC from the date construction was completed until August 31, 2007?

Response:

METC received its certificate of occupancy in June 2006. The facility was used by employees as a place of work while providing services such as Project Engineering, Field Supervision and Community Relations.

- e) When was this facility put up for sale? Has the facility been sold, and if so, when? Does METC plan to credit ratepayers for profits on the sale, if any?

Response:

The facility was put up for sale on June 25, 2007 and has not been sold. The facility is anticipated to be sold at a significant loss.

- 2) Please provide justification for ITC Holdings' allocation of labor expenses among its business units based on load ratio share of peak load. How was this allocation methodology determined to be appropriate and equitable (e.g., studies, comparisons)? How does ITC Holdings' allocate labor and other expenses to subsidiaries that have no load (e.g., newly formed subsidiaries in development mode)?

Response:

ITC Holdings does not allocate all labor expenses among its business units. Whenever possible and appropriate, labor expenses are directly charged to the specific business unit for which the work is being performed. For the portion of labor expenses which are not readily assigned, the costs are pooled and allocated across all business units. ITC Holdings is aware that other utilities provide for the allocation of pooled labor expenses on a load ratio share basis and believes that, over the long term, load ratio share may serve as a reasonable proxy for the amount of activity on each system.

Again, all labor and other expenses that can appropriately be directly assigned to ITC Holdings subsidiaries would be assigned. The remaining non-assigned expenses would be allocated to the non-regulated activities that have no load using an approximation of the percentage of direct charged labor expenses applicable to those entities and to regulated activities using load ratio share.

While ITC Holdings believes that the chosen methodology was a reasonable proxy for the activity at all business units when we developed the 2008 projected rates, we are continually re-evaluating the allocation methods employed to ensure they are appropriate and that there is proper allocation of costs among business units.

- 3) In the projected 2008 rates for ITC Transmission and METC, do the A&G expenses include any costs for advertising, lobbying, political contributions, or similar activities or are these costs maintained at the company or holding-company level? If these costs are included in the projected 2008 A&G expenses or other rate categories, please identify the amount(s) by type of expense.

Response:

No.