

METC Customer Questions From PIB Meeting

- 1) What is current true up amount for 2007 for METC?

Answer: As of 9/30/07, METC has recorded a \$12.6 million receivable (under-recovery of the revenue requirement) plus \$0.2 million of interest income.

- 2) Please explain the \$76 million of growth in proprietary capital on Attachment O from 2005 to 2008

Answer: Total change in proprietary capital is \$76.0 million

- Post-tax settlement accrual - (\$13.0 million)
- Miscellaneous acquisition adjustments - (\$21.0 million)
- Impact of 13-month average in 2008 - (\$35.2 million)
- Forecasted activity from 10/10/06 through 12/31/08 (includes net income and equity infusions net of dividends) - \$144.9 million

- 3) Please explain where the \$53.7million reduction to proprietary capital on the 2005 Attachment O shows up in 2008?

Answer: Upon the acquisition of METC the retained earnings balance was reset to \$0 and any existing goodwill from previous transactions were removed from equity and goodwill for FERC accounting and reporting. As a result, the \$53.7 million of equity and corresponding goodwill related to the 2003 transaction was removed from the FERC accounts.

- 4) Please explain the increase in A&G expenses from 2005 to 2008

Answer: Total change in A&G is \$24.4million

- Staffing (includes bonus, pension, etc.) - \$10.1 million
- Outside Services - \$5.2 million
- Office Expense - \$1.4 million
- Rent for HQ, Ops Center & Ann Arbor Backup - \$7.5 million
- Other - \$0.2 million

- 5) Please explain the headcount

Answer: There are currently 249 employees at ITC Holdings as of October 30, 2007. All employees are ITC Holdings employees - unless directly assignable (e.g., capital work) labor expenses are allocated to the business units using load ratio share based on peak load

- 6) Please explain the increase in cost of debt from 2005 to 2008

Answer: METC reclassified its revolving credit facility to long-term as it expects the debt to remain outstanding longer than one year. Debt

incurred as a result of goodwill on the acquisition of METC was financed at ITC Holdings; the cost of this debt remains at ITC Holdings.

Follow Up Questions from Consumers Energy

7) Capital Structure

- a. For each issuance of Long Term Debt that makes up the \$209,887,000 of Long Term Debt identified on page 4, line 27 of the Attachment O please identify:
- i. Amount of debt
 - ii. Date of issuance
 - iii. Interest rate of debt
 - iv. FERC Docket authorizing the financing

Answer:

1. \$175 million fixed debt at 5.75% issued 12/10/03 (FERC authorization given 11/10/03 -Docket No. ES06-49)
2. \$35 million revolving credit facility at LIBOR plus margin; capacity increasing to \$60 million after rate case settlement payment (FERC docket ES07-15-000)

- b. Please identify how the \$315,301,000 of Proprietary Capital [page 4, line 23] will be met compared to the \$275,114,917 of Proprietary Capital shown on METC 2007 2nd Quarter Form 3Q page 112, line 16, column c.

Answer: Total change in proprietary capital is \$76.0 million

- Post-tax settlement accrual - (\$13.0 million)
- Miscellaneous acquisition adjustments - (\$21.0 million)
- Impact of 13-month average in 2008 - (\$35.2 million)
- Forecasted activity from 10/10/06 through 12/31/08 (includes net income and equity infusions net of dividends) - \$144.9 million

- c. Please identify when and where the adjustment for the 2003 Equity Adjustment [-\$53,731,906] was removed from METC's books and adjusted in FERC Form 1 data.

Answer: Upon the acquisition of METC the retained earnings balance was reset to \$0 and any existing goodwill from previous transactions were removed from equity and goodwill for FERC accounting and reporting. As a result, the \$53.7 million of equity and corresponding goodwill related to the 2003 transaction was removed from the FERC accounts.

8) Caledonia Operations Control Center

a. For the Caledonia Operations Control Center which METC was building prior to the purchase of METC by ITC, please identify:

- All costs and plant balances that are included in the Attachment O calculations segregated by Attachment O line item.

Answer: \$18.7 million of plant in service was included in the Attachment O calculation posted in August 2007. The entire amount was removed from plant in service in September 2007. The reduction in rate base will be reflected in the 2008 cost year true up.

- The disposition of the Construction Work In Progress of \$35,618,880 as shown on METC 2006 FERC Form 1 for the period ended 10/10/2006. Please identify the amount of the disposition by FERC account.

Answer: The entire amount has been sold, written off or moved to non-utility plant.

- Any additional costs related to the project after the purchase of METC by ITC and the accounting of those costs.

Answer: All trailing charges have been written off.

9) Taxes

a. For the \$1,302,000 of Other Plant Related Taxes shown on page 3, line 18. Please identify:

i. The composition of the taxes

Answer: The \$1.3 million of Other Plant Related Taxes is based on an allocation factor applied to aggregate Total Taxes Other Than Income Taxes (TOIT) of \$9.5 million. Total Taxes Other Than Income Taxes (TOIT) is projected to be \$9.5 million which does not include Michigan single business tax expense. Cost components separately calculated rather than allocated can be seen in the last column on the table below.

ii. Reconcile the amount of taxes to the similar taxes as paid in 2006 and shown on 263 of METC's two FERC Form 1 reports dated 10/10/2006 and 12/31/2006.

Answer: See table below.

	2006 PreAcquisition 1/1/07 thru 10/10/07 F1, page 263, Col i	2006 PostAcquisition 10/11/07- 12/31/07 F1, page 263, Col i	2006 Total	2008 Total Separately calculated
Payroll taxes	213,239	240,126	453,365	383,000
Property tax	6,083,022	1,511,331	7,594,353	9,100,000
Other Taxes	1,065,901	213,416	1,279,317	75,000
Total TOIT	7,362,162	1,964,873	9,327,035	9,548,000

b. Confirm that METC has not projected a continuation of the Michigan Single Business Tax.

Answer: Confirmed

c. Identify the amount of any projected tax rebates associated with implementation of Michigan's new tax laws for businesses.

Answer: No rebates were identified in the Attachment O amounts

10) Allocation of Costs

a. For all allocated costs, please identify:

- The type of cost being allocated
- The amount of cost being allocated
- The basis for the allocation of the cost
- The FERC account where the cost is allocated to

Answer: All costs that can be directly assigned (e.g., Field O&M, CE easement payment; etc.) are directly assigned. All other expenses (e.g. G&A, account 561, shared facilities, etc.) are allocated using load ratio share based on peak load.

11) Employees

a. For the employees directly assigned to METC, please identify by major function:

- The number projected in 2008
- The number currently on the payroll
- The number that were employed by METC at the time of the acquisition by ITC

- b. For the employees shared by METC and ITC Transmission, please identify by major function:
 - The number projected in 2008
 - The number currently on the payroll
 - The basis for the allocation of the employees
- c. For any ITC Holdings employees that are allocated to METC, please identify by major function:
 - The number projected in 2008
 - The number currently on the payroll
 - The basis for the allocation of the employees

Answer: As of 1/1/07, all employees are ITC Holdings employees. Employee time that is related to ITC Holdings or development work remains at the Holding Company. Time spent on capital work is directly assigned to the appropriate operating company. All other time is allocated using load ratio share. 66 employees transferred from METC on 10/10/06. There are currently 249 employees at ITC Holdings as of October 30, 2007.

12) Facilities

- a. Please identify the amount of rents or allocated facilities costs projected in 2008 by major facility
Answer: Total rent expense of \$8.9 million (\$7.2 million for HQ; \$1.7 million for Ann Arbor control center)
- b. For allocated facilities costs, please identify the basis for the allocation and development of the rate
Answer: All shared facilities are allocated using load ratio share based on peak load

Follow Up Questions from the MPSC

13) With respect to METC's office facility in Caledonia:

- a. Is the facility completed? If not, is construction activity continuing or has it ceased? If construction is continuing, how are such costs accounted for?
Answer: Construction on the facility is complete
- b. What is the total cost of the facility incurred to date?
Answer: \$35.6 million
- c. Is the capital cost of the facility reflected in METC's current and/or projected 2008 rates? If so, in what category and amount, and when was it first included in rates?¹

¹ Please indicate whether the facility will be reflected in the 2007 actual revenue requirement to be determined as part of the 2008 true-up of 2007 rates.

Answer: Only the building itself (~\$18.7 million) is reflected in the 2008 rate. This amount was removed from plant in service in September 2007. The subsequent reduction in rate base will be reflected in the 2008 cost year true up. The current rate does not reflect the asset since the current rate is based on 2005 cost year data. The building will be reflected in the 2007 actual revenue requirement through 8/31/07.

- d. Are there any ongoing administrative, operations or maintenance expenses associated with this property that are reflected in METC's rates? If so, please indicate how, in what amount, and when these expenses were first reflected in rates?

Answer: No, there are no ongoing expenses associated with this property reflected in METC's current rate or 2008 rate.

- e. Has METC or other entities in the ITC/METC corporate structure received any revenues (one-time or on-going) from these facilities (e.g., rental fees)?

Answer: No. If so, how is such revenue accounted for?

- f. Does METC or ITC Holdings have a plan for the use or sale of the facility? If so, what is that plan?

Answer: The building is up for sale

- 14) Please provide the projected monthly plant in-service balance used to calculate the 13-month average for 2008 (i.e., December 2007-December 2008) for both METC and ITC. For each month that there is an increase in the monthly balance, please indicate the projected additions to plant during that month. Also, please identify as appropriate any on-going projects that have major components that will go into service during the 13-month period and the corresponding amounts reflected in the projected monthly plant balances. (This type of information was requested by MPSC staff at the ITC Attachment O meeting in October.)

Answer: See attached spreadsheet titled "MPSC Question 14 - METC"

- 15) Please identify any transmission projects and the associated amounts for which ITC and METC are expecting to receive revenues under Attachment GG during the forecasted year. (This information was requested by MPSC staff at the METC Attachment O meeting in October.)

Answer:

METC Projects

Project 1416, Cost of \$7.2 million

Total METC Cost = \$7.2 million

Fixed Charge Rate = 31.4%

Revenue Credit = \$2.3 million

16) What is the breakdown of A&G and O&M expenses by category for both METC and ITC? (This type of information was requested by another entity at the METC Attachment O meeting in October.)

Answer

2008 METC O&M

- Rent (to CE) - \$10.1 million
- System equipment inspection and maintenance - \$7.8 million
- Vegetation management - \$7.3 million
- O&M operating/training - \$4.4 million
- OH line maintenance - \$7.1 million
- Other - \$8.2 million

2008 METC G&A

- Rent (to ITC) - \$8.9 million
- Staffing (including bonus/pension) - \$12.3 million
- Outside/contractor services - \$7.1 million
- Other operating costs/maintenance contracts - \$3.6 million
- Other - \$2.2 million