

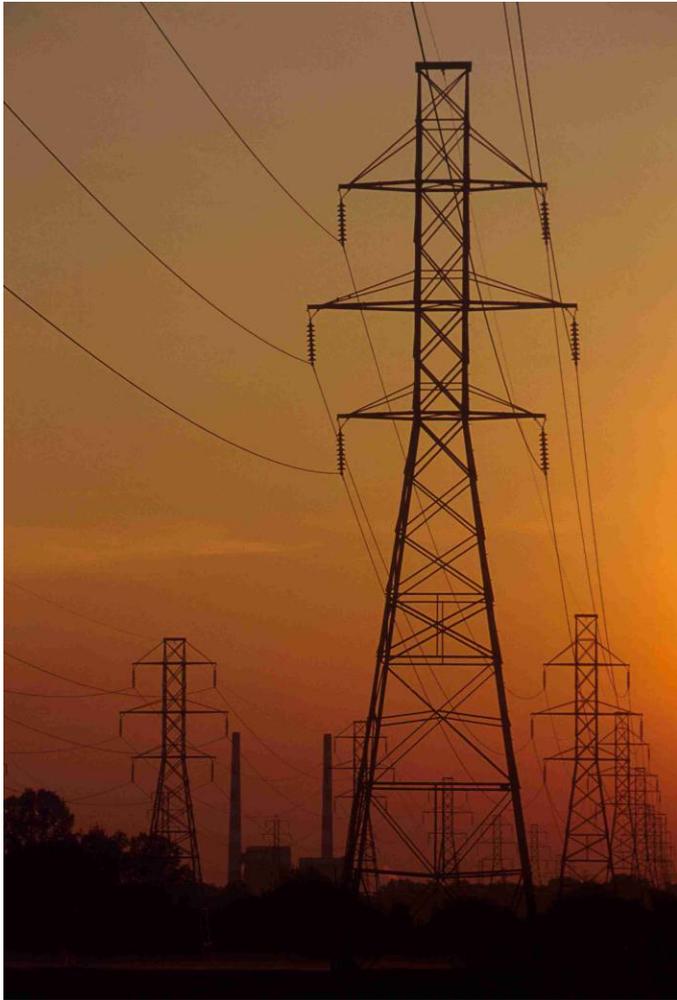


**Michigan Wind Working Group  
December 14, 2007**



# Transmission in Perspective

# Energy Superhighway



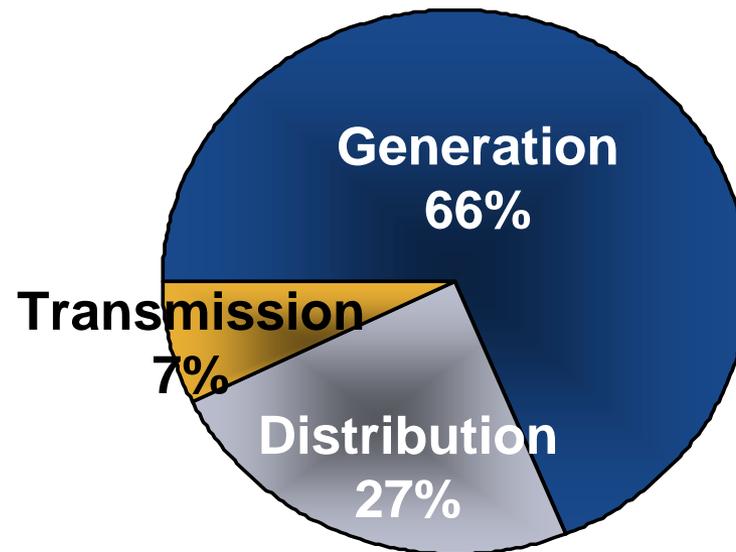
- ◆ Electricity is an economic cornerstone of growth and prosperity.
- ◆ The transmission grid, built over the past 100 years by vertically-integrated utilities, is one of the nation's greatest engineering achievements and is akin to the national freeway system.
- ◆ The electricity transmission system is an interconnected system of lines and stations that serves as the backbone of the energy delivery system.
  - Transmits energy generated at power plant at high voltages (120,000 volts and above) across long distances to distribution system.
- ◆ The transmission grid has more than 157,000 circuit miles of high voltage transmission lines.

# Contribution to Energy Cost



- ◆ Transmission is and historically has been a small component of total delivered energy cost.
- ◆ Costs to add transmission infrastructure have a relatively small impact on retail energy bills, but the associated benefits are potentially quite large.

Industry Average  
Breakdown of  
End Use Customer  
Electricity Bill <sup>(1)</sup>



(1) Source: EIA Annual Energy Outlook 2007 with Projections to 2030

# The Facts



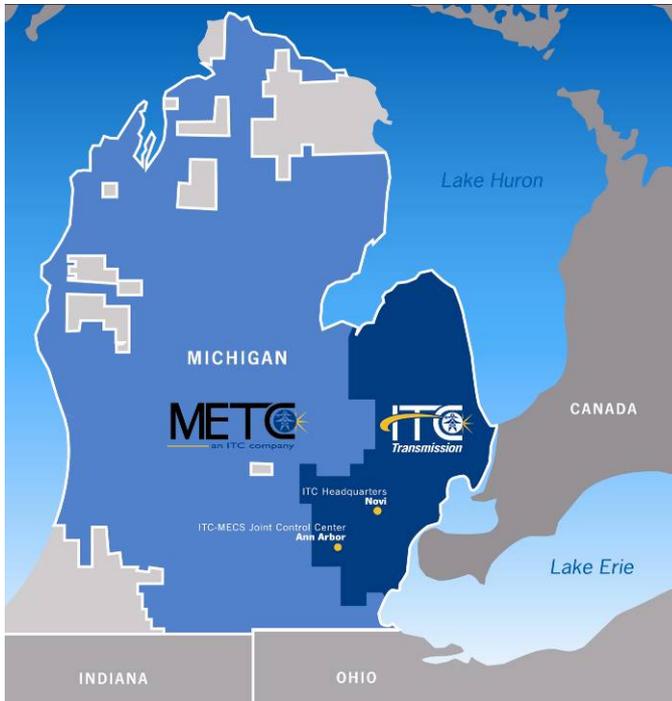
- ◆ **Fact #1:** Electric reliability is driven almost solely by the condition of the transmission grid.
- ◆ **Fact #2:** For companies to plan own service territory without regard to the region will lead to disastrous results.
- ◆ **Fact #3:** The transmission grid is critical in addressing existing issues such as “capacity”, reliability, competitive markets and renewable resources.

# Who is ITC?

# Company Overview



## Service Territory Map

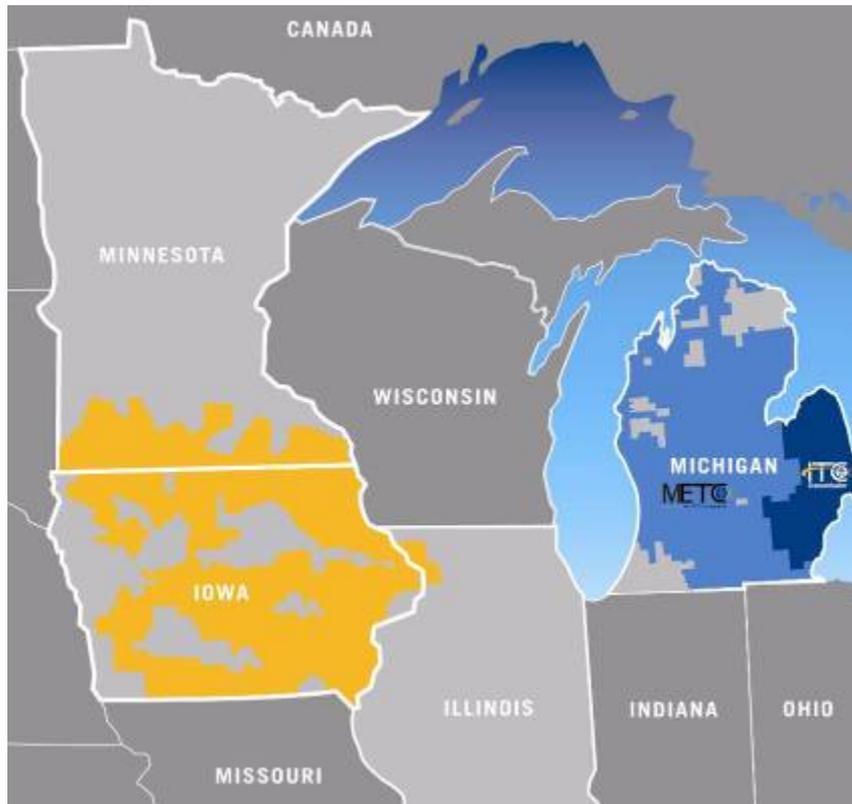


- ◆ ITC Holdings Corp. (“ITC”), through its two operating subsidiaries, ITC *Transmission* and Michigan Electric Transmission Company (“METC”), operates fully-regulated, high-voltage transmission systems covering most of Michigan’s Lower Peninsula
- ◆ Became independent in February 2003 through acquisition by International Transmission Holdings L.P. The largest independent transmission company and currently 8<sup>th</sup> largest transmission company overall in the U.S. in terms of transmission load served <sup>(1)</sup>
- ◆ Only publicly traded company engaged exclusively in the transmission of electricity in the U.S. Became publicly traded on July 26, 2005.
- ◆ Rate regulation by the Federal Energy Regulatory Commission (“FERC”)

**ITC is committed to investing in the electricity transmission grid in an effort to improve reliability, reduce congestion and lower the overall cost of delivered energy**

(1) Based on transmission load served (annual electric retail sales in the service territory) as found in “Edison Electric Institute Profile: Rankings of Shareholder-Owned Electric Companies”, May 2006.

# Acquisition of IP&L



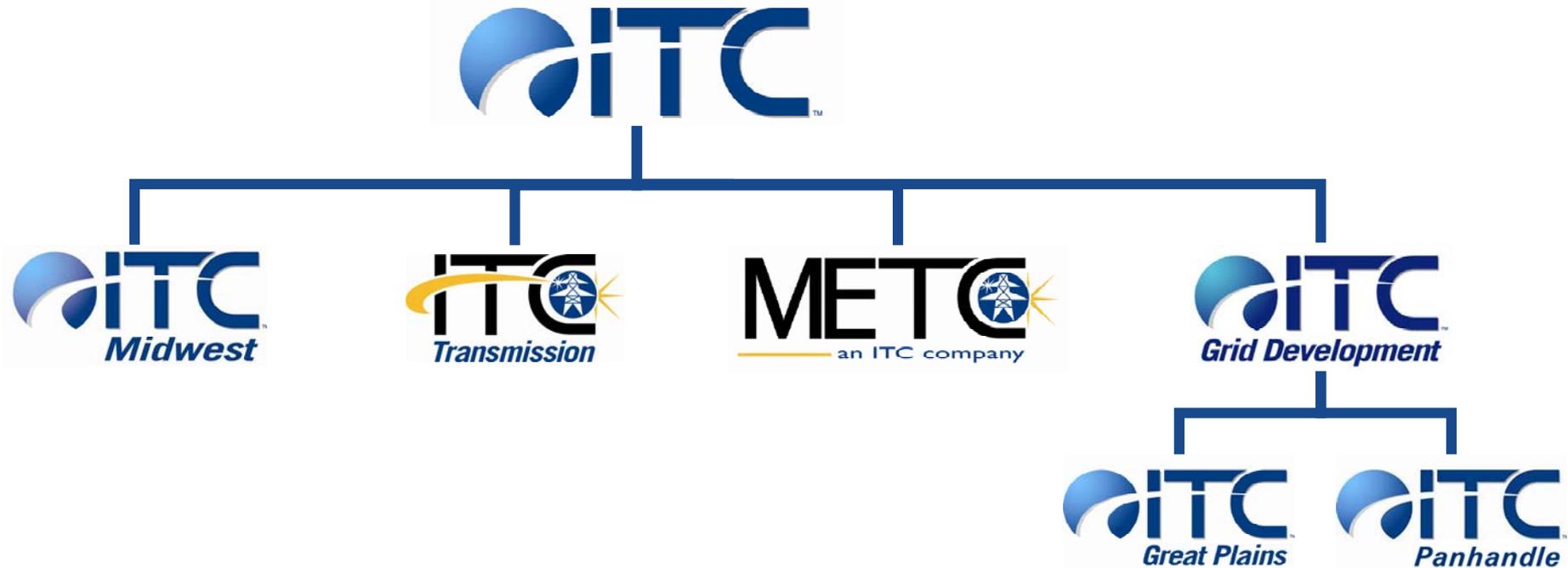
- ◆ In January 2007 ITC Midwest LLC signed a definitive agreement to acquire all of the transmission assets of Interstate Power and Light Company (IP&L), a subsidiary of Alliant Energy.
  - Transaction is anticipated to close in the fourth quarter of 2007.

(1) Based on annual electric retail sales in the service territory as found in "Edison Electric Institute Profile: Rankings of Shareholder-Owned Electric Companies", May 2006.

# ITC: Growing the footprint



- ◆ ITC and its subsidiaries are in the business of investing in electricity transmission infrastructure improvements as a means to improve electric reliability, reduce congestion and lower the overall cost of delivered energy.



# Transmission is Our Only Business



- ◆ 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.
- ◆ Because of our singular business focus, we are aligned with customers.
  - Customers benefit from transmission investment by:
    - Improved reliability
    - Reduced congestion
    - Increased access to generation

# Capital Expansion Planning Process

## Types of Projects

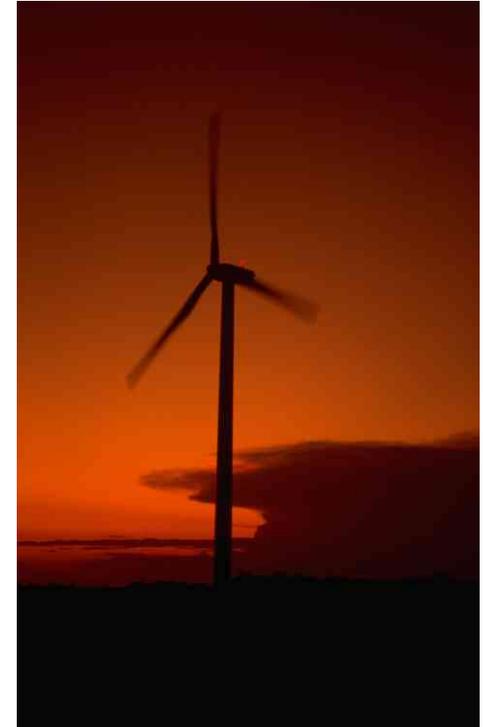


- ◆ Reliability Standards Driven
  - System Capacity Improvements
    - Enable transmission system to operate without constraint when other elements are out of service
  - Infrastructure Improvements
    - Replacement of aging, unreliable equipment, betterment projects (e.g. deployment of new technology)
  - Other
    - Infrastructure relocations (e.g. road projects); new standards compliance (e.g. Cyber Security)
- ◆ Economic
  - Reduce congestion, equalize Locational Marginal Prices between areas
- ◆ Customer Driven
  - Load interconnections; utility requests for new substations
  - Generator interconnections
    - Utility, IPP requests, including renewables

# Addressing Michigan's Needs



- ***ITC and AEP are evaluating a 765 kV loop to link Ohio and Michigan***
  - ◆ Three legs totaling approximately\* 700 miles of new 765 kV facilities
  - ◆ Roughly 60% in Michigan and 40% in Ohio
- ***Connects four new stations with two existing 765 kV stations in Ohio and Michigan***
- ***High level cost estimates\* at this time are in the \$2.6 billion range in 2007 dollars***
- ***Project implementation can be completed in phases over many years***
- ***Because a 765-kV loop is expected to provide substantial interregional benefits, the costs for such a project may be eligible for regional cost recovery, which would reduce Michigan's share***



\* ***All estimates (mileage and cost) are very preliminary and are subject to change based on several things including but not limited to; actual routing, ROW procurement, construction timing, project design, and the cost of raw materials.***

# Conceptual 765 kV Loop



# Results from technical study with AEP



## ■ ***The 765kV loop project represents a decisive step towards stabilizing Michigan's electricity future over the long term***

- ◆ Leverages the existing 765-kV transmission infrastructure to facilitate future expansion
- ◆ Frees up significant capacity on the existing lower voltage systems
- ◆ Enables up to 5000 MWs of additional power to be generally transportable throughout Lower Michigan, and Northern Ohio
- ◆ Enables additional generation in Michigan to reach both the MISO and PJM markets
- ◆ Minimal right-of-way versus lower voltage lines for the same level of electric power carrying capacity
- ◆ Significant MW and MVAR loss savings – the ultimate “green energy”
- ◆ Provides a robust transmission backbone into the Lower Peninsula of Michigan
- ◆ Enhanced regional reliability and security, promoting a “self-healing” grid that only transmission can ensure
- ◆ Fits into MISO's vision plan allowing renewable resources and lower cost generation to reach the broader market

# Renewable Resources



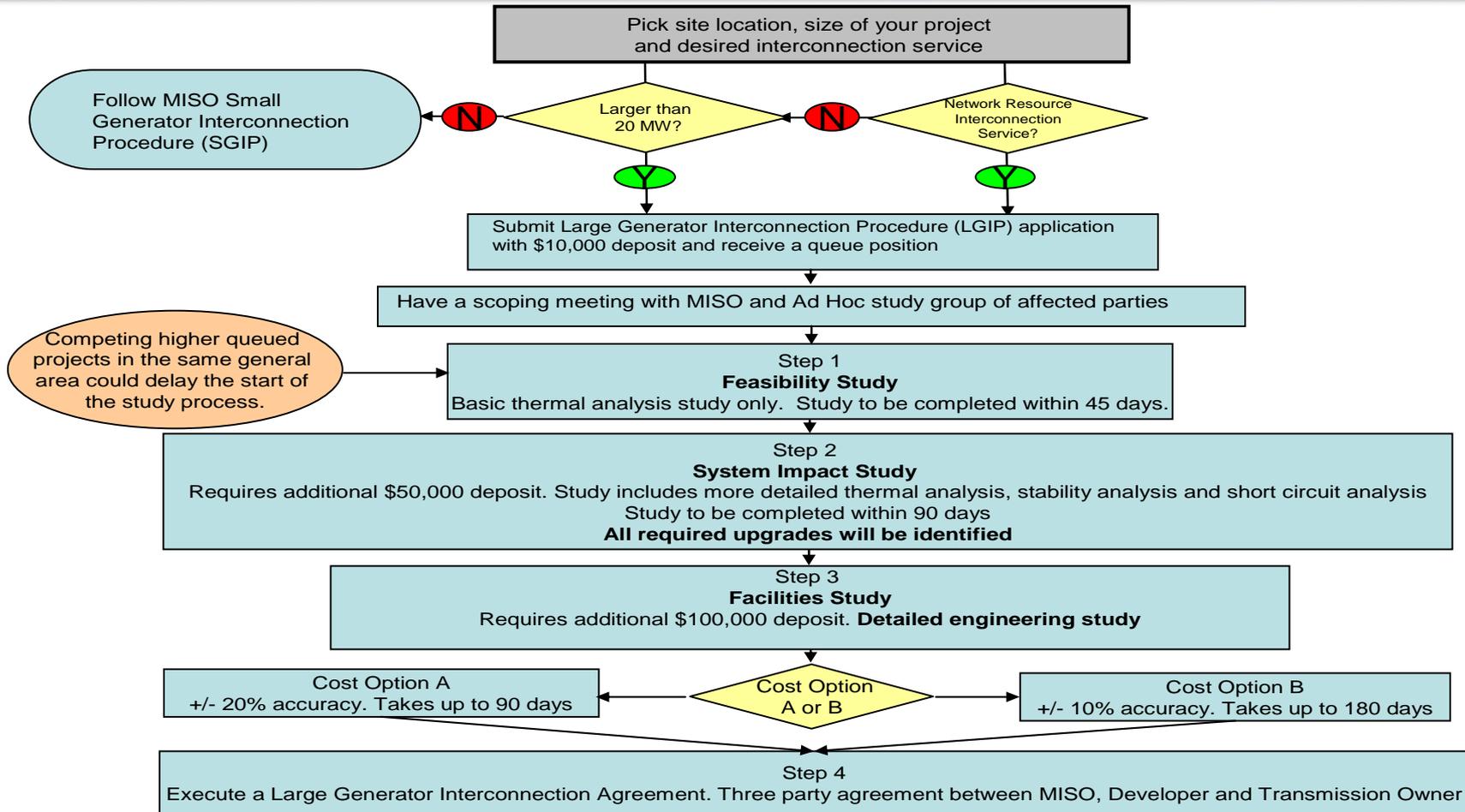
- ◆ Wind energy is the future, but current interconnection standards do not facilitate the development of wind energy.
  - Other Midwest states have an over capacity of wind generation, and the transmission grid can help bring it to the market.
  - ITC believes that barriers to entry for wind generators should be removed to allow its access to the market.

# ITC *Transmission's* and METC's Generator Interconnection Policy



- In July 07, ITC *Transmission* and METC obtained FERC approval to revise the cost allocation protocols for generation interconnections to eliminate the 50% allocation of costs to generators (Docket ER07-1141).
  - ◆ Modified sections of the Midwest ISO's Energy Markets Tariff ("EMT") Attachment FF to authorize ITC *Transmission* and METC to reimburse interconnecting generators meeting the requirements of Attachment FF (designated Network Resource or contractual agreement for 1 year or longer with a Network Customer) for 100% of the costs of transmission system network upgrades.
  - ◆ According to the MISO EMT, a Network Resource is defined in Section 1.217 as (paraphrased):
    - Any Generator or portion thereof, that is owned or leased by a Network Customer, or whose output is under contract to a Network Customer, and that is designated under the Network Integration Transmission Service provisions of Module B in the MISO EMT. Network Resources do not include any generator, or any portion thereof, that is committed for sale to third parties or otherwise cannot be called upon to meet the Network Customer's Network Load on a non-interruptible basis.
- Qualified Network Resource generators seeking to interconnect to the transmission system would initially pay upfront 100% of the transmission system network upgrade costs to ITC *Transmission* and METC .
- Within 90 days of commercial operation of the generator, ITC *Transmission* and METC will reimburse to the generator 100% of the money received, with interest, that the generator paid to ITC for the transmission system network upgrades above.
- Any radial facilities needed to get the generator output to the transmission system remains the cost responsibility of the generator.

# Generator Interconnection Flowchart



Disclaimer: The following flowchart is designed for a quick reference intended to be used for conversational purpose only. It is the user's responsibility to verify it with the most recent version of Large Generator Interconnection Procedure (LGIP). This flowchart is a generalization and does not reflect all the necessary steps. For more information please contact Client Relations at: 1-866-296-MISO or email at: ClientRelations@midwestiso.org. Go to [www.midwestmarket.org](http://www.midwestmarket.org) for a more thorough MISO flowchart available under PLANNING TAB - GENERATOR INTERCONNECTION-Large Generator Interconnection Procedure - LGIP TIME LINE CHART

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