ITC Holdings Corp.
Form 10-Q
April 30, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-32576

ITC HOLDINGS CORP.

(Exact Name of Registrant as Specified in Its Charter)

Michigan	**32-0058047**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

27175 Energy Way
Novi, MI 48377
(Address Of Principal Executive Offices, Including Zip Code)
(248) 946-3000
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares of the Registrant s Common Stock, without par value, outstanding as of April 24, 2009 was 49,757,111.

ITC Holdings Corp.
Form 10-Q for the Quarterly Period Ended March 31, 2009
INDEX

DEFINITIONS

Unless otherwise noted or the context requires, all references in this report to:

ITC Holdings Corp. and its subsidiaries

ITC Great Plains are references to ITC Great Plains, LLC, a wholly-owned subsidiary of ITC Grid Development, LLC;

ITC Grid Development are references to ITC Grid Development, LLC, a wholly-owned subsidiary of ITC Holdings;

Green Power Express are references to Green Power Express LP, an indirect wholly-owned subsidiary of ITC Holdings;

ITC Holdings are references to ITC Holdings Corp. and not any of its subsidiaries;

ITC Midwest are references to ITC Midwest LLC, a wholly-owned subsidiary of ITC Holdings;

ITCTransmission are references to International Transmission Company, a wholly-owned subsidiary of ITC Holdings;

METC are references to Michigan Electric Transmission Company, LLC, a wholly-owned subsidiary of MTH;

MTH are references to Michigan Transco Holdings, Limited Partnership, the sole member of METC and a wholly owned subsidiary of ITC Holdings;

Regulated Operating Subsidiaries are references to ITCTransmission, METC, and ITC Midwest together; and

We, our and us are references to ITC Holdings together with all of its subsidiaries.

Other definitions

Consumers Energy are references to Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation;

Detroit Edison are references to The Detroit Edison Company, a wholly-owned subsidiary of DTE Energy;

DTE Energy are references to DTE Energy Company;

FERC are references to the Federal Energy Regulatory Commission;

IP&L are references to Interstate Power and Light Company, an Alliant Energy Corporation subsidiary;

kV are references to kilovolts (one kilovolt equaling 1,000 volts);

kW are references to kilowatts (one kilowatt equaling 1,000 watts);

MISO are references to the Midwest Independent Transmission System Operator, Inc., a FERC-approved RTO, which oversees the operation of the bulk power transmission system for a substantial portion of the Midwestern United States and Manitoba, Canada, and of which ITCTransmission, METC and ITC Midwest are members;

MW are references to megawatts (one megawatt equaling 1,000,000 watts);

NERC — are references to the North American Electric Reliability Corporation;

NOLs — are references to net operating loss carryforwards for income taxes;

RTO — are references to Regional Transmission Organizations; and

SPP — are references to Southwest Power Pool, Inc., a FERC-approved RTO.

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands, except share data)	March 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 26,823	$ 58,110
Accounts receivable	60,026	57,638
Inventory	29,422	25,077
Regulatory assets- Attachment O revenue accrual (including accrued interest of $1,823 and $1,637, respectively)	37,424	22,301
Other	6,594	4,147
Total current assets	160,289	167,273
Property, plant and equipment (net of accumulated depreciation and amortization of $944,475 and $925,890, respectively)	2,369,835	2,304,386
Other assets		
Goodwill	951,319	951,319
Intangible assets (net of accumulated amortization of $6,806 and $6,050, respectively)	51,601	52,357
Regulatory assets- Attachment O revenue accrual (including accrued interest of $1,377 and $1,512, respectively)	72,900	81,643
Regulatory assets- Acquisition adjustments (net of accumulated amortization of $23,740 and $22,393, respectively)	79,318	80,665
Other regulatory assets	40,580	39,848
Deferred financing fees (net of accumulated amortization of $7,300 and $8,048, respectively)	20,893	21,410
Other	19,841	15,664
Total other assets	1,236,452	1,242,906
TOTAL ASSETS	$ 3,766,576	$ 3,714,565
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 63,803	$ 79,403
Accrued payroll	4,542	10,331
Accrued interest	15,661	37,779
Deferred income taxes	11,223	6,476
Accrued taxes	16,462	18,104
Refundable deposits from generators for transmission network upgrades	11,895	8,701
Other	2,850	5,384
Total current liabilities	126,436	166,178
Accrued pension and postretirement liabilities	25,342	24,295
Deferred income taxes	158,066	144,889

Regulatory liabilities	198,374	196,656
Other	21,183	5,231
Long-term debt	2,291,315	2,248,253
Commitments and contingent liabilities (Note 9)		
STOCKHOLDERS EQUITY		
Common stock, without par value, 100,000,000 shares authorized, 49,742,769 and 49,654,518 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	851,851	848,624
Retained earnings	94,821	81,268
Accumulated other comprehensive loss	(812)	(829)
Total stockholders equity	945,860	929,063
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,766,576	$ 3,714,565

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended March 31,	
(in thousands, except per share data)	**2009**	**2008**
OPERATING REVENUES	$ 155,941	$ 141,914
OPERATING EXPENSES		
Operation and maintenance	23,741	21,455
General and administrative	19,893	17,982
Depreciation and amortization	26,548	22,324
Taxes other than income taxes	11,098	10,885
Total operating expenses	81,280	72,646
OPERATING INCOME	74,661	69,268
OTHER EXPENSES (INCOME)		
Interest expense	31,593	30,770
Allowance for equity funds used during construction	(2,766)	(3,096)
Other income	(683)	(514)
Other expense	864	841
Total other expenses (income)	29,008	28,001
INCOME BEFORE INCOME TAXES	45,653	41,267
INCOME TAX PROVISION	16,928	15,746
NET INCOME	$ 28,725	$ 25,521
Basic earnings per common share (Note 6)	$ 0.58	$ 0.53
Diluted earnings per common share (Note 6)	$ 0.57	$ 0.52
Dividends declared per common share	$ 0.305	$ 0.290

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three months ended March 31,	
(in thousands)	**2009**	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 28,725	$ 25,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	26,548	22,324
Attachment O revenue accrual including accrued interest	(12,088)	(18,222)
Deferred income tax expense	16,245	14,423
Allowance for equity funds used during construction	(2,766)	(3,096)
Other	2,333	3,855
Changes in assets and liabilities, exclusive of changes shown separately:		
Accounts receivable	(2,314)	(2,790)
Inventory	(4,345)	2,110
Regulatory assets- Attachment O revenue accrual including accrued interest	5,712	
Other current assets	(2,447)	(3,151)
Accounts payable	(941)	3,369
Accrued payroll	(4,588)	(3,512)
Accrued interest	(22,118)	(8,935)
Accrued taxes	(1,642)	(847)
Other current liabilities	(2,537)	425
Other non-current assets and liabilities, net	1,699	3,206
Net cash provided by operating activities	25,476	34,680
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(104,687)	(94,564)
ITC Midwest s asset acquisition direct fees		(933)
Net cash used in investing activities	(104,687)	(95,497)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt		557,895
Repayment of long-term debt		(765,000)
Borrowings under revolving credit agreements	142,771	164,500
Repayments of revolving credit agreements	(99,792)	(173,200)
Issuance of common stock	1,031	308,904
Dividends on common stock	(15,169)	(14,319)
Refundable deposits from generators for transmission network upgrades	21,516	3,583
Repayment of refundable deposits from generators for transmission network upgrades	(2,291)	
Debt issuance costs	(142)	(4,123)
Other		(734)
Net cash provided by financing activities	47,924	77,506

NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(31,287)	16,689
CASH AND CASH EQUIVALENTS Beginning of period	58,110	2,616
CASH AND CASH EQUIVALENTS End of period	$ 26,823	$ 19,305

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the period ended December 31, 2008 included in ITC Holdings Form 10-K for such period.

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America (GAAP) and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission (SEC) Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

Supplementary Cash Flows Information

	Three months ended March 31,	
(in thousands)	**2009**	**2008**
Supplementary cash flows information:		
Interest paid (net of interest capitalized)	$52,653	$37,729
Supplementary non-cash investing and financing activities:		
Additions to property, plant and equipment (a)	$38,893	$38,156
Allowance for equity funds used during construction	2,766	3,096

(a) Amounts consist of current liabilities for construction labor and materials that have not been included in investing activities. These amounts have not been paid for as of March 31, 2009 or 2008, respectively, but have been or will be included as a cash outflow from investing activities for

expenditures for
property, plant
and equipment
when paid.

2. RECENT ACCOUNTING PRONOUNCEMENTS

FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the Financial Accounting Standards Board (the FASB) issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities as defined in EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, and therefore should be included in computing earnings per share using the two-class method. According to FSP EITF 03-6-1, a share-based payment award is a participating security when the award includes non-forfeitable rights to dividends or dividend equivalents. The rights result in a non-contingent transfer of value each time an entity declares a dividend or dividend equivalent during the award s vesting period. Upon adoption, FSP EITF 03-6-1 requires an entity to retroactively adjust all prior period earnings per share computations to reflect the FSP EITF 03-6-1 provisions. FSP EITF 03-6-1 was effective for us for the first quarter 2009. On January 1, 2009, we adopted the provisions of FSP EITF 03-6-1. Refer to our earnings per share calculation in Note 6.

Statement of Financial Accounting Standards No. 141(R), Business Combinations

Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (SFAS 141(R)) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of SFAS 141(R) will, among other things, impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration), exclude transaction costs from acquisition accounting and require expense recognition for these costs and change accounting practices for acquired contingencies, acquisition-related restructuring costs, in-process research and development, indemnification assets, and tax benefits. SFAS 141(R) was effective for us for business combinations occurring beginning January 1, 2009 and for adjustments to an acquired entity s deferred tax asset and liability balances occurring beginning January 1, 2009. The adoption of SFAS 141(R) did not have a material effect on our consolidated financial statements, however, it is expected to have a material impact on the accounting for future business combinations we may consummate.

Statement of Financial Accounting Standards No. 157, Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. We have adopted SFAS 157 and FASB Staff Position FAS No. 157-2: *Effective Date of FASB Statement No. 157* effective January 1, 2008. The adoption of SFAS 157 for financial instruments as required at January 1, 2008 did not have a material effect on our consolidated financial statements. However, we are required to provide additional disclosure as part of our consolidated financial statements. Effective January 1, 2009, we adopted SFAS 157 for non-financial assets and non-financial liabilities, such as goodwill and other intangible assets held by us and measured annually for impairment testing purposes.

On October 10, 2008, the FASB issued Staff Position FAS No. 157-3, *Fair Value Measurements* (FSP FAS 157-3), which clarifies the application of SFAS 157 in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of this standard as of December 31, 2008 did not have a material impact on our consolidated financial statements. Refer to our fair value measurement disclosure in Note 8.

Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133

Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161) amends and expands the disclosure requirements of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 was effective for the first quarter of 2009. The adoption of this standard did not have a material impact on our consolidated financial statements.

FASB Staff Position FAS 132(R)-1, Employers Disclosures About Postretirement Benefit Plan Assets

On December 30, 2008, the FASB issued FSP FAS 132(R)-1, (FSP FAS 132(R)-1), which amends Statement of Financial Accounting Standards No. 132(R) *Employers Disclosures About Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106*, (SFAS 132(R)), to require more detailed disclosures about employers plan assets, including employers investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. FSP FAS 132(R)-1 also updates the disclosure examples in SFAS 132(R) to illustrate the required additional disclosures, including those associated with fair value measurement and includes a technical correction. The disclosure requirements of FSP FAS 132(R)-1 will be effective for us for the year ended December 31, 2009.

Table of Contents

3. INTANGIBLE ASSETS

We have intangible assets with finite lives as a result of the METC acquisition in 2006. During the three months ended March 31, 2009 and 2008, we recognized $0.8 million of amortization expense of our intangible assets. We expect the annual amortization of our intangible assets to be as follows:

(in thousands)	
2009	$ 3,025
2010	3,025
2011	3,025
2012	3,025
2013	3,025
2014 and thereafter	37,232
Total	$52,357

4. REGULATORY MATTERS

ITC Great Plains

On January 15, 2009, ITC Great Plains filed an application with the FERC for the approval of a forward-looking formula rate that would apply to ITC Great Plains transmission facilities in the Southwest Power Pool, Inc. (SPP) region, including Kansas. The application sought approval of a formula transmission rate for ITC Great Plains as an independent transmission company in SPP. The application also sought incentives for major transmission projects that ITC Great Plains has committed to construct in Kansas, including the KETA Project, which would run from Spearville to a point near Hays, Kansas and then northward to Axtell, Nebraska, and the Kansas V-Plan, which would run from Spearville southward to Comanche County and then on a northeastern track to Wichita. The total capital investment for these two projects is anticipated to be between approximately $500 million and $750 million depending on a variety of factors, including the technology utilized. Additionally, the application sought approval of the recovery of start-up and development expenses of ITC Great Plains and other development expenses relating to the KETA Project and Kansas V-Plan through the recognition of regulatory assets.

On March 16, 2009, the FERC issued an order approving ITC Great Plains request for transmission investment incentives. The approval of the application provides ITC Great Plains with the regulatory certainty needed to make significant transmission investments in the SPP region generally and Kansas in particular. Specifically, the FERC order authorized:

- the establishment of regulatory assets for start-up and development costs of ITC Great Plains and pre-construction costs specific to the KETA Project and the Kansas V-Plan to be recovered subsequent to a future FERC filing;
- an incentive return on common equity of 12.16 percent;
- inclusion of 100 percent of construction work in progress in rate base;
- abandoned plant recovery, in the event either the KETA Project or the Kansas V-Plan must be abandoned for reasons outside of ITC Great Plains control; and
- capital structure comprised of 60 percent equity and 40 percent debt.

Further, the FERC order conditionally accepted ITC Great Plains proposed formula rate tariff sheets, subject to refund, and set them for hearing and settlement judge procedures. The approved transmission investment incentives and return on equity were specifically excluded from any hearing process.

The total development expenses through March 31, 2009 that may be recoverable through regulatory assets or property, plant and equipment were approximately $7.7 million, which have been recorded to expenses in the periods in which they were incurred. As of March 31, 2009, we have not recognized any assets relating to these amounts. Based on ITC Great Plains application and the FERC order, certain milestones must be met in order for us to recover these start-up, development and pre-construction costs. In the period in which it becomes probable that future revenues will result from the authorization to recover these costs, we will recognize the regulatory assets and record a reduction to operating expenses for the total amount of these costs incurred through that period.

Table of Contents

Green Power Express

On February 9, 2009, Green Power Express filed an application with the FERC for approval of a forward-looking formula rate and incentives for the construction of the Green Power Express project, including the approval of a regulatory asset for recovery of development expenses previously incurred as well as future development costs for the project. Over the past year we have worked to identify a network of transmission lines that would facilitate the movement of 12,000 megawatts of power from the wind-abundant areas in the Dakotas, Minnesota and Iowa to Midwest load centers, such as Chicago, southeastern Wisconsin, Minneapolis and other areas that demand clean, renewable energy. The Green Power Express project would traverse portions of North Dakota, South Dakota, Minnesota, Iowa, Wisconsin, Illinois and Indiana and is ultimately expected to include approximately 3,000 miles of extra high-voltage (765kV) transmission. The entire project is currently estimated to cost approximately $10 to $12 billion. Portions of the Green Power Express project fall within the service territory of ITC Midwest. ITC Holdings expects to partner with other utilities within the geographical footprint of the Green Power Express project and, therefore, expects to invest in only a portion of the total project cost.

On April 10, 2009, the FERC issued an order approving Green Power Express request for transmission investment incentives. Specifically, the FERC order authorized:

- the establishment of a regulatory asset for start-up and development costs of Green Power Express and pre-construction costs for the project to be recovered subsequent to a future FERC filing;
- an incentive return on common equity of 12.38 percent;
- inclusion of 100 percent of construction work in progress in rate base;
- abandoned plant recovery, in the event the project must be abandoned for reasons outside of Green Power Express control; and
- use of a hypothetical capital structure comprised of 60 percent equity and 40 percent debt until any portion of the Green Power Express project is placed in service, at which date the actual capital structure, expected to be 60 percent equity and 40 percent debt, will apply.

Further, the FERC order conditionally accepted Green Power Express proposed formula rate tariff sheets, subject to refund, and set them for hearing and settlement judge procedures. The approved transmission investment incentives and return on equity were specifically excluded from any hearing process.

The total development expenses through March 31, 2009 that may be recoverable through regulatory assets were approximately $1.3 million, which have been recorded to expenses in the periods in which they were incurred. In the period in which it becomes probable that future revenues will result from the approval, we would record a reduction to operating expenses and recognize the regulatory assets.

Dismissal of Complaint of IP&L

On November 18, 2008, IP&L filed a complaint with the FERC against ITC Midwest under Section 206 of the Federal Power Act. The complaint alleged that: (1) the operations and maintenance expenses and administrative and general expenses projected in the 2009 ITC Midwest rate appeared excessive; (2) the true-up amount related to ITC Midwest s posted network rate for the period through December 31, 2008 would cause ITC Midwest to charge an excessive rate in future years; and (3) the methodology of allocating administrative and general expenses among ITC Holdings operating companies was changed, resulting in such additional expenses being allocated to ITC Midwest. Among other things, IP&L s complaint sought investigative action by the FERC relating to ITC Midwest s transmission service charges reflected in its 2009 rate, as well as hearings regarding the justness and reasonableness of the 2009 rate (with the ultimate goal of reducing such rate).

On April 16, 2009, the FERC dismissed the IP&L complaint, citing that IP&L failed to meet its burden as the complainant to establish that the current rate is unjust and unreasonable and that IP&L s alternative rate proposal is just and reasonable. The FERC order remains subject to rehearing until May 18, 2009 and ultimately to appeal within 30 days of any decision on rehearing.

Attachment O Revenue Accruals and Deferrals

Under the forward-looking Attachment O formula, our Regulated Operating Subsidiaries use forecasted expenses, additions to in-service property, plant and equipment, point-to-point revenues, network load and other items for the upcoming calendar year to establish their projected net revenue requirement and their component of the billed network rates for service on their systems from

Table of Contents

January 1 to December 31 of that year. The forward-looking Attachment O formula includes a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual net revenue requirements to their billed revenues for each year.

The true-up mechanism under forward-looking Attachment O meets the requirements of Emerging Issues Task Force Issue No. 92-7, *Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs* (EITF 92-7). Accordingly, revenue is recognized for services provided during each reporting period based on actual net revenue requirements calculated using forward-looking Attachment O. Our Regulated Operating Subsidiaries accrue or defer revenues to the extent that the actual net revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. The true-up amount is automatically reflected in customer bills within two years under the provisions of forward-looking Attachment O.

The changes in regulatory assets and liabilities associated with our Regulated Operating Subsidiaries Attachment O revenue accruals and deferrals were as follows during the three months ended March 31, 2009:

(in thousands)	**ITCTransmission**	**METC**	**ITC Midwest**	**Total**
Balance as of December 31, 2008	$ 17,815	$ 34,133	$ 51,768	$ 103,716
Refund (collection) of 2007 Attachment O revenue deferrals and accruals including interest	59	(5,712)		(5,653)
Attachment O accrual for the quarter ended March 31, 2009	8,426	642	2,428	11,496
Interest accrued for the quarter ended March 31, 2009	81	328	183	592
Balance as of March 31, 2009	$ 26,381	$ 29,391	$ 54,379	$ 110,151

Regulatory assets and liabilities associated with our Regulated Operating Subsidiaries Attachment O revenue accruals and deferrals are recorded in our consolidated statement of financial position as follows:

(in thousands)	**ITCTransmission**	**METC**	**ITC Midwest**	**Total**
Current assets	$ 4,532	$ 19,904	$ 12,988	$ 37,424
Non-current assets	22,022	9,487	41,391	72,900
Other current liabilities	(173)			(173)
Balance as of March 31, 2009	$ 26,381	$ 29,391	$ 54,379	$ 110,151

5. LONG TERM DEBT

ITC Holdings Term Loan Agreement

On April 29, 2009, ITC Holdings entered into a two year Term Loan Agreement (the Term Loan Agreement) with various financial institutions as lenders, JPMorgan Chase Bank N.A. as Administrative Agent, J.P. Morgan Securities Inc. as Sole Lead Arranger and Sole Bookrunner and PNC Bank, National Association, as Syndication Agent. The Term Loan Agreement establishes an unguaranteed, unsecured $100 million term facility, under which the entire $100 million was drawn at closing. Amounts outstanding under the Term Loan Agreement can be repaid without penalty in increments of $5 million in advance of the maturity date. The funds provided under the Term Loan Agreement will be used for general corporate purposes. The Term Loan Agreement contains covenants that: (a) place limitations on liens; mergers, consolidations, liquidations and sales of all or substantially all assets; dividends and other returns of capital to equity holders; and sale lease-back transactions and (b) require ITC Holdings to maintain a minimum debt to capitalization ratio of 75%. The Term Loan Agreement contains certain customary events of default for unsecured unguaranteed financings, including a default where a change in ownership of ITC Holdings occurs. The occurrence of a default would allow the lenders, upon the request of a majority in interest of the lenders, following any applicable grace periods, to accelerate all outstanding indebtedness.

Loans made under the Term Loan Agreement bear interest at a rate equal to LIBOR plus an applicable margin of 3.50% or at a base rate, which is defined as the highest of the prime rate, the federal funds rate plus 0.50% and LIBOR for a one-month period plus 1.0%, in each case plus an applicable margin of 2.50%. Also, in each case, the applicable margin is subject to adjustment from time to time based on credit rating.

Revolving Credit Agreements

Lehman Brothers Bank, FSB (Lehman), a member of our revolving credit agreement syndication, was included in a bankruptcy filing made by its parent, Lehman Brothers Holdings Inc., on September 14, 2008. Lehman s commitment of $55.0 million represents 16.2% of our total consolidated revolving credit agreement capacity of $340.0 million and we had $5.3 million outstanding under the agreements at March 31, 2009 relating to Lehman s participation. Lehman has not funded their share of borrowing notices since its bankruptcy filing and, given the favorable terms of our existing agreement compared to current market conditions, as well as the execution of the Term Loan Agreement, we do not expect to replace Lehman s commitment on our existing credit facility.

Table of Contents

ITC Holdings Revolving Credit Agreement

At March 31, 2009, ITC Holdings had $99.1 million outstanding under the ITC Holdings Revolving Credit Agreement (compared to a capacity of $107.8 million net of the unfulfilled Lehman commitment) and the weighted-average interest rate of borrowings outstanding under the agreement was 1.3% at March 31, 2009.

ITCTransmission/METC Revolving Credit Agreement

At March 31, 2009, ITCTransmission and METC had $20.2 million and $19.8 million, respectively, outstanding under the ITCTransmission/METC Revolving Credit Agreement (compared to capacities of $88.3 million and $50.5 million, respectively, net of the unfulfilled Lehman commitment) and the weighted-average interest rates of borrowings outstanding under the agreement were 0.9% and 0.9%, respectively at March 31, 2009.

ITC Midwest Revolving Credit Agreement

At March 31, 2009, ITC Midwest had $33.2 million outstanding under the ITC Midwest Revolving Credit Agreement (compared to a capacity of $43.7 million net of the unfulfilled Lehman commitment) and the weighted-average interest rate of borrowings outstanding under the facility was 0.9% at March 31, 2009.

6. EARNINGS PER SHARE

The computation of basic and diluted earnings per common share for the three months ended March 31, 2009 and 2008 is presented in the following table:

	Three months ended March 31,	
(in thousands, except share, per share data and percentages)	**2009**	**2008**
Numerator:		
Net income	$ 28,725	$ 25,521
Less: dividends declared common shares, restricted shares and deferred stock units	(15,172)	(14,324)
Undistributed earnings	13,553	11,197
Percentage allocated to common shares (a)	98.8%	99.0%
Undistributed earnings common shares	13,390	11,085
Add: dividends declared common shares	14,988	14,190
Numerator for basic and diluted earnings per common share	$ 28,378	$ 25,275
Denominator:		
Denominator for basic earnings per common share weighted-average common shares	49,127,337	47,296,423
Incremental shares for stock options and employee stock pu		