ITC Holdings Corp.
Form 10-Q
October 27, 2011
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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 September 30, 2011
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 (State or Other Jurisdiction of Incorporation or Organization)	32-0058047 (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 þ 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 October 21, 2011 was 51,302,836.

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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;
- "MISO Regulated Operating Subsidiaries" are references to ITCTransmission, METC and ITC Midwest together;
- "MTH" are references to Michigan Transco Holdings, Limited Partnership, the sole member of METC and an indirect wholly-owned subsidiary of ITC Holdings;
- "Regulated Operating Subsidiaries" are references to ITCTransmission, METC, ITC Midwest and ITC Great Plains 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;
- "KCC" are references to the Kansas Corporation Commission;
- "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;
- "MPSC" are references to the Michigan Public Service Commission;
- "MW" are references to megawatts (one megawatt equaling 1,000,000 watts);
- "NERC" are references to the North American Electric Reliability Corporation;
- "RTO" are references to Regional Transmission Organizations; and
- "SPP" are references to Southwest Power Pool, Inc., a FERC-approved RTO which oversees the operation of the bulk power transmission system for a substantial portion of the South Central United States, and of which ITC Great Plains is a member.

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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)	September 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$48,327	$95,109
Accounts receivable	92,605	80,417
Inventory	40,479	42,286
Deferred income taxes	15,445	—
Regulatory assets — revenue accrual, including accrued interest	12,151	28,637
Other	5,464	5,293
Total current assets	214,471	251,742
Property, plant and equipment (net of accumulated depreciation and amortization of $1,177,227 and $1,129,669, respectively)	3,221,523	2,872,277
Other assets		
Goodwill	950,163	950,163
Intangible assets (net of accumulated amortization of $14,501 and $12,176, respectively)	47,660	49,985
Other regulatory assets	148,100	138,152
Deferred financing fees (net of accumulated amortization of $13,719 and $11,750, respectively)	21,366	19,949
Other	29,576	25,605
Total other assets	1,196,865	1,183,854
TOTAL ASSETS	$4,632,859	$4,307,873
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Accounts payable	$82,534	$66,953
Accrued payroll	14,290	18,606
Accrued interest	23,341	42,725
Accrued taxes	12,147	19,461
Regulatory liabilities — revenue deferral, including accrued interest	39,152	17,658
Refundable deposits from generators for transmission network upgrades	37,606	10,492
Other	7,814	6,509
Total current liabilities	216,884	182,404
Accrued pension and postretirement liabilities	39,322	35,811
Deferred income taxes	380,057	314,979
Regulatory liabilities — revenue deferral, including accrued interest	88,111	43,202
Regulatory liabilities — accrued asset removal costs	85,476	90,987
Refundable deposits from generators for transmission network upgrades	6,720	14,515
Other	32,882	11,646
Long-term debt	2,577,405	2,496,896
Commitments and contingent liabilities (Note 13)		
STOCKHOLDERS’ EQUITY		

Common stock, without par value, 100,000,000 shares authorized, 51,329,501 and 50,715,805 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	913,280	886,808
Retained earnings	306,183	229,437
Accumulated other comprehensive (loss) income	(13,461)	1,188
Total stockholders’ equity	1,206,002	1,117,433
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$4,632,859	$4,307,873

See notes to condensed consolidated financial statements (unaudited).

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

(in thousands, except per share data)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
OPERATING REVENUES	$191,303	$178,020	$555,787	$507,776
OPERATING EXPENSES				
Operation and maintenance	37,365	33,748	92,486	85,971
General and administrative	19,046	18,199	54,915	53,393
Depreciation and amortization	23,898	20,856	70,338	65,538
Taxes other than income taxes	12,456	12,143	39,620	36,077
Other operating (income) and expense — net	(295)	(139)	(611)	(662)
Total operating expenses	92,470	84,807	256,748	240,317
OPERATING INCOME	98,833	93,213	299,039	267,459
OTHER EXPENSES (INCOME)				
Interest expense	37,248	36,088	110,002	106,450
Allowance for equity funds used during construction	(4,469)	(3,585)	(12,078)	(10,163)
Other income	(1,417)	(878)	(2,136)	(2,550)
Other expense	793	586	3,063	1,617
Total other expenses (income)	32,155	32,211	98,851	95,354
INCOME BEFORE INCOME TAXES	66,678	61,002	200,188	172,105
INCOME TAX PROVISION	22,654	22,608	71,166	63,206
NET INCOME	$44,024	$38,394	$129,022	$108,899
Basic earnings per common share (Note 8)	$0.86	$0.76	$2.52	$2.17
Diluted earnings per common share (Note 8)	$0.85	$0.75	$2.49	$2.13
Dividends declared per common share	$0.353	$0.335	$1.023	$0.975

See notes to condensed consolidated financial statements (unaudited).

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

(in thousands)	Nine months ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$129,022	$108,899
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	70,338	65,538
Recognition of and refund and collection of revenue accruals and deferrals — including accrued interest	82,854	120,416
Deferred income tax expense	44,894	56,768
Allowance for equity funds used during construction	(12,078)	(10,163)
Other	12,224	10,077
Changes in assets and liabilities, exclusive of changes shown separately:		
Accounts receivable	(14,845)	(18,091)
Inventory	1,807	(5,805)
Other current assets	(171)	(3,013)
Accounts payable	2,853	5,372
Accrued payroll	(3,753)	(223)
Accrued interest	(19,384)	(15,874)
Accrued taxes	(7,315)	(9,742)
Other current liabilities	1,699	76
Other non-current assets and liabilities, net	(1,577)	(6,567)
Net cash provided by operating activities	286,568	297,668
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(388,402)	(270,183)
Proceeds from sale of securities	3,839	14,576
Purchases of securities	(7,341)	(14,587)
Other	769	(78)
Net cash used in investing activities	(391,135)	(270,272)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	—	90,000
Borrowings under revolving credit agreements	592,515	329,027
Repayments of revolving credit agreements	(512,355)	(393,593)
Issuance of common stock	18,081	7,049
Dividends on common stock	(52,276)	(49,064)
Refundable deposits from generators for transmission network upgrades	24,618	16,203
Repayment of refundable deposits from generators for transmission network upgrades	(4,876)	(26,567)
Other	(7,922)	(1,041)
Net cash provided by (used in) financing activities	57,785	(27,986)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(46,782)	(590)
CASH AND CASH EQUIVALENTS — Beginning of period	95,109	74,853
CASH AND CASH EQUIVALENTS — End of period	$48,327	$74,263

See notes to condensed consolidated financial statements (unaudited).

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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 year ended December 31, 2010 included in ITC Holdings' annual report on 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

	Nine months ended September 30,	
(in thousands)	2011	2010
Supplementary cash flows information:		
Interest paid (net of interest capitalized)	$126,481	$119,998
Income taxes paid	23,010	7,174
Supplementary non-cash investing and financing activities:		
Additions to property, plant and equipment (a)	$56,342	$41,315
Allowance for equity funds used during construction	12,078	10,163

(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 September 30, 2011 or 2010, 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

Presentation of Comprehensive Income

The guidance set forth by the Financial Accounting Standards Board ("FASB") for the presentation of comprehensive income in financial statements was revised to require entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. This revision is effective for our annual and interim consolidated financial statements for fiscal years beginning after December 15, 2011.

Goodwill Impairment Testing

The FASB amended the guidance for testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. This revision is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and may be adopted early which would make it effective for our annual consolidated financial statements for the year ending December 31, 2011. We have not yet determined whether we will early adopt this amended guidance, but the impact is not expected to have a material effect on our results of operations, cash flows or financial condition.

3. REGULATORY MATTERS

ITC Great Plains

In March 2011, we recorded $2.0 million of regulatory assets for development expenses and pre-construction costs relating to the Kansas V-Plan Project incurred by ITC Great Plains that management believes are probable of recovery and recorded a

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corresponding $2.0 million reduction to operating expenses, primarily to general and administrative expense. As of September 30, 2011, the regulatory asset related to the Kansas V-Plan Project totaled $3.1 million. Recovery of the Kansas V-Plan Project regulatory asset requires FERC authorization upon ITC Great Plains making an additional filing under Section 205 of the Federal Power Act to demonstrate that the costs to be recovered are just and reasonable. If FERC authorization is received, ITC Great Plains will include the Kansas V-Plan Project regulatory asset in its rate base and begin amortizing it over a ten-year period upon the in-service date of the Kansas V-Plan Project. The amortization expense will be included in ITC Great Plains' revenue requirement based on its cost-based formula rate template.

ITC Midwest Depreciation Study

Effective January 1, 2010, the FERC authorized the implementation of the depreciation study filed by ITC Midwest which revised its depreciation rates. This change in accounting estimate resulted in lower composite depreciation rates for ITC Midwest primarily due to the revision of asset service lives and cost of removal values.

For ratemaking purposes, the impact of ITC Midwest's revised depreciation rates was initially reflected in ITC Midwest's 2010 revenue requirement. The revised depreciation rates resulted in a reduction of depreciation expense of $4.6 million for the nine months ended September 30, 2011 as compared to the amount of depreciation expense that would have been recognized under the previous depreciation rates utilized by ITC Midwest. Because of the inclusion of depreciation expense as a component of net revenue requirement under ITC Midwest's cost-based formula rate, the offsetting effect on revenues and expenses from the change in depreciation rates had an immaterial effect on net income and earnings per share amounts for the nine months ended September 30, 2011.

Cost-Based Formula Rates with True-Up Mechanism

The transmission rates at our Regulated Operating Subsidiaries are set annually and remain in effect for a one-year period. By completing their formula rate templates on an annual basis, our Regulated Operating Subsidiaries are able to adjust their transmission rates to reflect changing operational data and financial performance, including the amount of network load on their transmission systems (for our MISO Regulated Operating Subsidiaries), operating expenses and additions to property, plant and equipment when placed in service, among other items. The FERC-approved formula rates do not require further action or FERC filings for the calculated joint zone rates to go into effect, although the rates are subject to legal challenge at the FERC. Our Regulated Operating Subsidiaries will continue to use formula rates to calculate their respective annual revenue requirements unless the FERC determines the rates to be unjust and unreasonable or another mechanism is determined by the FERC to be just and reasonable.

Our cost-based formula rate templates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue requirements. The over- or under-collection typically results from differences between the projected revenue requirement used to establish the billing rate and actual revenue requirement at each of our Regulated Operating Subsidiaries, or from differences between actual and projected monthly peak loads at our MISO Regulated Operating Subsidiaries. Revenue is recognized for services provided during each reporting period based on actual revenue requirements calculated using the formula rate templates. Our Regulated Operating Subsidiaries accrue or defer revenues to the extent that the actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. The amount of accrued or deferred revenues is reflected in customer bills within two years under the provisions of the formula rate templates.

The regulatory assets are recorded on the balance sheet in regulatory assets - revenue accrual, including accrued interest and other under non-current assets. The current and non-current regulatory liabilities are recorded in regulatory liabilities - revenue deferral, including accrued interest. The changes in regulatory assets and liabilities (net) associated with our Regulated Operating Subsidiaries' formula rate revenue accruals and deferrals, including accrued interest, were as follows during the nine months ended September 30, 2011:

(in thousands)	ITCTransmission	METC	ITC Midwest	ITC Great Plains	Total
Balance as of December 31, 2010	$(33,054)	$(17,236)	$21,388	$626	$(28,276)
Net refunds (collections) of 2009 revenue deferrals and accruals, including	2,860	5,788	(16,260)	(471)	(8,083)

interest					
Net revenue deferrals for the nine months ended September 30, 2011	(33,922)	(20,748)	(15,623)	(2,594)	(72,887)
Net accrued interest payable for the nine months ended September 30, 2011	(1,083)	(532)	(224)	(45)	(1,884)
Balance as of September 30, 2011	$ (65,199)	$ (32,728)	$ (10,719)	$ (2,484)	$ (111,130)

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4. INTANGIBLE ASSETS

We have recorded intangible assets as a result of the METC acquisition in 2006. The carrying value of these assets was $44.0 million (net of accumulated amortization of $14.4 million) as of September 30, 2011.

We have also recorded intangible assets for payments made by ITC Great Plains to certain transmission owners to acquire rights which are required under the SPP tariff to designate ITC Great Plains to build, own and operate projects within the SPP region, including the KETA Project and the Kansas V-Plan Project. The carrying amount of these intangible assets was $3.7 million (net of accumulated amortization of $0.1 million) as of September 30, 2011.

During the three months ended September 30, 2011 and 2010, we recognized $0.8 million of amortization expense of our intangible assets and $2.3 million for the nine months ended September 30, 2011 and 2010. For each of the next five years, we expect the annual amortization of our intangible assets that have been recorded as of September 30, 2011 to be $3.1 million per year.

5. LONG-TERM DEBT

Derivative Instruments and Hedging Activities

We use derivative financial instruments, including interest rate swap contracts, to manage our exposure to fluctuations in interest rates. The use of these financial instruments mitigates exposure to these risks and the variability of our operating results. We are not a party to leveraged derivatives and do not enter into derivative financial instruments for trading or speculative purposes. The interest rate swaps listed below manage interest rate risk associated with the forecasted future issuance of fixed-rate debt related to the expected refinancing of the maturing $267.0 million ITC Holdings 5.25% Senior Notes due July 15, 2013:

(in millions)

Interest Rate Swaps	Notional Amount	Fixed Rate		Original Term	Effective Date
September 2010 swap	$50.0	3.60	%	Ten years	July 2013
March 2011 swaps	50.0	4.45	%	Ten years	July 2013
May 2011 swap	25.0	4.20	%	Ten years	July 2013
August 2011 swaps	50.0	3.80	%	Ten years	July 2013
Total	$175.0				

The interest rate swaps call for ITC Holdings to receive interest quarterly at a variable rate equal to LIBOR and to pay interest semi-annually at various fixed rates effective for the ten-year period beginning July 15, 2013. The agreements will be terminated no later than the effective date of the interest rate swaps of July 15, 2013. The interest rate swaps have been determined to be highly effective at offsetting changes in the fair value of the forecasted interest cash flows associated with the expected debt issuance attributable to changes in benchmark interest rates from the trade date of the interest rate swaps to the issuance date of the debt obligation. As of September 30, 2011, there has been no material ineffectiveness recorded in the condensed consolidated statement of operations. The interest rate swaps qualify for hedge accounting treatment, whereby any pre-tax gain or loss recognized from the trade date to the effective date for the effective portion of the hedge is recorded in accumulated other comprehensive income. These amounts will be accumulated and amortized as a component of interest expense over the life of the forecasted debt. As of September 30, 2011, the fair value of the derivative instruments was a liability of $21.0 million recorded to other non-current liabilities. None of the interest rate swaps contain credit-risk-related contingent features. Refer to Note 11 for additional information.

Revolving Credit Agreements

On May 17, 2011, ITC Holdings, ITCTransmission and METC entered into new unsecured, unguaranteed revolving credit agreements, which replaced their existing revolving credit agreements that were scheduled to mature on March 29, 2012. On February 11, 2011, ITC Midwest entered into a new unsecured, unguaranteed revolving credit agreement in addition to its existing revolving credit agreement, dated January 28, 2008. On February 16, 2011, ITC Great Plains entered into an unsecured, unguaranteed revolving credit agreement. At September 30, 2011, ITC Holdings and its Regulated Operating Subsidiaries had the following revolving credit facilities available:

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(dollars in millions)	Available Capacity	Outstanding Balance (a)	Total Unused Capacity	Weighted-Average Interest Rate on Outstanding Balance		Commitment Fee Rate (b)	Original Term	Date of Maturity
Revolving Credit Agreements:								
ITC Holdings	200.0	—	200.0	n/a	(c)	0.25%	Five years	May 2016
ITCTransmission	100.0	3.6	96.4	1.5%	(d)	0.15%	Five years	May 2016
METC	100.0	17.4	82.6	1.5%	(e)	0.15%	Five years	May 2016
ITC Midwest - 2008	41.0	37.9	3.1	0.6%	(f)	0.07%	Five years	January 2013
ITC Midwest - 2011	75.0	34.2	40.8	1.6%	(g)	0.15%	Two years	February 2013
ITC Great Plains	150.0	40.5	109.5	2.0%	(h)	0.30%	Four years	February 2015
Total	666.0	133.6	532.4					

(a) Included within long-term debt.

(b) Calculation based on the average daily unused commitments, subject to adjustment based on the borrower's credit rating.

(c) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 1.75% or at a base rate, which is defined as the higher of the prime rate, 0.50% above the federal funds rate or 1% above the one month LIBOR, plus an applicable margin of 0.75%, subject to adjustments based on ITC Holdings’ credit rating.

(d) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 1.25% or at a base rate, which is defined as the higher of the prime rate, 0.50% above the federal funds rate or 1% above the one month LIBOR, plus an applicable margin of 0.25%, subject to adjustments based on ITCTransmission's credit rating.

(e) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 1.25% or at a base rate, which is defined as the higher of the prime rate, 0.50% above the federal funds rate or 1% above the one month LIBOR, plus an applicable margin of 0.25%, subject to adjustments based on METC's credit rating.

(f) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 0.35% or at a base rate, which is defined as the higher of the prime rate, or 0.50% above the federal funds rate, subject to adjustments based on ITC Midwest's credit rating.

(g) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 1.375% or at a base rate, which is defined as the higher of prime rate, 0.50% above over the federal funds rate or 1% above the one month LIBOR, plus an applicable margin of 0.375%, subject to adjustments based on ITC Midwest’s credit rating.

(h) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 1.75%, or at a base rate, which is defined as the higher of prime rate, 0.50% above the federal funds rate or 1% above the one month LIBOR, plus an applicable margin of 0.75%, subject to adjustments based on ITC Great Plains’ credit rating.

Covenants

Our debt instruments contain numerous financial and operating covenants that place significant restrictions on certain transactions, such as incurring additional indebtedness, engaging in sale and lease-back transactions, creating liens or other encumbrances, entering into mergers, consolidations, liquidations or dissolutions, creating or acquiring subsidiaries, selling or otherwise disposing of all or substantially all of our assets and paying dividends. In addition, the covenants require us to meet certain financial ratios, such as maintaining certain debt to capitalization ratios and maintaining certain interest coverage ratios. We are currently in compliance with all debt covenants.

6. STOCKHOLDERS EQUITY

ITC Holdings Sales Agency Financing Agreement

On July 27, 2011, ITC Holdings entered into a Sales Agency Financing Agreement (the "SAFA") with Deutsche Bank Securities Inc. ("DBS"). Under the terms of the SAFA, ITC Holdings may issue and sell shares of common stock, without par value, from time to time, up to an aggregate sales proceeds amount of $250.0 million. The term of the SAFA is up to July 2014. DBS will act as ITC Holdings' agent in connection with any offerings of shares under the SAFA. The shares of common stock may be offered in one or more selling periods. Any shares of common stock sold under the SAFA will be offered at market prices prevailing at the time of sale. Moreover, ITC Holdings will specify to DBS (i) the aggregate selling price of the shares of common stock to be sold during each selling period, and (ii) the minimum price below which sales may not be made. ITC Holdings will pay DBS a commission equal to a mutually agreed upon rate, not to exceed 2% of the sales price of all shares of

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common stock sold through DBS as agent under the SAFA, plus expenses. The shares we would issue under the SAFA have been registered under ITC Holdings' shelf registration statement on Form S-3 (File No. 333-163716) filed on December 14, 2009 with the SEC. The prior ITC Holdings Sales Agency Financing Agreement with BNY Mellon Capital Markets, LLC expired on June 27, 2011. No shares have been issued under either of these agreements.

7. SHARE-BASED COMPENSATION

Long-Term Incentive Plan Grants

On May 25, 2011, pursuant to the Second Amended and Restated 2006 Long-Term Incentive Plan, we granted 212,818 options to purchase shares of our common stock. The options vest in three equal annual installments with the first installment vesting on May 25, 2012 and have an exercise price of $72.15 per share, which was the closing share price of our common stock on the date of grant. In addition, on May 25, 2011, we granted 95,862 shares of restricted stock at a fair value of $72.15 per share. Holders of restricted stock have all the rights of a holder of common stock of ITC Holdings, including dividend and voting rights. The restricted stock becomes vested three years after the grant date. The holder of the restricted stock may not sell, transfer or pledge their shares of restricted stock until vesting occurs.

Stock Option Exercises

We issued 528,613 and 464,264 shares of our common stock during the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively, due to the exercise of stock options.

8. EARNINGS PER SHARE

The computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2011 and 2010 is presented in the following table:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except share, per share data and percentages)	2011	2010	2011	2010
Numerator:				
Net income	$44,024	$38,394	$129,022	$108,899
Less: dividends declared — common shares, restricted shares and deferred stock units (a)	(18,087)	(16,944)	(52,276)	(49,069)
Undistributed earnings	25,937	21,450	76,746	59,830
Percentage allocated to common shares (b)	98.3%	98.2%	98.2%	98.4%
Undistributed earnings — common shares	25,496	21,064	75,365	58,873
Add: dividends declared — common shares	17,796	16,647	51,367	48,245
Numerator for basic and diluted earnings per common share	$43,292	$37,711	$126,732	$107,118
Denominator:				
Denominator for basic earnings per common share — weighted-average common shares	50,409,373	49,571,418	50,192,675	49,437,972
Incremental shares for stock options and employee stock purchase plan	769,949	868,339	781,467	890,073
Denominator for diluted earnings per common share — adjusted weighted-average shares and assumed conversion	51,179,322	50,439,757	50,974,142	50,328,045
Per common share net income:				
Basic	$0.86	$0.76	$2.52	$2.17
Diluted	$0.85	$0.75	$2.49	$2.13

(a) Includes dividends paid in the form of shares for deferred stock units.

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(b) Weighted-average common shares outstanding	50,409,373	49,571,418	50,192,675	49,437,972
Weighted-average restricted shares and deferred stock units (participating securities)	893,459	889,369	895,326	826,264
Total	51,302,832	50,460,787	51,088,001	50,264,236
Percentage allocated to common shares	98.3 %	98.2 %	98.2 %	98.4 %

Our restricted stock and deferred stock units contain rights to receive nonforfeitable dividends and thus, are participating securities requiring the two-class method of computing earnings per share.

At September 30, 2011 and 2010, we had 2,115,232 and 2,509,664 outstanding stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. For the three and nine months ended September 30, 2011 and 2010, 215,188 and 460,355 anti-dilutive stock options were excluded from the diluted earnings per share calculations, respectively.

9. COMPREHENSIVE INCOME

Total comprehensive income, net of tax, for the three and nine months ended September 30, 2011 and 2010 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Net income	$ 44,024	$ 38,394	$ 129,022	$ 108,899
Amortization of interest rate lock cash flow hedges, net of tax (a)	16	16	47	47
Unrealized loss on interest rate swaps relating to interest rate lock cash flow hedges, net of tax (b)	(13,714)	—	(14,696)	—
Total comprehensive income	$ 30,326	$ 38,410	$ 114,373	$ 108,946

(a) Amount is net of tax of $9 for both the three months ended September 30, 2011 and 2010 and net of tax of $26 for both the nine months ended September 30, 2011 and 2010.

(b) Amount is net of tax of $8,783 for the three months ended September 30, 2011 and net of tax of $9,414 for the nine months ended September 30, 2011.

10. RETIREMENT BENEFITS AND ASSETS HELD IN TRUST

Retirement Plan Benefits

We have a qualified retirement plan for eligible employees, comprised of a traditional final average pay plan and a cash balance plan. The traditional final average pay plan is noncontributory, covers select employees, and provides retirement benefits based on the employees’ years of benefit service, average final compensation and age at retirement. The cash balance plan is also noncontributory, covers substantially all employees, and provides retirement benefits based on eligible compensation and interest credits. While we are obligated to fund the retirement plan by contributing the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended, it is our practice to contribute the maximum allowable amount as defined by section 404 of the Internal Revenue Code. We contributed $3.6 million to the defined benefit retirement plan relating to the 2010 plan year in June 2011. There will be no additional contribution in 2011.

We have also established two supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees. The plans provide for benefits that supplement those provided by our other retirement plans. We contributed $3.1 million to these supplemental nonqualified, noncontributory, retirement benefit plans relating to the 2010 plan year in June 2011. There will be no additional contributions in 2011.

Net pension cost includes the following components:

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(in thousands)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Service cost	$896	$717	$2,688	$2,151
Interest cost	614	556	1,843	1,667
Expected return on plan assets	(474)	(347)	(1,422)	(1,041)
Amortization of prior service cost	(10)	(11)	(31)	(32)
Amortization of unrecognized loss	652	431	1,956	1,293
Net pension cost	$1,678	$1,346	$5,034	$4,038

Other Postretirement Benefits

We provide certain postretirement health care, dental, and life insurance benefits for employees who may become eligible for these benefits. We contributed $0.9 million to the postretirement benefit plan relating to the 2010 plan year in June 2011. We expect to contribute up to an additional $2.6 million to the postretirement benefit plan relating to the 2010 plan year in December 2011.

Net postretirement cost includes the following components:

(in thousands)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Service cost	$858	$702	$2,573	$2,106
Interest cost	321	246	964	738
Expected return on plan assets	(184)	(117)	(553)	(351)
Amortization of prior service cost	78	78	235	235
Amortization of unrecognized loss	55	—	165	—
Net postretirement cost	$1,128	$909	$3,384	$2,728

Defined Contribution Plan

We also sponsor a defined contribution retirement savings plan. Participation in this plan is available to substantially all employees. We match employee contributions up to certain predefined limits based upon eligible compensation and the employee’s contribution rate. The cost of this plan was $0.6 million and $0.5 million for the three months ended September 30, 2011 and 2010, respectively, and $2.3 million and $2.1 million for the nine months ended September 30, 2011 and 2010, respectively.

11. FAIR VALUE MEASUREMENTS

The measurement of fair value is based on a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Our assets and liabilities measured at fair value subject to the three-tier hierarchy at September 30, 2011, were as follows:

	Fair Value Measurements at Reporting Date Using		
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Financial assets measured on a recurring basis:			
Cash and cash equivalents — cash equivalents	$16,875	$27,842	$ —
Mutual funds — fixed income securities	15,162	—	—
Mutual funds — equity securities	1,010	—	—
Financial liabilities measured on a recurring basis:			
Interest rate swap derivatives	—	(21,010)	—
Total	$33,047	$6,832	$ —

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Our assets measured at fair value subject to the three-tier hierarchy at December 31, 2010, were as follows:

(in thousands)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured on a recurring basis:			
Cash and cash equivalents — cash equivalents	$10	$84,726	$ —
Mutual funds — fixed income securities	10,479	—	—
Mutual funds — equity securities	876	—	—
Interest rate swap derivatives	—	3,099	—
Total	$11,365	$87,825	$ —

As of September 30, 2011 and December 31, 2010, we held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These assets consist of investments recorded within cash and cash equivalents and other long-term assets, including investments held in a trust associated with our supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees that are classified as trading securities. The liabilities and assets related to derivatives consist of interest rate swaps discussed in Note 5. Our investments included in cash equivalents consist of money market mutual funds and common and collective trusts that are administered similar to money market funds recorded at cost plus accrued interest to approximate fair value. Our investments classified as fixed income and equity securities consist primarily of mutual funds that are publicly traded and for which market prices are readily available. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value, and losses are recorded in earnings if fair value falls below recorded cost. The fair value of our interest rate swap derivatives as of September 30, 2011 and December 31, 2010 is determined based on a discounted cash flow method using LIBOR swap rates which are observable at commonly quoted intervals.

We also held non-financial assets that are required to be measured at fair value on a non-recurring basis. These consist of goodwill and intangible assets. We did not record any impairment charges on long-lived assets and no other significant events occurred requiring non-financial assets and liabilities to be measured at fair value (subsequent to initial recognition) during the nine months ended September 30, 2011. For additional information on our goodwill and intangible assets, please refer to the notes to the consolidated financial statements as of and for the year ended December 31, 2010 included in our Form 10-K for such period and to Note 4 of this Form 10-Q.

Fair Value of Financial Assets and Liabilities

Fixed Rate Long-Term Debt

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of our consolidated long-term debt, excluding revolving credit agreements, was $2,755.5 million and $2,747.2 million at September 30, 2011 and December 31, 2010, respectively. The total book value of our consolidated long-term debt, excluding revolving credit agreements, was $2,443.8 million and $2,443.5 million at September 30, 2011 and December 31, 2010, respectively.

Revolving Credit Agreements

At September 30, 2011 and December 31, 2010, we had a consolidated total of $133.6 million and $53.4 million, respectively, outstanding under our revolving credit agreements, which are variable rate loans. The fair value of these loans approximates book value.

Trade Accounts Receivables and Payables

As of September 30, 2011, our accounts receivable and accounts payable balances approximate fair value due to their short term nature.

12. MICHIGAN CORPORATE INCOME TAX

On May 25, 2011, the Michigan Business Tax ("MBT") was repealed and replaced with the Michigan Corporate Income Tax ("CIT"), effective January 1, 2012. Under the CIT, corporations such as ITC Holdings will be taxed at a rate of 6.0% on federal taxable income apportioned to Michigan, subject to certain adjustments. In addition to the traditional income tax, the MBT had also included a modified gross receipts tax which allowed for deductions and credits for certain activities, none of which are part of the CIT. The change in Michigan tax law required us to remove deferred income tax balances recognized under the MBT and establish new deferred income tax balances under the CIT in the second quarter of 2011. The change did not have a material impact on our results of operations. We have recognized regulatory assets representing the state income tax expense that we expect to recover from customers in the future under our Regulated Operating Subsidiaries' cost-based formula rates with true-up mechanism.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

We are involved in certain legal proceedings before various courts, governmental agencies and mediation panels concerning matters arising in the ordinary course of business. These proceedings include certain contract disputes, regulatory matters and pending judicial matters. We cannot predict the final disposition of such proceedings. We regularly review legal matters and record provisions for claims that are considered probable of loss. The resolution of pending proceedings is not expected to have a material effect on our operations or consolidated financial statements in the period in which they are resolved.

Michigan Sales and Use Tax Audit

The Michigan Department of Treasury conducted a sales and use tax audit of ITCTransmission for the audit period April 1, 2005 through June 30, 2008 and has denied ITCTransmission’s use of the industrial processing exemption from use tax it has taken beginning January 1, 2007. ITCTransmission has certain administrative and judicial appeal rights.

ITCTransmission believes that its utilization of the industrial processing exemption is appropriate and intends to defend itself against the denial of such exemption. However, it is reasonably possible that the assessment of additional use tax could be sustained after all administrative appeals and litigation have been exhausted.

The amount of use tax liability associated with the exemptions taken by ITCTransmission through September 30, 2011 is estimated to be approximately $8.2 million, which includes approximately $3.6 million assessed for the audit period April 1, 2005 through June 30, 2008, including interest. In the event it becomes appropriate to record additional use tax liability relating to this matter, ITCTransmission would record the additional use tax primarily as an increase to the cost of property, plant and equipment, as the majority of purchases for which the exemption was taken relate to equipment purchases associated with capital projects. METC has also taken the industrial processing exemption, estimated to be approximately $10.3 million for periods still subject to audit since 2006. These higher use tax expenses would be passed on to ITCTransmission’s and METC’s customers as the amounts are included as components of net revenue requirements and resulting rates.

FERC Audit of ITC Midwest

Certain staff of the FERC (“FERC audit staff”) has conducted an audit of ITC Midwest's compliance with certain of the FERC's regulations and the conditions established in the 2007 FERC order approving the acquisition of the transmission assets of IP&L by ITC Midwest. On September 30, 2011, FERC issued an order that identified certain findings and recommendations of FERC audit staff relating to specific aspects of the accounting treatment for the acquisition which, if approved by FERC, have the potential to result in adjustments to ITC Midwest's annual revenue requirement calculations and corresponding refunds for 2008 through 2010. We have 30 days from the date of the order to file a request for hearing with the FERC on any contested findings and recommendations and we intend to contest the findings relating to the accounting treatment for the acquisition. We believe an unfavorable outcome is reasonably possible for the ITC Midwest findings. ITCTransmission and METC have applied an accounting treatment for their respective acquisitions that is similar to ITC Midwest. We do not believe the resolution of the FERC audit staff findings will be material to our results of operations, cash flows or financial condition.

ITC Midwest Project Commitment

In the Minnesota regulatory proceeding to approve ITC Midwest’s December 2007 acquisition of the transmission assets of IP&L, ITC Midwest agreed to build a certain project in Iowa, the 345 kV Salem-Hazelton line and made a commitment to use commercially reasonable best efforts to complete the project prior to December 31, 2011. In the event ITC Midwest is found to have failed to meet this commitment, the allowed 12.38% rate of return on the actual equity portion of its capital structure would be reduced to 10.39% until such time as ITC Midwest completes the project, and ITC Midwest would refund with interest any amounts collected since the close date of the transaction that exceeded what would have been collected if the 10.39% return on equity had been used. In the second quarter of 2011, the Iowa Utilities Board granted certain regulatory approvals necessary for the completion of this project. Given the timing of receipt of these regulatory approvals, we do not expect the project to be completed by December 31, 2011. ITC Midwest believes it has made commercially reasonable best efforts toward completion of the project by the stipulated deadlines and will continue to do so and, therefore, we believe the likelihood of any material effect from this matter is remote.

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14. SEGMENT INFORMATION

We identify reportable segments based on the criteria set forth by the FASB regarding disclosures about segments of an enterprise, including the regulatory environment of our subsidiaries and the business activities performed to earn revenues and incur expenses. The following tables show our financial information by reportable segment:

OPERATING REVENUES:	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Regulated Operating Subsidiaries	$191,320	$178,031	$555,838	$507,808
ITC Holdings and other	142	106	334	318
Intercompany eliminations	(159)	(117)	(385)	(350)
Total Operating Revenues	$191,303	$178,020	$555,787	$507,776

INCOME BEFORE INCOME TAXES:	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Regulated Operating Subsidiaries	$89,733	$84,534	$269,672	$244,152
ITC Holdings and other	(23,055)	(23,532)	(69,484)	(72,047)
Total Income Before Income Taxes	$66,678	$61,002	$200,188	$172,105

NET INCOME:	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2011	2010	2011	2010
Regulated Operating Subsidiaries (a)	$63,186	$59,421	$188,039	$169,591
ITC Holdings and other	44,024	38,394	129,022	108,899
Intercompany eliminations	(63,186)	(59,421)	(188,039)	(169,591)
Total Net Income	$44,024	$38,394	$129,022	$108,899

TOTAL ASSETS:	September 30,	December 31,
(in thousands)	2011	2010
Regulated Operating Subsidiaries	$4,506,692	$4,180,485
ITC Holdings and other	2,873,779	2,762,210
Reconciliations (b)	22,078	(11,878)
Intercompany eliminations	(2,769,690)	(2,622,944)
Total Assets	$4,632,859	$4,307,873

(a) Income tax provision and net income for our Regulated Operating Subsidiaries do not include any allocation of taxes for METC. METC is organized as a single-member limited liability company that is a disregarded entity for federal income tax purposes. METC is treated as a branch of MTH, which is taxed as a multiple-partner limited partnership for federal income tax purposes. Since METC and MTH, its immediate parent, file as a partnership for federal income tax purposes, they are exempt from federal income taxes. As a result, METC does not record a provision for federal income taxes in its statements of operations or record amounts for federal deferred income tax assets or liabilities on its statements of financial position. For FERC regulatory reporting, however, METC computes theoretical federal income taxes as well as the associated deferred income taxes and includes an annual allowance for income taxes in its net revenue requirement used to determine its rates.

(b) Reconciliation of total assets results primarily from differences in the netting of deferred tax assets and liabilities at our Regulated Operating Subsidiaries as compared to the classification in our condensed consolidated statements of financial position.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Our reports, filings and other public announcements contain certain statements that describe our management's beliefs concerning future business conditions, plans and prospects, growth opportunities and the outlook for our business and the electric transmission industry based upon information currently available. Such statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Wherever possible, we have identified these forward-looking statements by words such as "will," "may," "anticipates," "believes," "intends," "estimates," "expects," "projects" and similar phrases. These forward-looking statements are based upon assumptions our management believes are reasonable. Such forward-looking statements are subject to risks and uncertainties which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among others, the risks and uncertainties listed in Part I, Item 1A Risk Factors of our Form 10-K for the fiscal year ended December 31, 2010 and the following:

- Certain elements of our Regulated Operating Subsidiaries' cost recovery through rates can be challenged, which could result in lowered rates and/or refunds of amounts previously collected and thus have an adverse effect on our business, financial condition, results of operations and cash flows. We have also made certain commitments to federal and state regulators with respect to, among other things, our rates in connection with recent acquisitions (including ITC Midwest's acquisition of IP&L's electric transmission assets) that could have an adverse effect on our business, financial condition, results of operations and cash flows.
- Our Regulated Operating Subsidiaries' actual capital expenditures may be lower than planned, which would decrease expected rate base and therefore our revenues and earnings. In addition, we expect to invest in strategic development opportunities to improve the efficiency and reliability of the transmission grid, but we cannot assure you that we will be able to initiate or complete any of these investments.
- The regulations to which we are subject may limit our ability to raise capital and/or pursue acquisitions, development opportunities or other transactions or may subject us to liabilities.
- Changes in federal energy laws, regulations or policies could impact cash flows and could reduce the dividends we may be able to pay our stockholders.
- If the amounts billed for transmission service for our Regulated Operating Subsidiaries' transmission systems are lower than expected, the timing of collection of our revenues would be delayed.
- Each of our MISO Regulated Operating Subsidiaries depends on its primary customer for a substantial portion of its revenues, and any material failure by those primary customers to make payments for transmission services would adversely affect our revenues and our ability to service our debt obligations and affect our ability to pay dividends.
- A significant amount of the land on which our Regulated Operating Subsidiaries' assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, our Regulated Operating Subsidiaries must comply with the provisions of various easements, mineral rights and other similar encumbrances, which may adversely impact their ability to complete construction projects in a timely manner.
- If ITC Midwest's operating agreement with IP&L is terminated early, ITC Midwest may face a shortage of labor or replacement contractors to provide the services formerly provided by IP&L.
- Hazards associated with high-voltage electricity transmission may result in suspension of our Regulated Operating Subsidiaries' operations or the imposition of civil or criminal penalties.
- Our Regulated Operating Subsidiaries are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination.
- Our Regulated Operating Subsidiaries are subject to various regulatory requirements, including reliability standards. Violations of these requirements, whether intentional or unintentional, may result in penalties that, under some circumstances, could have a material adverse effect on our financial condition, results of operations and cash flows.
- Acts of war, terrorist attacks and threats or the escalation of military activity in response to such attacks or otherwise may negatively affect our business, financial condition and cash flows.
-

ITC Holdings is a holding company with no operations, and unless we receive dividends or other payments from our subsidiaries, we may be unable to pay dividends and fulfill our other cash obligations.

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- We are highly leveraged and our dependence on debt may limit our ability to fulfill our debt obligations and/or to obtain additional financing.
- Certain provisions in our debt instruments limit our financial flexibility.
- Adverse changes in our credit ratings may negatively affect us.
- The amount of our federal net operating loss carryforwards for income taxes that we may use to reduce our tax liability in any given period is limited.
- Provisions in our Articles of Incorporation and bylaws, Michigan corporate law and our debt agreements may impede efforts by our shareholders to change the direction or management of our company.
- Provisions in our Articles of Incorporation restrict market participants from voting or owning 5% or more of the outstanding shares of our capital stock.
- Other risk factors discussed herein and listed from time to time in our public filings with the Securities and Exchange Commission ("SEC").

Because our forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different and any or all of our forward-looking statements may turn out to be wrong. Forward-looking statements speak only as of the date made and can be affected by assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this report will be important in determining future results. Consequently, we cannot assure you that our expectations or forecasts expressed in such forward-looking statements will be achieved. Actual future results may vary materially. Except as required by law, we undertake no obligation to publicly update any of our forward-looking or other statements, whether as a result of new information, future events, or otherwise.

OVERVIEW

Through our Regulated Operating Subsidiaries, we operate high-voltage systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri and Kansas that transmit electricity from generating stations to local distribution facilities connected to our systems. Our business strategy is to operate, maintain and invest in transmission infrastructure in order to enhance system integrity and reliability, to reduce transmission constraints and to allow new generating resources to interconnect to our transmission systems. We also are pursuing development projects not within our existing systems, which are also intended to improve overall grid reliability, reduce transmission constraints and facilitate interconnections of new generating resources, as well as enhance competitive wholesale electricity markets.

As electric transmission utilities with rates regulated by the FERC, our Regulated Operating Subsidiaries earn revenues through tariff rates charged for the use of their electric transmission systems by our customers, which include investor-owned utilities, municipalities, cooperatives, power marketers and alternative energy suppliers. As independent transmission companies, our Regulated Operating Subsidiaries are subject to rate regulation only by the FERC. The rates charged by our Regulated Operating Subsidiaries are established using cost-based formula rate templates as discussed in Note 3 to the condensed consolidated financial statements under "— Cost-Based Formula Rates with True-Up Mechanism."

Our Regulated Operating Subsidiaries' primary operating responsibilities include maintaining, improving and expanding their transmission systems to meet their customers' ongoing needs, scheduling outages on system elements to allow for maintenance and construction, maintaining appropriate system voltages and monitoring flows over transmission lines and other facilities to ensure physical limits are not exceeded.

We derive nearly all of our revenues from providing electric transmission service over our Regulated Operating Subsidiaries' transmission systems to investor-owned utilities such as Detroit Edison, Consumers Energy and IP&L, and to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations on our transmission systems.

Significant recent matters that influenced our financial position and results of operations and cash flows for the three and nine months ended September 30, 2011 or may affect future results include:

- Our capital investment of $420.5 million at our Regulated Operating Subsidiaries ($55.8 million, $103.2 million, $191.2 million and $70.3 million at ITCTransmission, METC, ITC Midwest and ITC Great Plains, respectively) for the nine months ended September 30, 2011, resulting primarily from our focus on improving system reliability and interconnecting new generating resources. Capital investments result in higher net revenue requirement at our Regulated Operating Subsidiaries, described below under "— Capital Investment and Operating Results Trends";
- Debt issuances and borrowings under our revolving credit agreements in 2011 to fund capital investment at our Regulated Operating Subsidiaries, resulting in higher interest expense; and

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- Final recognition of revenues for the ITCTransmission rate freeze revenue deferral in May 2011, described below under “Cost-Based Formula Rates with True-Up Mechanism — ITCTransmission’s Rate Freeze Revenue Deferral.” There will be a $6.9 million reduction in network revenues in 2011 compared to 2010 relating to the collection of the revenue accrual for the period from only January through May 2011, which is expected to result in a reduction to after-tax net income of approximately $4.3 million in 2011 compared to 2010.

These items are discussed in more detail throughout Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Capital Project Updates and Other Recent Developments

ITC Great Plains

KETA Project

The KETA Project is a 225 mile transmission line that will run between Spearville, Kansas and Axtell, Nebraska. Through September 30, 2011, ITC Great Plains has recorded construction work in progress of $66.6 million for the KETA Project. We now estimate that the cost for ITC Great Plains’ portion of the KETA Project will be approximately $175 million.

Kansas V-Plan Project

The Kansas V-Plan Project is a 200 mile long transmission line that will run between Spearville and Wichita, Kansas. The portion of the transmission line that ITC Great Plains is responsible for constructing from Spearville to Medicine Lodge, Kansas will run approximately 120 miles. The Kansas Corporation Commission approved ITC Great Plains’ request for a transmission line siting permit on July 12, 2011. ITC Great Plains is in the process of obtaining the remaining permits necessary to begin construction of the project. We estimate that ITC Great Plains will invest approximately $300 million to construct its portion of the project.

Regulatory Assets

As of September 30, 2011, we have recorded a total of $13.6 million of regulatory assets for start-up and development expenses incurred by ITC Great Plains, which include certain costs incurred for the KETA Project and the Kansas V-Plan Project prior to construction. In March 2011, we recognized the Kansas V-Plan regulatory asset of $2.0 million and corresponding reduction to operating expenses, which resulted in net income of $1.3 million. Subsequent to the initial recognition of the Kansas V-Plan regulatory asset in March 2011, we recorded an additional $1.1 million of cost incurred for the Kansas V-Plan Project through September 30, 2011 directly to regulatory assets. Based on ITC Great Plains’ application and the related FERC order, ITC Great Plains will be required to make an additional filing with the FERC under Section 205 of the Federal Power Act in order to recover these start-up, development and pre-construction expenses in future rates.

Green Power Express

The Green Power Express project consists of transmission line segments that would facilitate the movement of power from the wind-abundant areas in the Dakotas, Minnesota and Iowa to Midwest load centers that demand clean, renewable energy. The FERC issued an order authorizing certain transmission investment incentives, including the establishment of a regulatory asset for start-up and development costs of Green Power Express and certain pre-construction costs for the project to be recovered pursuant to a future FERC filing. Further, the FERC order conditionally accepted Green Power Express’ proposed formula rate tariff sheets, subject to refund, and set them for hearing and settlement procedures. On February 22, 2010, Green Power Express filed an Offer of Settlement that intended to resolve all of the issues set for hearing. On May 19, 2011, the FERC approved the proposed settlement of the formula rate and related issues that had been pending since the February 2010 offer. The amount of any future capital expenditures on this project is currently unknown.

The total development expenses through September 30, 2011 that may be recoverable through regulatory assets were approximately $5.5 million, which have been recorded to expenses in the periods in which they were incurred. If in a future reporting period it becomes probable that future revenues will result from the authorization to recover these development expenses, we will recognize the regulatory assets. No regulatory assets or construction work in progress for Green Power Express have been recorded as of September 30, 2011.

Thumb Loop Project

In 2010, we received MISO approval of the Thumb Loop Project primarily located in ITCTransmission’s region with a total expected capital investment of $510 million. The Thumb Loop Project consists of a 140-mile, double-circuit 345 kV transmission line and related substations that will serve as the backbone of the transmission system needed to accommodate future wind development projects in the Michigan counties of Tuscola, Huron, Sanilac and St. Clair. Siting approval was requested from the MPSC in August 2010 and granted by the MPSC in February 2011. Certain parties have filed an appeal of the MPSC approval, but the MPSC decision remains valid during the appeal process. Significant capital investments for this

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project are expected to occur beginning in 2012.

Cost-Based Formula Rates with True-Up Mechanism

Our Regulated Operating Subsidiaries calculate their revenue requirements using cost-based formula rate templates and are effective without the need to file rate cases with the FERC, although the rates are subject to legal challenge at the FERC. Under these formula rate templates, our Regulated Operating Subsidiaries recover expenses and earn a return on and recover investments in property, plant and equipment on a current rather than a lagging basis. The formula rate templates utilize forecasted expenses, property, plant and equipment, point-to-point revenues, network load and other items for the upcoming calendar year to establish projected revenue requirements for each of our Regulated Operating Subsidiaries that are used as the basis for billing for service on their systems from January 1 to December 31 of that year. Our cost-based formula rate templates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue. The over- or under-collection typically results from differences between the projected revenue requirement used as the basis for billing and actual revenue requirement at each of our Regulated Operating Subsidiaries, or from differences between actual and projected monthly peak loads at our MISO Regulated Operating Subsidiaries. In the event billed revenues in a given year are more or less than actual revenue requirements, which are calculated primarily using information from that year's FERC Form No. 1, our Regulated Operating Subsidiaries will refund or collect additional revenues, with interest, within a two-year period such that customers pay only the amounts that correspond to actual revenue requirements for that given period. This annual true-up ensures that our Regulated Operating Subsidiaries recover their allowed costs and earn their allowed returns.

ITCTransmission's Rate Freeze Revenue Deferral

ITCTransmission's rate freeze revenue deferral resulted from the regulatory authority to bill and collect certain revenue requirements calculated for historical periods. This revenue deferral resulted from the difference between the revenue ITCTransmission would have collected under its cost based formula rate and the actual revenue ITCTransmission received based on the frozen rate of $1.075 kW/month for the period from February 28, 2003 through December 31, 2004. The cumulative revenue deferral at the end of the rate freeze was $59.7 million ($38.8 million net of tax). The rate freeze revenue deferral was amortized for ratemaking on a straight-line basis for five years from June 2006 through May 2011 and was included in ITCTransmission's revenue requirement for those periods. Revenues of $11.9 million were recognized in 2010 relating to the rate freeze revenue deferral and revenues of $5.0 million were recognized in January through May 2011. The $6.9 million reduction in revenues is also expected to result in a reduction to after-tax net income of approximately $4.3 million in 2011 compared to 2010.

Revenue Accruals — Effects of Monthly Peak Loads

For our MISO Regulated Operating Subsidiaries, monthly peak loads are used for billing network revenues, which currently is the largest component of our operating revenues. One of the primary factors that impacts the revenue accrual/deferral at our MISO Regulated Operating Subsidiaries is actual monthly peak loads experienced as compared to those forecasted in establishing the annual network transmission rate. Under their formula rates that contain a true-up mechanism our Regulated Operating Subsidiaries accrue or defer revenues to the extent that their actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. For example, to the extent that amounts billed are less than revenue requirement for a reporting period, a revenue accrual is recorded for the difference. To the extent that amounts billed are more than revenue requirement for a reporting period, a revenue deferral is recorded for the difference. Although monthly peak loads do not impact operating revenues recognized, network load affects cash flows from transmission service. The monthly peak load of our MISO Regulated Operating Subsidiaries is affected by many variables, but is generally impacted by weather and economic conditions and is seasonally shaped with higher load in the summer months when cooling demand is higher.

The following table sets forth the monthly peak loads during the last three calendar years.

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Monthly Peak Load (in MW) (a)

	2011				2010	
		ITCTransmission	METC	ITC Midwest		ITCTransmission
January	7,326	6,041		2,777	7,255	5
February	7,261	6,056		2,854	6,998	5
March	6,946	5,712		2,520	6,620	5
April	6,483	5,296		2,458	6,501	5
May	10,119	7,121		2,773	9,412	7
June	11,488	8,088		3,432	9,722	7
July	12,321	9,147		3,640	11,451	8
August	11,158	8,534		3,552	11,082	8
September	11,288	7,908		3,456	10,817	7
October					6,725	5
November					6,930	5
December					7,824	6
Total					101,337	7

(a) Our MISO Regulated Operating Subsidiaries are each part of a joint rate zone. The load data presented is for all transmission owners in the respective joint rate zone and is used for billing network revenues. Each of our MISO Regulated Operating Subsidiaries makes up the most significant portion of the rates or revenue requirement billed to network load within their respective joint rate zone.

Capital Investment and Operating Results Trends

We expect a general trend of increases in revenues and earnings for our Regulated Operating Subsidiaries over the long term. The primary factor that is expected to continue to increase our actual revenue requirements in future years is our anticipated capital investment in excess of depreciation as a result of our Regulated Operating Subsidiaries' long-term capital investment programs to improve reliability and interconnect new generating resources. In addition, our capital investment efforts relating to development initiatives are based on establishing an ongoing pipeline of projects that will position us for long-term growth. Investments in property, plant and equipment, when placed in service upon completion of a capital project, are added to the rate base of our Regulated Operating Subsidiaries. Additionally, construction work in progress balances for our KETA and V-Plan projects are included in rate base prior to being placed in service, and are expected to result in significant revenues in 2012 compared to 2011.

Our Regulated Operating Subsidiaries strive for high reliability of their systems and to improve accessibility to generation sources of choice, including renewable sources. The Energy Policy Act of 2005 requires the FERC to implement mandatory electric transmission reliability standards to be enforced by an Electric Reliability Organization. Effective June 2007, the FERC approved mandatory adoption of certain reliability standards and approved enforcement actions for violators, including fines of up to $1.0 million per day. The NERC was assigned the responsibility of developing and enforcing these mandatory reliability standards. We continually assess our transmission systems against standards established by the NERC, as well as the standards of applicable regional entities under the NERC that have been delegated certain authority for the purpose of proposing and enforcing reliability standards. We believe we meet the applicable standards in all material respects, although further capital investment in our transmission systems and an increase in maintenance activities will likely be needed to maintain compliance, improve reliability and address any new standards that may be promulgated.

We also assess our transmission systems against our own planning criteria that are filed annually with the FERC. Based on our planning studies, we see needs to make capital investments to (1) rebuild existing property, plant and equipment; (2) upgrade the system to address demographic changes that have impacted transmission load and the changing role that transmission plays in meeting the needs of the wholesale market, including accommodating the siting of new generation or to increase import capacity to meet changes in peak electrical demand; (3) relieve congestion in the transmission systems; and (4) achieve state and federal policy goals such as renewable generation portfolio standards. The following table shows our expected and actual capital investment for each of the Regulated Operating Subsidiaries:

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(in millions) Operating Subsidiary	Five-Year Capital Investment Program 2011-2015	Actual Capital Investment for the nine months ended September 30, 2011 (a)	Forecasted Capital Investment for the year ending December 31, 2011
ITCTransmission	$796	$55.8	$75—85
METC	682	103.2	155—165
ITC Midwest	1,087	191.2	255—270
ITC Great Plains	1,058	70.3	115—125
Other (b)	306	—	—
Total	$3,929	$420.5	$600—645

(a) Capital investment amounts differ from cash expenditures for property, plant and equipment included in our condensed consolidated statements of cash flows due in part to differences in construction costs incurred compared to cash paid during that period, as well as payments for major equipment inventory that are included in cash expenditures but not included in capital investment until transferred to construction work in progress, among other factors.

(b) Includes Green Power Express and other development initiatives.

Investments in property, plant and equipment could vary due to, among other things, the impact of actual loads, forecasted loads, regional economic conditions, weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our systems at any one time, regulatory approvals for reasons relating to rate construct, environmental, siting, regional planning, cost recovery or other issues or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded. In addition, investments in transmission network upgrades for generator interconnection projects could change from prior estimates significantly due to changes in the MISO queue for generation projects, the generator's potential failure to meet the various criteria of Attachment FF of the MISO tariff for the project to qualify as a refundable network upgrade, and other factors beyond our control.

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RESULTS OF OPERATIONS

Results of Operations and Variances

(in thousands)	Three months ended September 30, 2011	2010	Increase (decrease)	Percentage increase (decrease)	Nine months ended September 30, 2011	2010	Increase (decrease)	Percentage increase (decrease)
OPERATING REVENUES	$191,303	$178,020	$13,283	7.5 %	$555,787	$507,776	$48,011	9.5 %
OPERATING EXPENSES								
Operation and maintenance	37,365	33,748	3,617	10.7 %	92,486	85,971	6,515	7.6 %
General and administrative	19,046	18,199	847	4.7 %	54,915	53,393	1,522	2.9 %
Depreciation and amortization	23,898	20,856	3,042	14.6 %	70,338	65,538	4,800	7.3 %
Taxes other than income taxes	12,456	12,143	313	2.6 %	39,620	36,077	3,543	9.8 %
Other operating (income) and expenses — net	(295)	(139)	(156)	112.2 %	(611)	(662)	51	(7.7)%
Total operating expenses	92,470	84,807	7,663	9.0 %	256,748	240,317	16,431	6.8 %
OPERATING INCOME	98,833	93,213	5,620	6.0 %	299,039	267,459	31,580	11.8 %
OTHER EXPENSES (INCOME)								
Interest expense	37,248	36,088	1,160	3.2 %	110,002	106,450	3,552	3.3 %
Allowance for equity funds used during construction	(4,469)	(3,585)	(884)	24.7 %	(12,078)	(10,163)	(1,915)	18.8 %
Other income	(1,417)	(878)	(539)	61.4 %	(2,136)	(2,550)	414	(16.2)%
Other expense	793	586	207	35.3 %	3,063	1,617	1,446	89.4 %
Total other expenses (income)	32,155	32,211	(56)	(0.2)%	98,851	95,354	3,497	3.7 %
INCOME BEFORE INCOME TAXES	66,678	61,002	5,676	9.3 %	200,188	172,105	28,083	16.3 %
INCOME TAX PROVISION	22,654	22,608	46	0.2 %	71,166	63,206	7,960	12.6 %
NET INCOME	$44,024	$38,394	$5,630	14.7 %	$129,022	$108,899	$20,123	18.5 %

Operating Revenues

Three months ended September 30, 2011 compared to three months ended September 30, 2010

The following table sets forth the components of and changes in operating revenues:

(in thousands)	2011 Amount	Percentage	2010 Amount	Percentage	Increase (decrease)	Percentage increase (decrease)
Network revenues	$160,933	84.1 %	$155,186	87.2 %	$5,747	3.7 %

Regional cost sharing revenues	22,599	11.8	%	10,473	5.9	%	12,126		115.8	%
Point-to-point	4,416	2.3	%	7,177	4.0	%	(2,761	)	(38.5	)%
Scheduling, control and dispatch	2,186	1.1	%	4,394	2.5	%	(2,208	)	(50.3	)%
Other	1,169	0.7	%	790	0.4	%	379		48.0	%
Total	$191,303	100.0	%	$178,020	100.0	%	$13,283		7.5	%

Network revenues increased due primarily to higher revenue requirements at our Regulated Operating Subsidiaries during the three months ended September 30, 2011 as compared to the same period in 2010. Higher net revenue requirements were due primarily to higher rate bases associated with higher balances of property, plant and equipment in-service and higher recoverable expenses due to higher operating expenses, partially offset by the final monthly recognition in May 2011 of the ITCTransmission rate freeze revenue deferral described above under "— Overview — Cost-Based Formula Rates with True-Up

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Mechanism — ITCTransmission's Rate Freeze Revenue Deferral."
Regional cost sharing revenues increased due primarily to additional capital projects that have been identified by MISO as eligible for regional cost sharing and these projects being placed in-service. We expect to continue to receive regional cost sharing revenues and the amounts could increase in the near future, including revenues associated with projects that have been or are expected to be approved for regional cost sharing.
Point-to-point revenues decreased due primarily to fewer point-to-point reservations.

Scheduling, control and dispatch revenues decreased due primarily to a change in MISO's revenue distribution methodology for these types of revenues in 2011 compared to 2010. The new method was implemented in 2011 to better align the revenues relating to these services with the projected expenses. The amounts recognized for the third quarter of 2011 include adjustments relating to the first six months of 2011 that became estimable during the third quarter.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010
The following table sets forth the components of and changes in operating revenues:

(in thousands)	2011 Amount	Percentage	2010 Amount	Percentage	Increase (decrease)	Percentage increase (decrease)
Network revenues	$467,360	84.1 %	$439,153	86.5 %	$28,207	6.4 %
Regional cost sharing revenues	62,638	11.3 %	37,344	7.3 %	25,294	67.7 %
Point-to-point	12,127	2.2 %	16,682	3.3 %	(4,555)	(27.3)%
Scheduling, control and dispatch	9,014	1.6 %	11,248	2.2 %	(2,234)	(19.9)%
Other	4,648	0.8 %	3,349	0.7 %	1,299	38.8 %
Total	$555,787	100.0 %	$507,776	100.0 %	$48,011	9.5 %

Network revenues increased due primarily to higher net revenue requirements at our Regulated Operating Subsidiaries during the nine months ended September 30, 2011 as compared to the same period in 2010. Higher net revenue requirements were due primarily to higher rate base associated with higher balances of property, plant and equipment in-service and higher recoverable expenses due to higher operating expenses, partially offset by the final monthly recognition in May 2011 of the ITCTransmission rate freeze revenue deferral described above under "— Overview — Cost-Based Formula Rates with True-Up Mechanism — ITCTransmission's Rate Freeze Revenue Deferral."
Regional cost sharing revenues increased due primarily to additional capital projects that have been identified by MISO as eligible for regional cost sharing and these projects being placed in-service. We expect to continue to receive regional cost sharing revenues and the amounts could increase in the near future, including revenues associated with projects that have been or are expected to be approved for regional cost sharing.
Point-to-point revenues decreased due primarily to fewer point-to-point reservations.
Scheduling, control and dispatch revenues decreased due primarily to a change in MISO's revenue distribution methodology for these types of revenues in 2011 compared to 2010. The new method was implemented in 2011 to better align the revenues relating to these services with the projected expenses.
Operating revenues for the nine months ended September 30, 2011 include the network revenue accruals (deferrals) and regional cost sharing revenue accruals (deferrals) as calculated below:

Line	Item	ITCTransmission	METC	ITC Midwest	ITC Great Plains	Total net revenue deferrals
	(in thousands)					
1	Estimated net revenue requirement (network revenues recognized) (a)	$ 182,013	$135,110	$148,692	$1,545	
2	Network revenues billed (b)	213,926	153,496	165,623	538	
3		(31,913)	(18,386)	(16,931)	1,007	

	Network revenue accruals (deferrals) (line 1 — line 2)					
4	Regional cost sharing revenue accruals (deferrals) (c)	(2,009)	(2,362)	1,308	(3,601)	
5	Total net revenue deferrals (line 3 + line 4)	$ (33,922)	$(20,748)	$(15,623)	$(2,594)	$(72,887)

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(a) The calculation of net revenue requirement for our Regulated Operating Subsidiaries is described in our Form 10-K for the year ended December 31, 2010 under "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism — Net Revenue Requirement Calculation." The amount is estimated for each reporting period until such time as FERC Form No. 1's are completed for our Regulated Operating Subsidiaries.

(b) Network revenues billed at our MISO Regulated Operating Subsidiaries are calculated based on the joint zone monthly network peak load multiplied by their effective monthly network rates for 2011 of $2.495 per kW/month, $2.331 per kW/month and $6.694 per kW/month applicable to ITCTransmission, METC and ITC Midwest, respectively, adjusted for the actual number of days in the month less amounts recovered or refunded associated with our MISO Regulated Operating Subsidiaries 2009 true-up adjustments. The rates for 2011 include amounts for the collection and refund of the 2009 revenue accruals and deferrals and related accrued interest and the revenues billed in 2011 associated with the 2009 revenue accruals and deferrals are not included in these amounts. On September 1, 2011, ITCTransmission's projected network rate of $2.185 per kW/month, METC's projected network rate of $2.409 per kW/month, and ITC Midwest's projected network rate of $6.797 per kW/month, in each case for the period from January 1, 2012 through December 31, 2012, were posted by MISO. Our rates at ITC Great Plains are billed ratably each month based on its annual projected net revenue requirement.

(c) Regional cost sharing revenues are subject to a separate true-up mechanism whereby our Regulated Operating Subsidiaries accrue or defer revenues for any over- or under-recovery. The related revenue accruals or deferrals associated with regional cost sharing revenues are included in the regional cost sharing revenue amounts.

Operating Expenses

Operation and maintenance expenses

Three months ended September 30, 2011 compared to three months ended September 30, 2010

Operation and maintenance expenses increased due primarily to NERC compliance activities associated with surveying transmission overhead lines.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

Operation and maintenance expenses increased by $4.2 million due to NERC compliance activities described above, $2.1 million due to higher operating and training expenses, and $1.2 million due to higher relay work for certain preventative maintenance activities. These increases were partially offset by a $1.7 million decrease due to lower tower painting requirements in 2011.

General and administrative expenses

Three months ended September 30, 2011 compared to three months ended September 30, 2010

General and administrative expenses were consistent compared to prior period.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

General and administrative expenses increased by $1.8 million due to higher professional and advisory consulting services primarily related to legal and financial services and by $1.4 million due to higher general business expenses, primarily increased information technology support for new internal technologically based applications. These increases were partially offset by the reduction of expenses in the first quarter of 2011 of $1.9 million (of which $1.4 million were incurred in periods prior to 2011) in connection with the recognition of the Kansas V-Plan Project regulatory asset.

Depreciation and amortization expenses

Three and nine months ended September 30, 2011 compared to three and nine months ended September 30, 2010

Depreciation and amortization expenses increased due primarily to a higher depreciable base resulting from property, plant and equipment additions.

Taxes other than income taxes

Three and nine months ended September 30, 2011 compared to three and nine months ended September 30, 2010

Taxes other than income taxes increased due to higher property tax expenses due primarily to our Regulated Operating

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Subsidiaries' 2010 capital additions, which are included in the assessments for 2011 personal property taxes.

Other Expenses (Income)

Three and nine months ended September 30, 2011 compared to three and nine months ended September 30, 2010

Interest expense increased due primarily to additional interest expense associated with an increase in borrowing levels under our revolving credit agreements.

Income Tax Provision

Three months ended September 30, 2011 compared to three months ended September 30, 2010

Our effective tax rates for the three months ended September 30, 2011 and 2010 are 34.0% and 37.1%, respectively. Our effective tax rate differs from our 35% statutory federal income tax rate due primarily to state income taxes as well as the tax effects of Allowance for Equity Funds Used During Construction ("AFUDC equity") which reduces the effective tax rate. We recorded a state income tax provision of $0.5 million (net of federal deductibility) during the three months ended September 30, 2011, compared to a state income tax provision of $2.2 million (net of federal deductibility) for the three months ended September 30, 2010.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

Our effective tax rates for the nine months ended September 30, 2011 and 2010 are 35.5% and 36.7%, respectively. Our effective tax rate differs from our 35% statutory federal income tax rate due primarily to state income taxes as well as the tax effects of AFUDC equity which reduces the effective tax rate. We recorded a state income tax provision of $4.1 million (net of federal deductibility) during the nine months ended September 30, 2011, which includes the effect of the Michigan Corporate Income Tax, compared to a state income tax provision of $5.9 million (net of federal deductibility) for the nine months ended September 30, 2010.

LIQUIDITY AND CAPITAL RESOURCES

We expect to fund our future capital requirements with cash from operations, our existing cash and cash equivalents and amounts available under our revolving credit agreements (described in Note 5 to the condensed consolidated financial statements). In addition, we may from time to time secure debt and equity funding in the capital markets, although we can provide no assurance that we will be able to obtain financing on favorable terms or at all. We expect that our capital requirements will arise principally from our need to:

- Fund capital expenditures at our Regulated Operating Subsidiaries. Our plans with regard to property, plant and equipment investments are described in detail above under "— Capital Investment and Operating Results Trends."
- Fund business development expenses and related capital expenditures. We are pursuing development activities primarily at Green Power Express and ITC Grid Development that will continue to result in the incurrence of development expenses and could result in significant capital expenditures.
- Fund working capital requirements.
- Fund our debt service requirements. We expect our interest payments to increase each year as a result of additional debt we expect to incur to fund our capital expenditures.
- Fund dividends to holders of our common stock.
- Fund contributions to our retirement plans, as described in Note 10 to the condensed consolidated financial statements.

In addition to the expected capital requirements above, any adverse determinations relating to the contingencies described in Note 13 to the condensed consolidated financial statements would result in additional capital requirements.

We believe that we have sufficient capital resources to meet our currently anticipated short-term needs. We rely on both internal and external sources of liquidity to provide working capital and to fund capital investments. We expect to continue to utilize our revolving credit agreements and our cash and cash equivalents as needed to meet our short-term cash requirements. During 2011, we entered into new revolving credit agreements at ITC Holdings, ITC Great Plains, ITCTransmission and METC in the amount of $200.0 million, $150.0 million, $100.0 million and $100.0 million, respectively, and an additional revolving credit agreement at ITC Midwest for $75.0 million as described in Note 5 to the condensed consolidated financial statements. As of September 30, 2011, we had consolidated indebtedness under our revolving credit agreements of $133.6 million, with unused capacity under the

agreements of $532.4 million.
For our long-term capital requirements, we expect that we will need to obtain additional debt and equity financing. Certain

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of our capital projects could be delayed in the event we experience difficulties in accessing capital. We expect to be able to obtain such additional financing as needed in amounts and upon terms that will be reasonably satisfactory to us.

Credit Ratings

Credit ratings by nationally recognized statistical rating agencies are an important component of our liquidity profile. Credit ratings relate to our ability to issue debt securities and the cost to borrow money, and should not be viewed as an indication of future stock performance or a recommendation to buy, sell, or hold securities. Ratings are subject to revision or withdrawal at any time and each rating should be evaluated independently of any other rating. Our current credit ratings are displayed in the following table. An explanation of these ratings may be obtained from the respective rating agency.

Issuer	Issuance	Standard and Poor's Ratings Services(a)	Moody's Investor Service, Inc.(b)
ITC Holdings	Senior Notes	BBB-	Baa2
ITCTransmission	First Mortgage Bonds	A-	A1
METC	Senior Secured Notes	A-	A1
ITC Midwest	First Mortgage Bonds	A-	A1
ITC Great Plains	Unsecured Credit Facility	BBB	Baa1

(a) All of the Standard and Poor's Rating Services ratings have a positive outlook.

(b) Moody's Investor Service, Inc. updated their credit opinions on April 20, 2011 and made no changes to the credit ratings. All of the ratings have a stable outlook.

Covenants

Our debt instruments include senior notes, secured notes, first mortgage bonds and revolving credit agreements containing numerous financial and operating covenants that place significant restrictions as described in Note 5 to the condensed consolidated financial statements and in our Form 10-K for the fiscal year ended December 31, 2010. We are currently in compliance with all debt covenants and in the event of a downgrade in our credit ratings, none of the covenants would be directly impacted.

Cash Flows From Operating Activities

Net cash provided by operating activities was $286.6 million and $297.7 million for the nine months ended September 30, 2011 and 2010, respectively. The decrease in cash provided by operating activities was due primarily to higher income taxes paid of $15.8 million and $6.5 million of additional interest payments (net of interest capitalized) during the nine months ended September 30, 2011 compared to the same period in 2010. These decreases were partially offset by an increase in cash received from operating revenues of $14.2 million.

Cash Flows From Investing Activities

Net cash used in investing activities was $391.1 million and $270.3 million for the nine months ended September 30, 2011 and 2010, respectively. The increase in cash used in investing activities was due primarily to higher investments in property, plant and equipment as we executed our capital investment plan described under "— Overview — Capital Investment and Operating Results Trends."

Cash Flows From Financing Activities

Net cash provided by financing activities was $57.8 million for the nine months ended September 30, 2011 as compared to net cash used in financing activities of $28.0 million for the nine months ended September 30, 2010. The increase in cash provided by financing activities was due primarily to the net increase of $144.7 million in amounts outstanding under our revolving credit agreements, an increase of $30.1 million in net proceeds associated with refundable deposits for transmission network upgrades, as well as an increase of $11.0 million due to the issuance of common stock upon exercise of outstanding options during the nine months ended September 30, 2011 as compared to the same period in 2010. This increase was partially offset by no issuances of long-term debt in 2011 as compared to proceeds of $40.0 million from the closing of ITC Midwest's 4.60% First Mortgage Bonds, Series D, and proceeds of $50.0 million received from the issuance of METC's 5.64% Senior Secured Notes during 2010. In addition, the increase was partially offset by an increase in debt issuance costs and the repurchase and retirement of common stock of $6.9 million.

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CONTRACTUAL OBLIGATIONS

Our contractual obligations are described in our Form 10-K for the year ended December 31, 2010. There have been no material changes to that information during the nine months ended September 30, 2011, other than amounts borrowed under our revolving credit agreements and other debt transactions as described in Note 5 to the condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these condensed consolidated financial statements requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events. These estimates and judgments, in and of themselves, could materially impact the condensed consolidated financial statements and disclosures based on varying assumptions, as future events rarely develop exactly as forecasted, and even the best estimates routinely require adjustment. The accounting policies discussed in "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in our Form 10-K for the fiscal year ended December 31, 2010 are considered by management to be the most important to an understanding of the consolidated financial statements because of their significance to the portrayal of our financial condition and results of operations or because their application places the most significant demands on management's judgment and estimates about the effect of matters that are inherently uncertain. There have been no material changes to that information during the nine months ended September 30, 2011.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fixed Rate Long-Term Debt

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of our consolidated long-term debt, excluding revolving credit agreements, was $2,755.5 million at September 30, 2011. The total book value of our consolidated long-term debt, excluding revolving credit agreements, was $2,443.8 million at September 30, 2011. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt, excluding revolving credit agreements, at September 30, 2011. An increase in interest rates of 10% (from 7.0% to 7.7%, for example) at September 30, 2011 would decrease the fair value of debt by $74.5 million, and a decrease in interest rates of 10% at September 30, 2011 would increase the fair value of debt by $80.1 million at that date.

Revolving Credit Agreements

At September 30, 2011, we had a consolidated total of $133.6 million outstanding under our revolving credit agreements, which are variable rate loans and fair value approximates book value. A 10% increase or decrease in borrowing rates under the revolving credit agreements compared to the weighted average rates in effect at September 30, 2011 would increase or decrease the total interest expense by $0.2 million, respectively, for an annual period on a constant borrowing level of $133.6 million.

Other

As described in our Form 10-K for the fiscal year ended December 31, 2010, we are subject to commodity price risk from market price fluctuations, and to credit risk primarily with Detroit Edison, Consumers Energy and IP&L, our primary customers. There has been no material changes in these risks during the nine months ended September 30, 2011.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues

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and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective, at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

Other than as previously updated in our Form 10-Q for the quarter ended June 30, 2011, there have been no material changes to the risk factors set forth in Item 1A of our Form 10-K for the fiscal year ended December 31, 2010.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth the repurchases of common stock for the quarter ended September 30, 2011:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plan or Program(2)	Maximum Number or Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
July 2011	—	$	—	—	—
August 2011	45,880	71.14		—	—
September 2011	—	—		—	—
Total	45,880	$	71.14	—	—

(1) Shares acquired were delivered to us by employees as payment of tax withholding obligations due to us upon the vesting of restricted stock.

(2) We do not have a publicly announced share repurchase plan.

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ITEM 6. EXHIBITS

The following exhibits are filed as part of this report (unless otherwise noted to be previously filed, and therefore incorporated herein by reference). Our SEC file number is 001-32576.

Exhibit No.		Description of Document
4.29		Fifth Supplemental Indenture, dated as of July 15, 2011, between ITC Midwest LLC and The Bank of New York Mellon Trust Company, N.A. (as successor to The Bank of New York Trust Company, N.A.), as trustee (filed with Registrant's Form 10-Q for the quarter ended June 30, 2011)
10.99		Sales Agency Financing Agreement, dated July 27, 2011, between Registrant and Deutsche Bank Securities Inc. (filed with Registrant's Form 8-K filed on July 27, 2011)
10.100		Amended and Restated Generator Interconnection Agreement entered into by and among Michigan Electric Transmission Company, LLC, Consumers Energy Company and the Midwest Independent Transmission System Operator, Inc., effective August 1, 2011
31.1		Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2		Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32		Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Taxonomy Extension Schema
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	*	XBRL Taxonomy Extension Definition Database
101.LAB	*	XBRL Taxonomy Extension Label Linkbase
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase

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* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 27, 2011

ITC HOLDINGS CORP.

By: /s/ Joseph L. Welch
Joseph L. Welch
President and Chief Executive Officer
(principal executive officer)

By: /s/ Cameron M. Bready
Cameron M. Bready
Executive Vice President, Treasurer and
Chief Financial Officer
(principal financial officer and
principal accounting officer)

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