

ITC Holdings Corp.  
Form 10-Q  
April 28, 2011

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

**(Mark One)**

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

**For the Quarterly Period Ended March 31, 2011**

**OR**

**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  No

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  No

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

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

**(Do not check if a smaller reporting company)**

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

The number of shares of the Registrant's Common Stock, without par value, outstanding as of April 21, 2011 was 51,036,866.

**ITC Holdings Corp.**  
**Form 10-Q for the Quarterly Period Ended March 31, 2011**  
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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);

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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.

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

| (in thousands, except share data)  | <b>March 31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|--|---------------------------|----------------------------------|
| <b>ASSETS</b>  |                           |                                  |
| <b>Current assets</b>  |                           |                                  |
| Cash and cash equivalents  | \$ 63,381                 | \$ 95,109                        |
| Accounts receivable  | 68,116                    | 80,417                           |
| Inventory  | 40,695                    | 42,286                           |
| Deferred income taxes  | 5,810                     |                                  |
| Regulatory assets revenue accruals, including accrued interest   | 22,486                    | 28,637                           |
| Other  | 6,618                     | 5,293                            |
| Total current assets   | 207,106                   | 251,742                          |
| <b>Property, plant and equipment</b> (net of accumulated depreciation and amortization of \$1,143,068 and \$1,129,669, respectively) | 2,969,065                 | 2,872,277                        |
| <b>Other assets</b>  |                           |                                  |
| Goodwill   | 950,163                   | 950,163                          |
| Intangible assets (net of accumulated amortization of \$12,952 and \$12,176, respectively)   | 49,209                    | 49,985                           |
| Regulatory assets revenue accruals, including accrued interest   | 12,126                    | 3,947                            |
| Other regulatory assets  | 140,059                   | 138,152                          |
| Deferred financing fees (net of accumulated amortization of \$12,493 and \$11,750, respectively)                                     | 20,762                    | 19,949                           |
| Other  | 22,273                    | 21,658                           |
| Total other assets   | 1,194,592                 | 1,183,854                        |
| <b>TOTAL ASSETS</b>  | <b>\$ 4,370,763</b>       | <b>\$ 4,307,873</b>              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                           |                                  |
| <b>Current liabilities</b>   |                           |                                  |
| Accounts payable   | \$ 61,776                 | \$ 66,953                        |
| Accrued payroll  | 8,337                     | 18,606                           |
| Accrued interest   | 22,788                    | 42,725                           |
| Accrued taxes  | 20,663                    | 19,461                           |
| Regulatory liabilities revenue deferrals, including accrued interest   | 24,052                    | 17,658                           |
| Refundable deposits from generators for transmission network upgrades  | 12,698                    | 10,492                           |
| Revolving credit agreements maturing within one year   | 24,400                    |                                  |
| Other  | 2,695                     | 6,509                            |
| Total current liabilities  | 177,409                   | 182,404                          |
| <b>Accrued pension and postretirement liabilities</b>  | <b>37,281</b>             | <b>35,811</b>                    |
| <b>Deferred income taxes</b>   | <b>340,703</b>            | <b>314,979</b>                   |
| <b>Regulatory liabilities revenue deferrals, including accrued interest</b>  | <b>34,101</b>             | <b>43,202</b>                    |

|   |                     |                     |
|---|---------------------|---------------------|
| <b>Regulatory liabilities</b> accrued asset removal costs   | 89,852              | 90,987              |
| <b>Refundable deposits from generators for transmission network upgrades</b>  | 10,545              | 14,515              |
| <b>Other</b>  | 12,209              | 11,646              |
| <b>Long-term debt</b>   | 2,513,713           | 2,496,896           |
| <b>Commitments and contingent liabilities</b> (Note 9)  |                     |                     |
| <b>STOCKHOLDERS EQUITY</b>  |                     |                     |
| Common stock, without par value, 100,000,000 shares authorized, 50,996,817 and 50,715,805 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively | 898,601             | 886,808             |
| Retained earnings   | 254,432             | 229,437             |
| Accumulated other comprehensive income  | 1,917               | 1,188               |
| Total stockholders equity   | 1,154,950           | 1,117,433           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>\$ 4,370,763</b> | <b>\$ 4,307,873</b> |

See notes to condensed consolidated financial statements (unaudited).

**Table of Contents****ITC HOLDINGS CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

| <b>(in thousands, except per share data)</b>        | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2011</b>               | <b>2010</b> |
| <b>OPERATING REVENUES</b>                           | \$ 179,386                | \$ 161,288  |
| <b>OPERATING EXPENSES</b>                           |                           |             |
| Operation and maintenance                           | 26,284                    | 23,729      |
| General and administrative                          | 16,580                    | 17,781      |
| Depreciation and amortization                       | 23,088                    | 22,115      |
| Taxes other than income taxes                       | 13,608                    | 12,308      |
| Other operating income and expense net              | (149)                     | 7           |
| Total operating expenses                            | 79,411                    | 75,940      |
| <b>OPERATING INCOME</b>                             | 99,975                    | 85,348      |
| <b>OTHER EXPENSES (INCOME)</b>                      |                           |             |
| Interest expense                                    | 36,277                    | 35,029      |
| Allowance for equity funds used during construction | (3,510)                   | (3,143)     |
| Other income  | (275)                     | (626)       |
| Other expense                                       | 722                       | 384         |
| Total other expenses (income)                       | 33,214                    | 31,644      |
| <b>INCOME BEFORE INCOME TAXES</b>                   | 66,761                    | 53,704      |
| <b>INCOME TAX PROVISION</b>                         | 24,759                    | 19,500      |
| <b>NET INCOME</b>                                   | \$ 42,002                 | \$ 34,204   |
| Basic earnings per common share (Note 6)            | \$ 0.83                   | \$ 0.68     |
| Diluted earnings per common share (Note 6)          | \$ 0.81                   | \$ 0.67     |
| Dividends declared per common share                 | \$ 0.335                  | \$ 0.320    |

See notes to condensed consolidated financial statements (unaudited).



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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| <b>(in thousands)</b>   | <b>Three months ended</b> |                |
|---|---------------------------|----------------|
|   | <b>March 31,</b>          |                |
|   | <b>2011</b>               | <b>2010</b>    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |                |
| Net income  | \$ 42,002                 | \$ 34,204      |
| Adjustments to reconcile net income to net cash provided by operating activities:                     |                           |                |
| Depreciation and amortization expense   | 23,088                    | 22,115         |
| Recognition of and refund and collection of revenue accruals and deferrals including accrued interest | (4,735)                   | 13,577         |
| Deferred income tax expense   | 16,796                    | 17,808         |
| Allowance for equity funds used during construction   | (3,510)                   | (3,143)        |
| Other   | 2,950                     | 2,503          |
| Changes in assets and liabilities, exclusive of changes shown separately:                             |                           |                |
| Accounts receivable   | 12,612                    | 4,775          |
| Inventory   | 1,591                     | (1,220)        |
| Other current assets  | (1,325)                   | (1,932)        |
| Accounts payable  | (3,280)                   | (7,093)        |
| Accrued payroll   | (8,024)                   | (5,086)        |
| Accrued interest  | (19,937)                  | (15,120)       |
| Accrued taxes   | 1,202                     | (4,971)        |
| Other current liabilities   | (3,418)                   | (208)          |
| Other non-current assets and liabilities, net   | 1,504                     | 1,545          |
| Net cash provided by operating activities   | 57,516                    | 57,754         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |                |
| Expenditures for property, plant and equipment  | (118,491)                 | (71,816)       |
| Proceeds from sale of securities  |                           | 14,576         |
| Purchases of securities   |                           | (14,587)       |
| Other   | 4                         | (78)           |
| Net cash used in investing activities   | (118,487)                 | (71,905)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |                |
| Issuance of long-term debt  |                           | 40,000         |
| Borrowings under revolving credit agreements  | 196,300                   | 142,104        |
| Repayments of revolving credit agreements   | (155,200)                 | (161,041)      |
| Issuance of common stock  | 8,995                     | 574            |
| Dividends on common stock   | (17,007)                  | (16,034)       |
| Refundable deposits from generators for transmission network upgrades                                 | 3,113                     | 3,957          |
| Repayment of refundable deposits from generators for transmission network upgrades                    | (4,876)                   | (2,866)        |
| Other   | (2,082)                   | (327)          |
| Net cash provided by financing activities   | 29,243                    | 6,367          |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>(31,728)</b>           | <b>(7,784)</b> |
| <b>CASH AND CASH EQUIVALENTS Beginning of period</b>  | <b>95,109</b>             | <b>74,853</b>  |

|                                  |                      |           |           |
|----------------------------------|----------------------|-----------|-----------|
| <b>CASH AND CASH EQUIVALENTS</b> | <b>End of period</b> | \$ 63,381 | \$ 67,069 |
|----------------------------------|----------------------|-----------|-----------|

See notes to condensed consolidated financial statements (unaudited).

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**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. GENERAL**

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the period ended December 31, 2010 included in ITC Holdings' Form 10-K for such period.

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

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

**Supplementary Cash Flows Information**

| <b>(in thousands)</b>                                      | <b>Three months ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2011</b>               | <b>2010</b> |
| Supplementary cash flows information:                      |                           |             |
| Interest paid (net of interest capitalized)                | \$54,199                  | \$49,379    |
| Income taxes paid  | 1,155                     | 1,527       |
| Supplementary non-cash investing and financing activities: |                           |             |
| Additions to property, plant and equipment (a)             | \$40,337                  | \$32,190    |
| Allowance for equity funds used during construction        | 3,510                     | 3,143       |

(a) Amounts consist of current liabilities for construction labor and materials that have not been included in investing activities. These amounts have not been paid for as of March 31, 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**

We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our financial condition, results of operations or cash flows.

**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 through March 31, 2011 that are probable of recovery and recorded a corresponding \$2.0 million reduction to operating expenses, primarily to general and administrative expense. 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. Subsequent to FERC authorization, 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 recovered through ITC Great Plains' cost-based formula rate template beginning in that year.

**Table of Contents****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 \$1.5 million for the three months ended March 31, 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 three months ended March 31, 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. Rates are posted on the Open Access Same-Time Information System each year. By completing their formula rate template 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 the 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 true-up amount is reflected in customer bills within two years under the provisions of the formula rate templates.

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 three months ended March 31, 2011:

| (in thousands)   | ITC Transmission | METC        | ITC<br>Midwest | ITC Great<br>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 interest | 953              | 1,929       | (5,420)        | (157)               | (2,695)     |
| Net revenue accruals (deferrals) for the three months ended March 31, 2011           | 5,777            | 2,715       | 823            | (1,439)             | 7,876       |
| Net accrued interest payables for the three months ended March 31, 2011              | (277)            | (143)       | (6)            | (20)                | (446)       |

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|                              |    |          |            |    |        |    |       |            |
|------------------------------|----|----------|------------|----|--------|----|-------|------------|
| Balance as of March 31, 2011 | \$ | (26,601) | \$(12,735) | \$ | 16,785 | \$ | (990) | \$(23,541) |
|------------------------------|----|----------|------------|----|--------|----|-------|------------|

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

| (in thousands)               | ITC<br>Transmission | METC        | ITC<br>Midwest | ITC Great<br>Plains | Total       |
|------------------------------|---------------------|-------------|----------------|---------------------|-------------|
| Current assets               | \$ 1,431            | \$ 1,557    | \$ 18,843      | \$ 655              | \$ 22,486   |
| Non-current assets           | 5,777               | 2,112       | 3,224          | 1,013               | 12,126      |
| Current liabilities          | (11,638)            | (9,553)     | (2,670)        | (191)               | (24,052)    |
| Non-current liabilities      | (22,171)            | (6,851)     | (2,612)        | (2,467)             | (34,101)    |
| Balance as of March 31, 2011 | \$ (26,601)         | \$ (12,735) | \$ 16,785      | \$ (990)            | \$ (23,541) |

**4. INTANGIBLE ASSETS**

We have recorded intangible assets as a result of the METC acquisition in 2006. The carrying value of these assets was \$45.5 million (net of accumulated amortization of \$12.9 million) as of March 31, 2011.

ITC Great Plains has recorded intangible assets for payments made 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. The carrying amount of these intangible assets was \$3.7 million (net of accumulated amortization of \$0.1 million) as of March 31, 2011.

During the three months ended March 31, 2011 and 2010, we recognized \$0.8 million of amortization expense of our intangible assets. For each of the next five years, we expect the annual amortization of our intangible assets that have been recorded as of March 31, 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. On September 27, 2010, ITC Holdings entered into a 10-year forward starting interest rate swap agreement (the September 2010 swap ) with a notional amount of \$50.0 million. Additionally, on March 16, 2011, ITC Holdings entered into two 10-year forward starting interest rate swap agreements (the March 2011 swaps ) each with a notional amount of \$25.0 million. The interest rate swaps 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.

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 a fixed rate of 3.60% for the September 2010 swap and a fixed rate of 4.45% for the March 2011 swaps 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 March 31, 2011, there has been no ineffectiveness recorded on 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 (loss). These amounts will be accumulated and amortized as a component of interest expense over the life of the forecasted debt. As of March 31, 2011, the fair value of the derivative instruments was an asset of \$4.3 million.

**Revolving Credit Agreements*****ITC Holdings Revolving Credit Agreement***

At March 31, 2011, ITC Holdings had no amounts outstanding under the ITC Holdings Revolving Credit Agreement.



**Table of Contents*****ITCTransmission/METC Revolving Credit Agreement***

At March 31, 2011, ITCTransmission and METC had \$11.6 million and \$12.8 million, respectively, outstanding under the ITCTransmission/METC Revolving Credit Agreement. The ITCTransmission/METC Revolving Credit Agreement has a scheduled maturity of March 29, 2012 and amounts outstanding as of March 31, 2011 are presented in the current liabilities section of our consolidated statement of financial position. The weighted-average interest rate on borrowings outstanding under the agreement was 0.5% at March 31, 2011.

***ITC Midwest Revolving Credit Agreement***

On February 11, 2011, ITC Midwest entered into a new revolving credit agreement (the 2011 ITC Midwest Revolving Credit Agreement ) that establishes an unguaranteed, unsecured revolving facility under which ITC Midwest may borrow up to \$75.0 million, in addition to the borrowing capacity under the ITC Midwest revolving credit agreement, dated as of January 28, 2008 ( 2008 ITC Midwest Revolving Credit Agreement ). The maturity date of the 2011 ITC Midwest Revolving Credit Agreement is February 11, 2013. ITC Midwest's loans made under the 2011 ITC Midwest Revolving Credit Agreement bear interest at a variable rate, with rates on LIBOR-based loans varying from 125 to 150 basis points over the applicable LIBOR rate, depending on ITC Midwest's credit rating, and rates on other loans at the higher of prime, 50 basis points over the federal funds rate or 100 basis points over the one month LIBOR plus an applicable margin varying from 25 basis points to 50 basis points in each case, depending on ITC Midwest's credit rating. The 2011 ITC Midwest Revolving Credit Agreement also provides for the payment to the lenders of a commitment fee on the average daily unused commitments at rates varying from 0.125% to 0.175% each year, depending on ITC Midwest's credit rating.

At March 31, 2011, ITC Midwest had \$49.6 million outstanding under the 2008 ITC Midwest Revolving Credit Agreement and the 2011 ITC Midwest Revolving Credit Agreement. The weighted-average interest rate on borrowings outstanding under the agreements was 0.8% at March 31, 2011.

***ITC Great Plains Revolving Credit Agreement***

On February 16, 2011, ITC Great Plains entered into a revolving credit agreement (the ITC Great Plains Revolving Credit Agreement ) that established an unguaranteed, unsecured revolving credit facility under which ITC Great Plains may borrow and issue letters of credit up to \$150.0 million. The maturity date of the ITC Great Plains Revolving Credit Agreement is February 16, 2015. Loans made under the ITC Great Plains Revolving Credit Agreement will bear interest at a variable rate, with rates on LIBOR-based loans varying from 150 to 275 basis points over the applicable LIBOR rate, depending on ITC Great Plains' credit rating and rates on other loans at the higher of prime, 50 basis points over the federal funds rate or 100 basis points over the one month LIBOR rate plus an applicable margin varying from 50 basis points to 175 basis points in each case, depending on ITC Great Plains' credit rating. The ITC Great Plains Revolving Credit Agreement also provides for the payment to the lenders of a commitment fee on the average daily unused commitments at rates varying from 0.25% to 0.50% each year, depending on ITC Great Plains credit rating.

At March 31, 2011, ITC Great Plains had \$20.5 million outstanding under the ITC Great Plains Revolving Credit Agreement. The weighted-average interest rate on borrowings outstanding under the agreement was 2.0% at March 31, 2011.



**Table of Contents****6. EARNINGS PER SHARE**

The computation of basic and diluted earnings per common share for the three months ended March 31, 2011 and 2010 is presented in the following table:

| <b>(in thousands, except share, per share data and percentages)</b>                                       | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                             | <b>2010</b> |
| Numerator:  |   |             |
| Net income  | \$ 42,002                               | \$ 34,204   |
| Less: dividends declared common shares, restricted shares and deferred stock units (a)                    | (17,007)                                | (16,036)    |
| Undistributed earnings  | 24,995                                  | 18,168      |
| Percentage allocated to common shares (b)   | 98.3%                                   | 98.5%       |
| Undistributed earnings common shares  | 24,570                                  | 17,895      |
| Add: dividends declared common shares   | 16,713                                  | 15,793      |
| Numerator for basic and diluted earnings per common share   | \$ 41,283                               | \$ 33,688   |
| Denominator:  |   |             |
| Denominator for basic earnings per common share weighted-average common shares                            | 49,926,627                              | 49,352,632  |
| Incremental shares for stock options and employee stock purchase plan                                     | 790,086                                 | 902,780     |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 50,716,713                              | 50,255,412  |
| Per common share net income:  |   |             |
| Basic   | \$ 0.83                                 | \$ 0.68     |
| Diluted   | \$ 0.81                                 | \$ 0.67     |
| (a) Includes dividends paid in the form of shares for deferred stock units                                |   |             |
| (b) Weighted-average common shares outstanding  | 49,926,627                              | 49,352,632  |
| Weighted-average restricted shares and deferred stock units (participating securities)                    | 880,895                                 | 763,040     |
| Total   | 50,807,522                              | 50,115,672  |
| Percentage allocated to common shares   | 98.3%                                   | 98.5%       |

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 March 31, 2011 and 2010, we had 2,167,685 and 2,630,094 of 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 months ended March 31, 2011 and 2010, 232,537 and 244,316 anti-dilutive stock options were excluded from the diluted earnings per share calculations, respectively.

**7. 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 expect to contribute up to \$3.6 million to the defined benefit retirement plan relating to the 2010 plan year 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 expect to contribute up to \$3.2 million to these supplemental nonqualified, noncontributory, retirement benefit plans relating to the 2010 plan year in 2011.

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Net pension cost includes the following components:

| <b>(in thousands)</b>              | <b>Three months ended<br/>March 31,</b> |             |
|------------------------------------|---|-------------|
|                                    | <b>2011</b>                             | <b>2010</b> |
| Service cost                       | \$ 898                                  | \$ 710      |
| Interest cost                      | 625                                     | 508         |
| Expected return on plan assets     | (474)                                   | (355)       |
| Amortization of prior service cost | (10)                                    | (11)        |
| Amortization of unrecognized loss  | 713                                     | 267         |
| Net pension cost                   | \$ 1,752                                | \$ 1,119    |

**Other Postretirement Benefits**

We provide certain postretirement health care, dental, and life insurance benefits for employees who may become eligible for these benefits. We expect to contribute up to \$3.6 million to the postretirement benefit plan relating to the 2010 plan year in 2011.

Net postretirement cost includes the following components:

| <b>(in thousands)</b>              | <b>Three months ended<br/>March 31,</b> |             |
|------------------------------------|---|-------------|
|                                    | <b>2011</b>                             | <b>2010</b> |
| Service cost                       | \$ 858                                  | \$ 757      |
| Interest cost                      | 321                                     | 255         |
| Expected return on plan assets     | (184)                                   | (118)       |
| Amortization of prior service cost | 78                                      | 79          |
| Amortization of unrecognized loss  | 54                                      |             |
| Net postretirement cost            | \$ 1,127                                | \$ 973      |

**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 \$1.2 million and \$1.1 million for the three months ended March 31, 2011 and 2010, respectively.

**8. 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 measured at fair value subject to the three-tier hierarchy at March 31, 2011, were as follows:

| <b>Fair Value Measurements at Reporting Date Using</b>     |                              |                                     |
|--|------------------------------|-------------------------------------|
| <b>Quoted<br/>prices in<br/>active<br/>markets<br/>for</b> | <b>Significant<br/>other</b> | <b>Significant<br/>unobservable</b> |

| <b>(in thousands)</b>                           | <b>identical<br/>assets<br/>(Level 1)</b> | <b>observable<br/>inputs<br/>(Level 2)</b> | <b>inputs<br/>(Level 3)</b> |
|---|---|--|-----------------------------|
| Financial assets measured on a recurring basis: |   |  |                             |
| Cash and cash equivalents                       | \$ 7,113                                  | \$ 53,305                                  | \$                          |
| Mutual funds - cash equivalents                 | 10,502                                    |  |                             |
| Mutual funds - fixed income securities          | 920                                       |  |                             |
| Mutual funds - equity securities                |   | 4,270                                      |                             |
| Interest rate swap derivative                   |   |  |                             |
| <b>Total</b>                                    | <b>\$ 18,535</b>                          | <b>\$ 57,575</b>                           | <b>\$</b>                   |

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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<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial assets measured on a recurring basis: |   |   |  |
| Cash and cash equivalents                       | \$ 10   | \$ 84,726   | \$   |
| Mutual funds - fixed income securities          | 10,479  |   |  |
| Mutual funds - equity securities                | 876   |   |  |
| Interest rate swap derivative                   |   | 3,099   |  |
| Total   | \$ 11,365   | \$ 87,825   | \$   |

As of March 31, 2011, we held certain assets that are required to be measured at fair value on a recurring basis. These consist of investments recorded within cash and cash equivalents and other long-term assets, including investments held in trust associated with our nonqualified, noncontributory, supplemental retirement benefit plans for selected management and employees that are classified as trading securities and our interest rate swaps discussed in Note 5. Our investments included in cash equivalents consist of 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 trading 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 March 31, 2011 is determined based on a discounted cash flow method.

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 requiring non-financial assets and liabilities to be measured at fair value occurred (subsequent to initial recognition) during the three months ended March 31, 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 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 \$2,679.3 million and \$2,747.2 million at March 31, 2011 and December 31, 2010, respectively. The total book value of our consolidated long-term debt, excluding revolving credit agreements, was \$2,443.6 million and \$2,443.5 million at March 31, 2011 and December 31, 2010, respectively.

**Revolving Credit Agreements**

At March 31, 2011 and December 31, 2010, we had a consolidated total of \$94.5 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 March 31, 2011, our accounts receivable and accounts payable balances approximate fair value due to their short term nature.

**Table of Contents****9. 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 March 31, 2011 is estimated to be approximately \$7.6 million, which includes approximately \$3.5 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 \$10.1 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**

The staff of the FERC 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 by ITC Midwest of the transmission assets of IP&L. On February 8, 2011, FERC staff provided a draft audit report to us for review and comment. The draft audit report contains certain proposed findings and recommendations which, if finalized and approved by FERC, have the potential to result in adjustments to ITC Midwest's revenue requirement calculations for 2008 through 2010 which could result in refunds and have a negative effect on our results of operations. We intend to both vigorously defend our position and seek an agreed-upon resolution of the audit findings. We believe an unfavorable outcome is reasonably possible, but do not believe the range of potential loss would 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. To complete this project, the Iowa Utilities Board (the IUB) must provide certain regulatory approvals. In April 2011, the IUB granted the necessary regulatory approvals but has not yet issued its written order that may contain additional details. 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 adverse effect from this matter is remote.





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**Complaint of IP&L**

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

On April 16, 2009, the FERC dismissed the IP&L complaint, citing that IP&L failed to meet its burden as the complainant to establish that the current rate is unjust and unreasonable and to establish that IP&L's alternative rate proposal is just and reasonable. Requests for rehearing have been filed with the FERC and, therefore, the April 16 order remains subject to rehearing and ultimately to an appeal to a federal Court of Appeals within 30 days of any decision on rehearing.

**Table of Contents****10. 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:

| <b>OPERATING REVENUES:<br/>(in thousands)</b> | <b>Three months ended<br/>March 31,</b> |                   |
|---|---|-------------------|
|   | <b>2011</b>                             | <b>2010</b>       |
| Regulated Operating Subsidiaries              | \$ 179,403                              | \$ 161,298        |
| ITC Holdings and other                        | 101                                     | 107               |
| Intercompany eliminations                     | (118)                                   | (117)             |
| <b>Total Operating Revenues</b>               | <b>\$ 179,386</b>                       | <b>\$ 161,288</b> |

| <b>INCOME BEFORE INCOME TAXES:<br/>(in thousands)</b> | <b>Three months ended<br/>March 31,</b> |                  |
|---|---|------------------|
|   | <b>2011</b>                             | <b>2010</b>      |
| Regulated Operating Subsidiaries                      | \$ 90,515                               | \$ 77,392        |
| ITC Holdings and other                                | (23,754)                                | (23,688)         |
| <b>Total Income Before Income Taxes</b>               | <b>\$ 66,761</b>                        | <b>\$ 53,704</b> |

| <b>NET INCOME:<br/>(in thousands)</b> | <b>Three months ended<br/>March 31,</b> |                  |
|---------------------------------------|---|------------------|
|                                       | <b>2011</b>                             | <b>2010</b>      |
| Regulated Operating Subsidiaries (a)  | \$ 62,929                               | \$ 53,459        |
| ITC Holdings and other                | 42,002                                  | 34,204           |
| Intercompany eliminations             | (62,929)                                | (53,459)         |
| <b>Total Net Income</b>               | <b>\$ 42,002</b>                        | <b>\$ 34,204</b> |

| <b>TOTAL ASSETS:<br/>(in thousands)</b> | <b>March 31,</b>    | <b>December 31,</b> |
|---|---------------------|---------------------|
|   | <b>2011</b>         | <b>2010</b>         |
| Regulated Operating Subsidiaries        | \$ 4,261,741        | \$ 4,180,485        |
| ITC Holdings and other                  | 2,772,482           | 2,762,210           |
| Reconciliations (b)                     | 1,681               | (11,878)            |
| Intercompany eliminations               | (2,665,141)         | (2,622,944)         |
| <b>Total Assets</b>                     | <b>\$ 4,370,763</b> | <b>\$ 4,307,873</b> |

- (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 expected 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 Operations Services Agreement with IP&L is terminated, 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.

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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.

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 income tax net operating loss carryforwards 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

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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, balancing electricity generation and demand, 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 network transmission service, point-to-point transmission service and other related services over our Regulated Operating Subsidiaries transmission systems to investor-owned utilities such as Detroit Edison, Consumers Energy, 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 months ended March 31, 2011 or may affect future results include:

Our capital investment of \$128.9 million at our Regulated Operating Subsidiaries (\$14.6 million, \$33.7 million, \$67.7 million and \$12.9 million at ITC Transmission, METC, ITC Midwest and ITC Great Plains, respectively) for the three months ended March 31, 2011, primarily to improve system reliability, replace aging infrastructure and interconnect new generating resources;

Recognition of 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; and

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.

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 March 31, 2011, ITC Great Plains has recorded construction work in progress of \$25.7 million for the KETA Project. We estimate that the cost for ITC Great Plains portion of the KETA Project will be approximately \$203 million.

*Kansas V-Plan Project*

The Kansas V-Plan Project is a 180 mile 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 110 miles. ITC Great Plains is in the process of obtaining the additional regulatory approvals necessary to begin construction related activities for the project. We estimate that ITC Great Plains will invest approximately \$300 million to construct its portion of the project.

*Regulatory Assets*

As of March 31, 2011, we have recorded a total of \$12.6 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. During the quarter ended March 31, 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. Based on ITC Great Plains application



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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.

***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 and is pending further action by the FERC. Interested parties have filed comments and reply comments. The original FERC order remains subject to several requests for rehearing. The amount of any future capital expenditures on this project is currently unknown.

The total development expenses through March 31, 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 has been recorded as of March 31, 2011.

***Thumb Loop Project***

In 2010, we received MISO approval of the Thumb Loop Project located in ITC Transmission'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 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 requirements. 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.

***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

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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 continues to have an impact on 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.

**Monthly Peak Load (in MW) (a)**

|           | 2011                |                 |                | 2010                |                 |                | 2009                |                 |                |
|-----------|---------------------|-----------------|----------------|---------------------|-----------------|----------------|---------------------|-----------------|----------------|
|           | ITC<br>Transmission | METC<br>Midwest | ITC<br>Midwest | ITC<br>Transmission | METC<br>Midwest | ITC<br>Midwest | ITC<br>Transmission | METC<br>Midwest | ITC<br>Midwest |
| January   | 7,326               | 6,041           | 2,777          | 7,255               | 5,947           | 2,838          | 7,314               | 6,009           | 2,952          |
| February  | 7,261               | 5,991           | 2,839          | 6,998               | 5,800           | 2,782          | 7,176               | 5,818           | 2,816          |
| March     | 6,946               | 5,662           | 2,486          | 6,620               | 5,376           | 2,517          | 7,070               | 5,548           | 2,696          |
| April     |                     |                 |                | 6,501               | 5,112           | 2,425          | 6,761               | 5,112           | 2,428          |
| May       |                     |                 |                | 9,412               | 7,240           | 3,052          | 6,801               | 5,296           | 2,421          |
| June      |                     |                 |                | 9,722               | 7,128           | 3,207          | 10,392              | 8,063           | 3,385          |
| July      |                     |                 |                | 11,451              | 8,498           | 3,422          | 8,751               | 6,523           | 2,843          |
| August    |                     |                 |                | 11,082              | 8,422           | 3,399          | 9,823               | 7,181           | 3,103          |
| September |                     |                 |                | 10,817              | 7,353           | 2,804          | 8,049               | 5,919           | 2,596          |
| October   |                     |                 |                | 6,725               | 5,414           | 2,447          | 6,456               | 5,258           | 2,494          |
| November  |                     |                 |                | 6,926               | 5,734           | 2,674          | 6,996               | 5,778           | 2,634          |
| December  |                     |                 |                | 7,824               | 6,526           | 2,928          | 7,661               | 6,192           | 2,856          |
| Total     |                     |                 |                | 101,333             | 78,550          | 34,495         | 93,250              | 72,697          | 33,224         |

(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 Forecasts 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.

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 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.

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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:

| (in millions)               | <b>Five-Year<br/>Capital<br/>Investment<br/>Program<br/>2011-2015</b> | <b>Actual Capital<br/>Investment for<br/>the<br/>three months<br/>ended<br/>March 31,<br/>2011 (a)</b> | <b>Forecasted<br/>Capital<br/>Investment for<br/>the<br/>year ending<br/>December 31,<br/>2011</b> |
|-----------------------------|---|--|--|
| <b>Operating Subsidiary</b> |   |  |  |
| ITC Transmission            | \$ 796  | \$ 14.6  | \$ 60 75   |
| METC                        | 682   | 33.7   | 155 170  |
| ITC Midwest                 | 1,087   | 67.7   | 225 250  |
| ITC Great Plains            | 1,058   | 12.9   | 120 145  |
| Other (b)                   | 306   |  |  |
| <b>Total</b>                | <b>\$ 3,929</b>   | <b>\$ 128.9</b>  | <b>\$ 560 640</b>  |

(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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| (in thousands)                                      | Three months ended<br>March 31, |            | Increase<br>(decrease) | Percentage<br>increase<br>(decrease) |
|---|---------------------------------|------------|------------------------|--------------------------------------|
|   | 2011                            | 2010       |                        |                                      |
| OPERATING REVENUES                                  | \$ 179,386                      | \$ 161,288 | \$ 18,098              | 11.2%                                |
| OPERATING EXPENSES                                  |                                 |            |                        |                                      |
| Operation and maintenance                           | 26,284                          | 23,729     | 2,555                  | 10.8%                                |
| General and administrative                          | 16,580                          | 17,781     | (1,201)                | (6.8)%                               |
| Depreciation and amortization                       | 23,088                          | 22,115     | 973                    | 4.4%                                 |
| Taxes other than income taxes                       | 13,608                          | 12,308     | 1,300                  | 10.6%                                |
| Other operating income and expenses net             | (149)                           | 7          | (156)                  | (2,228.6)%                           |
| Total operating expenses                            | 79,411                          | 75,940     | 3,471                  | 4.6%                                 |
| OPERATING INCOME                                    | 99,975                          | 85,348     | 14,627                 | 17.1%                                |
| OTHER EXPENSES (INCOME)                             |                                 |            |                        |                                      |
| Interest expense                                    | 36,277                          | 35,029     | 1,248                  | 3.6%                                 |
| Allowance for equity funds used during construction | (3,510)                         | (3,143)    | (367)                  | 11.7%                                |
| Other income  | (275)                           | (626)      | 351                    | (56.1)%                              |
| Other expense                                       | 722                             | 384        | 338                    | 88.0%                                |
| Total other expenses (income)                       | 33,214                          | 31,644     | 1,570                  | 5.0%                                 |
| INCOME BEFORE INCOME TAXES                          | 66,761                          | 53,704     | 13,057                 | 24.3%                                |
| INCOME TAX PROVISION                                | 24,759                          | 19,500     | 5,259                  | 27.0%                                |
| NET INCOME  | \$ 42,002                       | \$ 34,204  | \$ 7,798               | 22.8%                                |

**Operating Revenues**

*Three months ended March 31, 2011 compared to three months ended March 31, 2010*

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

| (in thousands)                   | 2011       |            | 2010       |            | Increase<br>(decrease) | Percentage<br>increase<br>(decrease) |
|----------------------------------|------------|------------|------------|------------|------------------------|--------------------------------------|
|                                  | Amount     | Percentage | Amount     | Percentage |                        |                                      |
| Network revenues                 | \$ 152,480 | 85.0%      | \$ 140,297 | 87.0%      | \$ 12,183              | 8.7%                                 |
| Regional cost sharing revenues   | 19,606     | 10.9%      | 11,176     | 6.9%       | 8,430                  | 75.4%                                |
| Point-to-point                   | 3,721      | 2.1%       | 4,718      | 2.9%       | (997)                  | (21.1)%                              |
| Scheduling, control and dispatch | 2,990      | 1.7%       | 3,239      | 2.0%       | (249)                  | (7.7)%                               |
| Other                            | 589        | 0.3%       | 1,858      | 1.2%       | (1,269)                | (68.3)%                              |
| Total                            | \$ 179,386 | 100.0%     | \$ 161,288 | 100.0%     | \$ 18,098              | 11.2%                                |

Network revenues increased due primarily to higher revenue requirements at our Regulated Operating Subsidiaries during the three months ended March 31, 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 primarily to higher operation and maintenance expenses. The increases were partially offset by higher regional cost sharing revenues, which are an offset to network revenue requirement under our formula rates.

Regional cost sharing revenues increased due primarily to additional capital projects that have been identified by MISO and SPP as eligible for regional cost sharing. 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 a decrease in scheduled transmission flow on our transmission systems.

Other revenues decreased due primarily to the timing of revenue recognized at METC in the first quarter of 2010 for utilization of its jointly-owned transmission lines under its transmission ownership and operating agreements.

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Operating revenues for the three months ended March 31, 2011 include the network revenue accruals (deferrals) and regional cost sharing revenue accruals (deferrals) as calculated below:

| Line | Item  | ITC Transmission | METC      | ITC Midwest | ITC Great Plains | Total net revenue accrual |
|------|---|------------------|-----------|-------------|------------------|---------------------------|
|      | (in thousands)  |                  |           |             |                  |                           |
| 1    | Estimated net revenue requirement (network revenues recognized) (a) | \$ 59,802        | \$ 44,506 | \$ 47,538   | \$ 634           |                           |
| 2    | Network revenues billed (b)   | 54,142           | 42,234    | 47,345      | 178              |                           |
| 3    | Network revenue accruals (line 1 line 2)                            | 5,660            | 2,272     | 193         | 456              |                           |
| 4    | Regional cost sharing revenue accruals (deferrals) (c)              | 117              | 443       | 630         | (1,895)          |                           |
| 5    | Total net revenue accruals (deferrals) (line 3 line 4)              | \$ 5,777         | \$ 2,715  | \$ 823      | \$ (1,439)       | \$ 7,876                  |

- (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 were calculated based on the joint zone monthly network peak load multiplied by our 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 ITC Transmission, 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 adjustment. 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. 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 March 31, 2011 compared to three months ended March 31, 2010*

Operation and maintenance expenses increased due to higher vehicles and equipment expenses, due in part to higher fuel costs, as well as higher field operations expense and higher field relay work due to the acceleration of certain preventive maintenance activities within the first quarter of 2011 that had initially been planned for later in 2011.



*General and administrative expenses*

*Three months ended March 31, 2011 compared to three months ended March 31, 2010*

General and administrative expenses decreased by \$1.9 million primarily due to the recognition of the Kansas V-Plan Project regulatory asset, offset by higher development expenses of \$0.5 million related to the Kansas V-Plan Project in the first quarter of 2011 prior to the recognition of the regulatory asset.

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*Depreciation and amortization expenses*

*Three months ended March 31, 2011 compared to three months ended March 31, 2010*

Depreciation and amortization expenses increased during the three months ended March 31, 2011 as compared to the same period in 2010 due primarily to a higher depreciable asset base resulting from property, plant and equipment additions.

*Taxes other than income taxes*

*Three months ended March 31, 2011 compared to three months ended March 31, 2010*

Taxes other than income taxes increased during the three months ended March 31, 2011 as compared to the same period in 2010 due to our Regulated Operating Subsidiaries' 2010 capital additions, which are included in the tax base for 2011 personal property taxes.

***Other Expenses (Income)***

*Three months ended March 31, 2011 compared to three months ended March 31, 2010*

Interest expense increased during the three months ended March 31, 2011 as compared to the same period in 2010 due primarily to additional interest expense associated with the February 2010 issuance of the remaining \$40.0 million of ITC Midwest's \$75.0 million 4.60% First Mortgage Bonds, Series D, due December 17, 2024 and the May 2010 issuance of METC's \$50.0 million 5.64% Senior Secured Notes, due May 6, 2040, as well as higher amounts outstanding under our revolving credit facilities.

***Income Tax Provision***

*Three months ended March 31, 2011 compared to three months ended March 31, 2010*

Our effective tax rates for the three months ended March 31, 2011 and 2010 are 37.1% and 36.3%, respectively. Our effective tax rate differs from our 35% statutory federal income tax rate due primarily to state income tax provision of \$2.2 million and \$2.0 million (net of federal deductibility) recorded during the three months ended March 31, 2011 and 2010, respectively, partially offset by the tax effects of Allowance for Equity Funds Used During Construction (AFUDC equity) which reduces the effective tax rate. The amount of income tax expense relating to AFUDC equity is recognized as a regulatory asset and not included in the income tax provision. Our Regulated Operating Subsidiaries include taxes payable relating to AFUDC equity in their actual net revenue requirements during the periods when the related plant in-service is depreciated.

**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 Forecasts and Operating Results Trends.

Fund business development expenses and related capital expenditures. We are pursuing development activities at ITC Grid Development and Green Power Express 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.

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Fund dividends to holders of our common stock.

Fund contributions to our retirement plans, as described in Note 7 to the condensed consolidated financial statements.

In addition to the expected capital requirements above, an adverse determination in our appeal relating to the recent denial of our ability to use the sales and use tax exemption as described in Note 9 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 the first quarter of 2011, we entered into additional revolving credit agreements at ITC Midwest and ITC Great Plains in the amount of \$75.0 million and \$150.0 million respectively, as described in Note 5 to the condensed consolidated financial statements. As of March 31, 2011, we had consolidated indebtedness under our revolving credit agreements of \$94.5 million, with unused capacity under the agreements of \$415.5 million. The balance outstanding under the ITCTransmission/METC revolving credit agreement is presented in the current liabilities section of our consolidated statement of financial position as of March 31, 2011, as its scheduled maturity is March 29, 2012. We intend to replace this agreement and the ITC Holdings credit agreement, with a scheduled maturity of March 29, 2012, with new agreements during the second quarter of 2011. The borrowing costs under the new agreements are expected to be higher than the costs under our existing agreements but the increased costs are not expected to have a material effect on our results of operations, financial position or cash flows.

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

| <b>Issuer</b>    | <b>Issuance</b>      | <b>Standard and Poor's Ratings Services (a)</b> | <b>Moody's Investor Service, Inc. (b)</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  |
|                  | Unsecured Credit     |   |   |
| ITC Great Plains | 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 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.



**Table of Contents****Cash Flows From Operating Activities**

Net cash provided by operating activities was consistent compared to prior period, with the increased cash flows from higher net income and the timing of collection of receivables during the three months ended March 31, 2011 offset by the reduced cash flows from the recognition and collection of revenue accruals during the three months ended March 31, 2011 compared to the same period in 2010.

**Cash Flows From Investing Activities**

Net cash used in investing activities was \$118.5 million and \$71.9 million for the three months ended March 31, 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 execute our capital investment plan described under Overview Capital Investment Forecasts and Operating Results Trends.

**Cash Flows From Financing Activities**

Net cash provided by financing activities was \$29.2 million and \$6.4 million for the three months ended March 31, 2011 and 2010, respectively. The increase in cash provided by financing activities was due primarily to a net increase of \$60.0 million in amounts outstanding under our revolving credit agreements during the three months ended March 31, 2011 as compared to the same period in 2010. This increase was partially offset by a reduction in net proceeds associated with refundable deposits for transmission network upgrades of \$2.9 million and an increase in debt issuance costs of \$1.2 million as well as proceeds of \$40.0 million received in February 2010 from the closing of ITC Midwest's 4.60% First Mortgage Bonds, Series D, due December 17, 2024.

**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 three months ended March 31, 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 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 three months ended March 31, 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 \$2,679.3 million at March 31, 2011. The total book value of our consolidated long-term debt, excluding revolving credit agreements, was \$2,443.6 million at March 31, 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,

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at March 31, 2011. An increase in interest rates of 10% (from 7.0% to 7.7%, for example) at March 31, 2011 would decrease the fair value of debt by \$81.5 million, and a decrease in interest rates of 10% at March 31, 2011 would increase the fair value of debt by \$87.8 million at that date.

**Revolving Credit Agreements**

At March 31, 2011, we had a consolidated total of \$94.5 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 March 31, 2011 would increase or decrease the total interest expense by \$0.1 million, respectively, for an annual period on a constant borrowing level of \$94.5 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 have been no material changes in these risks during the three months ended March 31, 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 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 March 31, 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**

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.

**Table of Contents****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 March 31, 2011:

| <b>Period</b> | <b>Total Number of Shares Purchased (1)</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program(2)</b> | <b>Maximum Number or Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)</b> |
|---------------|---|-------------------------------------|--|--|
| January 2011  | 6,335                                       | \$ 64.84                            |  |  |
| February 2011 | 2,012                                       | 67.62                               |  |  |
| March 2011    | 662   | 68.05                               |  |  |
| Total         | 9,009                                       | \$ 65.69                            |  |  |

(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.

**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.

| <b>Exhibit No.</b> | <b>Description of Document</b>  |
|--------------------|---|
| 10.89              | Revolving Credit Agreement, dated as of February 11, 2011, among ITC Midwest LLC, as the borrower, various financial institutions and other persons from time to time parties hereto, as the lenders, JP Morgan Chase Bank, N.A., as the administrative agent and JP Morgan Securities Inc., as sole lead arranger and sole bookrunner (filed with Registrant's Form 8-K on February 17, 2011)  |
| 10.90              | Revolving Credit Agreement, dated as of February 16, 2011, among ITC Great Plains, LLC, as the borrower, various financial institutions and other persons from time to time parties hereto, as the lenders, Credit Suisse AG, Cayman Islands Branch, as the administrative agent, Credit Suisse Securities (USA) LLC and Morgan Stanley Senior Funding, Inc. as joint lead arrangers and joint bookrunners, and Morgan Stanley Senior Funding, Inc., as syndication agent (filed with Registrant's Form 8-K on February 17, 2011) |
| 10.93              | Letter Agreement, dated as of February 1, 2011, between Edward M. Rahill and ITC Holdings Corp.   |
| 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   |

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|          |   |
|----------|---|
| 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   |

\* 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: April 28, 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)