“National Transmission Capacity Issues”

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Agenda

- Who is ITC?
- Importance of Independence
- The Current Environment
- Need for Changes to U.S. Energy Policy

Who is ITC?

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ITC is the first fully independent transmission company in the U.S.

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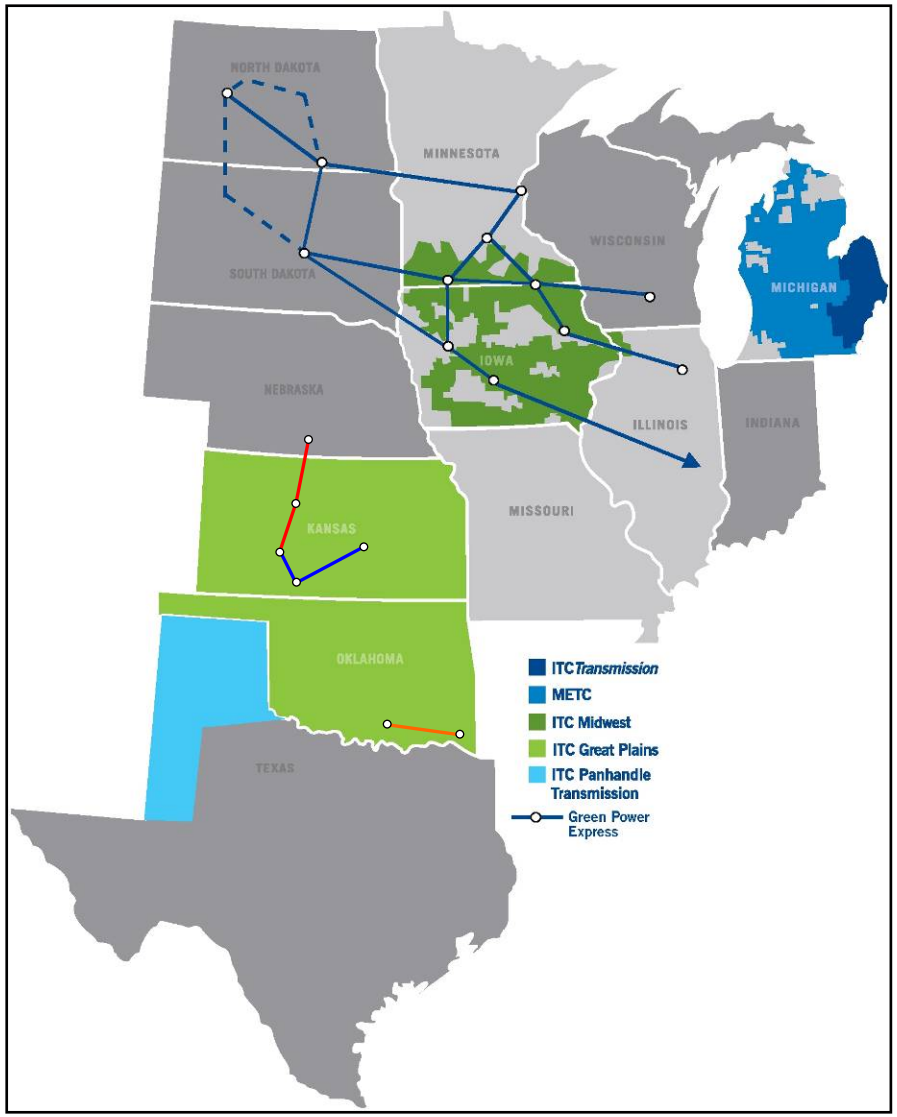
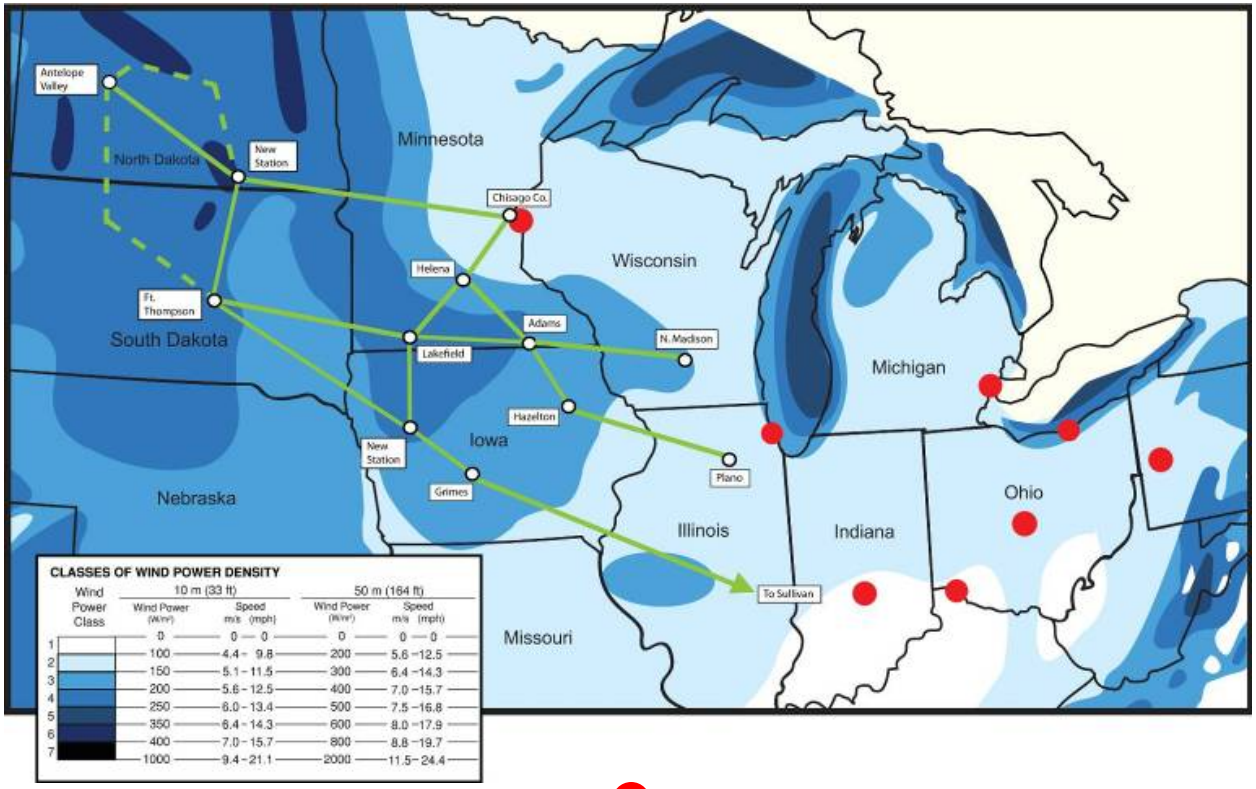


- ITC is the ninth largest transmission-owning company in the U.S.
- Transmission systems in Michigan's lower peninsula and portions of Iowa, Minnesota, Illinois and Missouri
  - Serves combined peak load in excess of 25,000 megawatts (MW)
  - Approximately 15,000 line miles
- Recently announced "Green Power Express" designed to facilitate the interconnection of 12,000 MW of wind in the Dakotas, Iowa and Minnesota to eastward population centers
- Also actively seeking opportunities to build, own, operate and maintain transmission in Kansas, Oklahoma and Texas (SPP region)
- Since 2003, ITC has invested more than $1.5 billion in transmission system upgrades to improve reliability, reduce system congestion, and facilitate the non-discriminatory interconnection of new generating assets, including renewable resources

Regional Transmission Projects
Green Power Express



Population Centers

Green Power Express

- Green Power Express - February 2009
- ~3,000 miles EHV 765kV transmission
- Portions of ND, SD, MN, IA, WI, IL & IN
- Total ~$10 to $12 billion
  - ITC's investment a portion of total

Regional Transmission Projects
KETA, Kansas V-Plan & Hugo / Valliant

Hugo / Valliant
KETA Project
Kansas V-Plan

ITC Great Plains is building two projects in Kansas and one in Oklahoma

- Hugo / Valliant:
  - 20 mile, 345 kV
  - Estimated investment ~$35 million
  - In pre-construction phase
- KETA Project:
  - 185 mile, 345 kV (Two Phases)
  - Spearville, KS to Axtell, NE
  - Estimated investment ~$200mm
  - In pre-construction phase
- Kansas V-Plan:
  - 180 mile
  - Spearville to Wichita, KS
  - Northern portion of SPP “X Plan”
  - Estimated investment ~$430mm (reflects ITC’s portion)
  - Currently under analysis as a priority project

ITC's Track Record for Operational Excellence

- From a state-of-the-art Operations Control Room (OCR) in Novi, ITC monitors the high voltage electric transmission system in all four operating companies across 6 states
- ITC measures its results by participation in the SGS Statistical Services Transmission Reliability Benchmarking program – **consistently in top performing system in study**
- ITC participates in Edison Electric Institute's (EEI) Safety Benchmarking program to gauge its performance against approximately 70 other utilities – **ITC one of the top companies in the study**
- The OCR is staffed with operators qualified at the highest level under the North American Electric Reliability Corporation's (NERC) Operator Certification Program
- ITC*Transmission* and METC were found fully compliant with all Transmission Operator requirements under NERC's mandatory reliability standards in our last audit

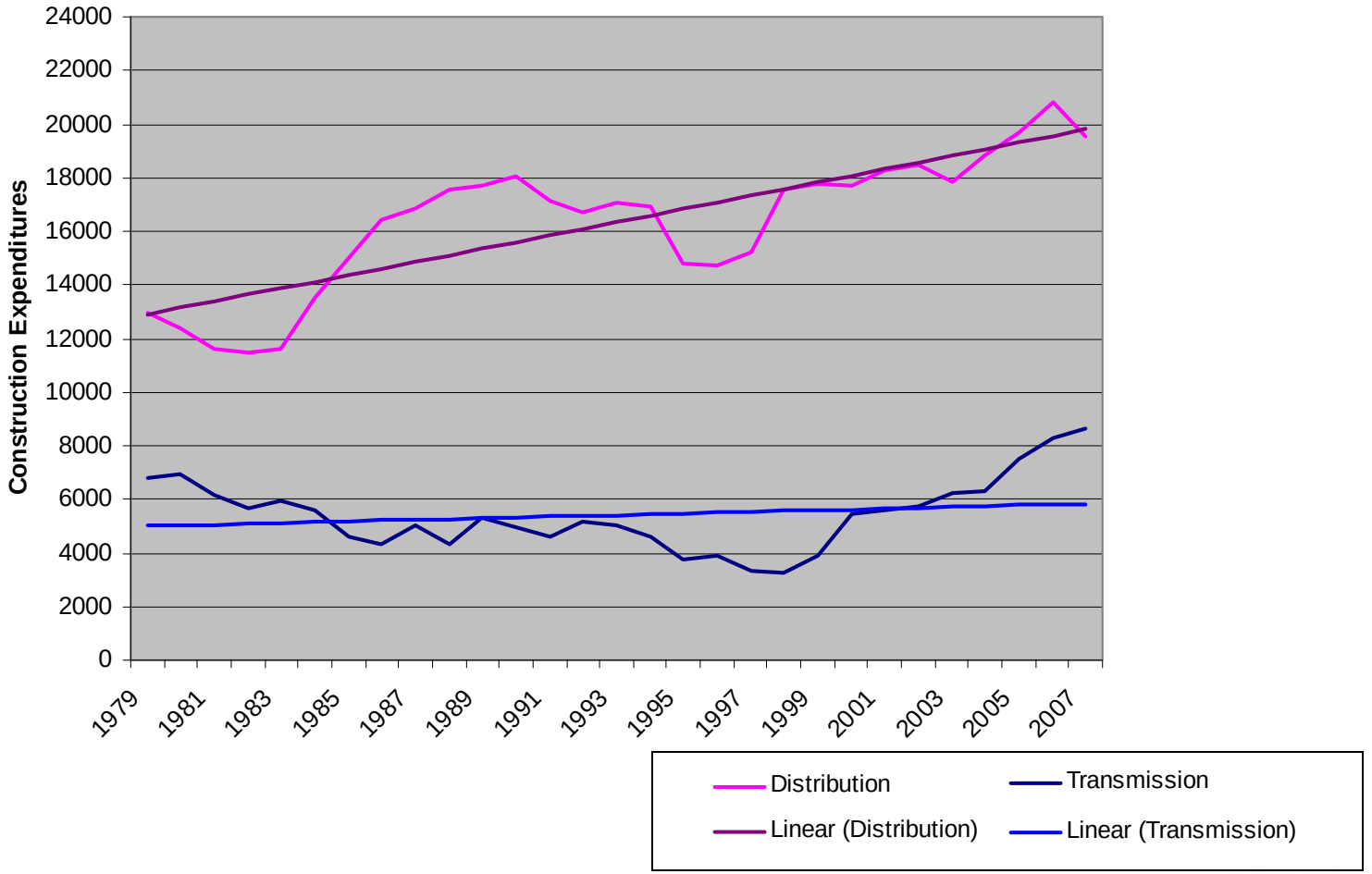
Importance of Independence

Does Independence Really Matter?

- Let's imagine that American Airlines was responsible for the control tower operations at the Manhattan Regional Airport.
- What do you think would happen?
  - Whose flights would be the first to land?
  - Whose flights would be the first to take off?
- There is a clear reason why independence in this case is important
- How does this example apply to the energy industry?

Reduced Investment in Grid

Historical Transmission and Distribution Investment
($ millions in 2008 dollars)



Source: ***EEI Statistical Yearbook, The Edison Electric Institute, 2009.***

ITC = Independent

- ITC focuses on ownership, operation, maintenance, and construction of transmission facilities as a single line of business
- There is no internal competition for capital – it is dedicated for prudent transmission investment
- ITC is singularly focused on transmission and aims to bring significant benefits to customers
- Our Goals:
  - Improve reliability
  - Reduce congestion, improve efficiency
  - Increase access to generation, including renewable resources
  - Lower cost of delivered energy

ITC's independence uniquely positions it to bring the necessary investment to the grid

The Current Environment

Current Situation For the Grid

High Demand: Electricity demand continues to grow; expected to increase 25% by 2030

- ***Aging infrastructure***: Most of the grid was built more than 30 years ago and not designed to reach regions of the country that have the most potential for renewable energy generation
- ***Mounting Reliability Concerns:*** Blackouts and brownouts cost our economy every year
- ***Inefficiencies***: A lack of investment has led to increased congestion, inefficiency, and higher electricity prices
- ***Interconnection Problems***: A lack of capacity has created a huge queue length for energy projects
- ***A Fragmented System:*** *Today we have approximately 3,200 electric utilities including an estimated 500 transmission owning entities that are regulated using an outdated model*

Unfortunately, Current System is Inefficient

- Let's consider how energy gets to your home:
  - Oil is transported from the Middle East by way of fuel-powered barge across ocean
  - Oil is then used to move coal rail car from coal fields to your city across long distance with loss through coal dust
  - Coal is then shoveled into coal generating plant that is only ~30% efficient
  - Electricity generated is transported across transmission and distribution lines where another 9.5% is lost due to aforementioned congestion

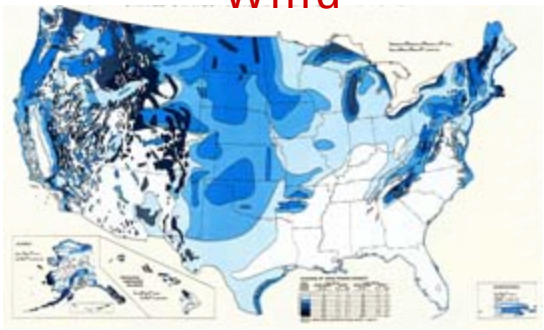
Energy Industry: Today and Tomorrow

- Policymakers are calling for the industry to look at new sources for energies and technologies
  - Create new jobs
  - Invest in and improve nation's infrastructure
  - Diversify our fuel sources / energy security
  - Protect the environment
- However, many of these new sources and technologies are not possible without a robust transmission grid

Our Nation's Generation Resources

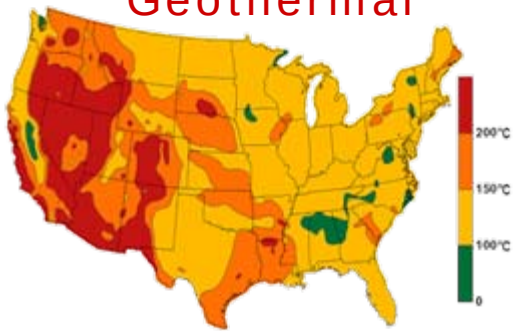
Mine-mouth Coal

Wind

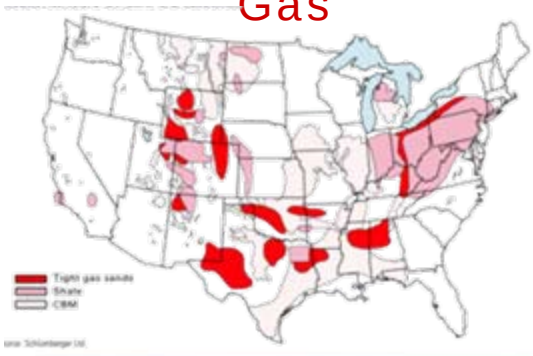


Nuclear

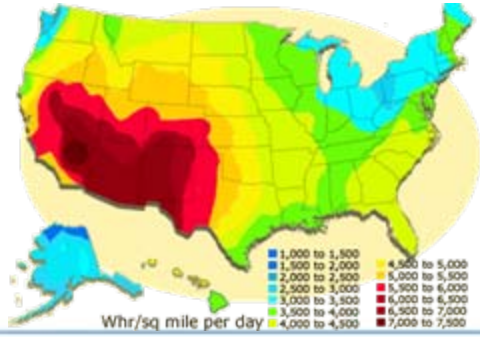
Geothermal



Gas

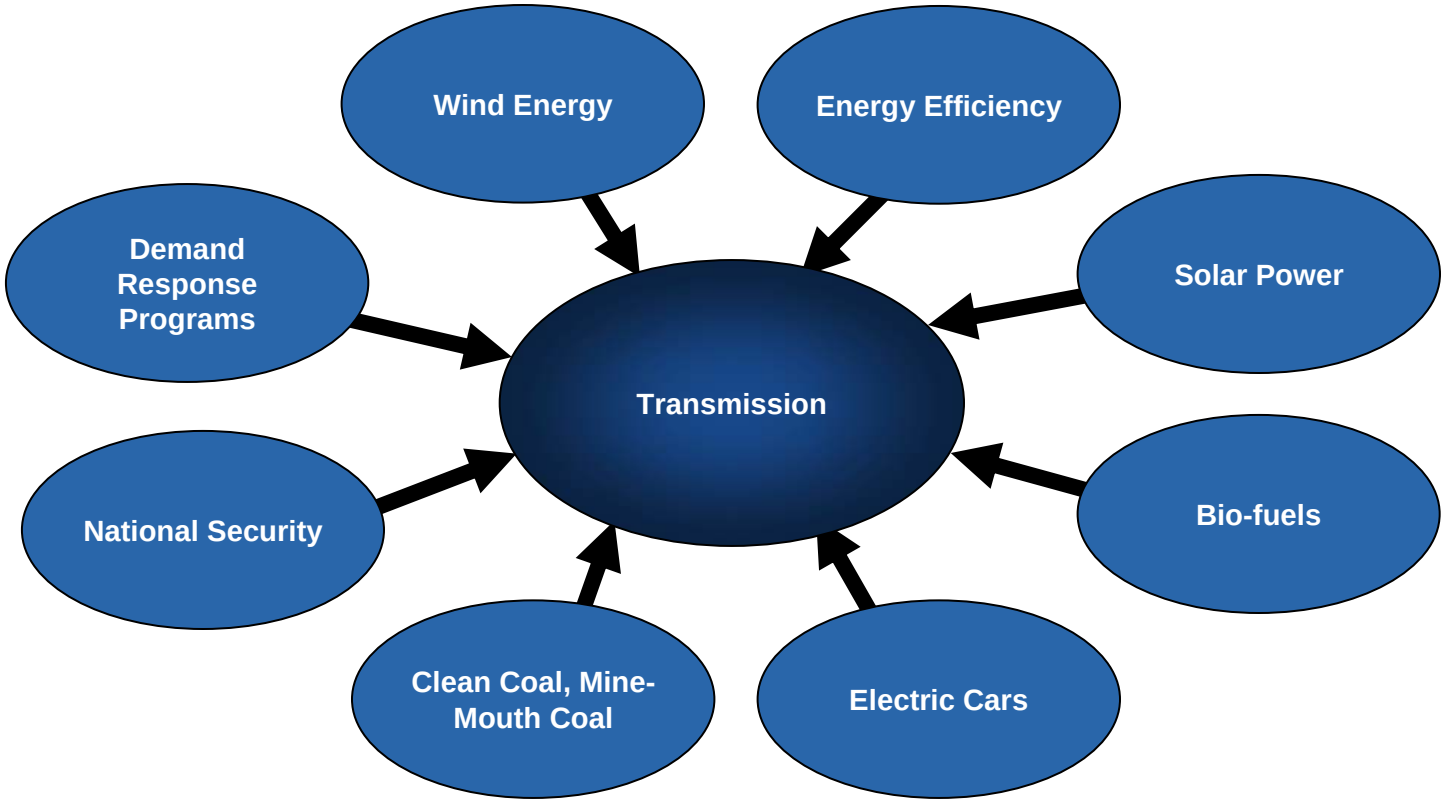


Solar



- ITC must provide equal and non-discriminatory access to all forms of generation
- Each of these different generation sources provide a unique challenge in interconnecting them to the grid
  - For example, wind is highly variable and largely abundant in areas with little transmission infrastructure
- However, all have one thing in common:
  - All generation sources need access to a robust transmission grid

Transmission as Facilitator



Transmission is at the center of the energy debate;
It is the critical link to many energy policy visions

Recent Emphasis

- **FERC policy initiatives to encourage transmission investment provide greater returns for certain projects including:**
  - High voltage facilities which increase reliability, reduce congestion and encourage development of clean energy
  - All investment for transmission
  - Only clean energy projects

- **Although grid investment has doubled in recent years, it is still well below where it needs to be**

- **Estimated over $230 billion of investment will be necessary over the next 20 years**

Need for Changes to U.S. Energy Policy

Not One Inch of Regional Transmission

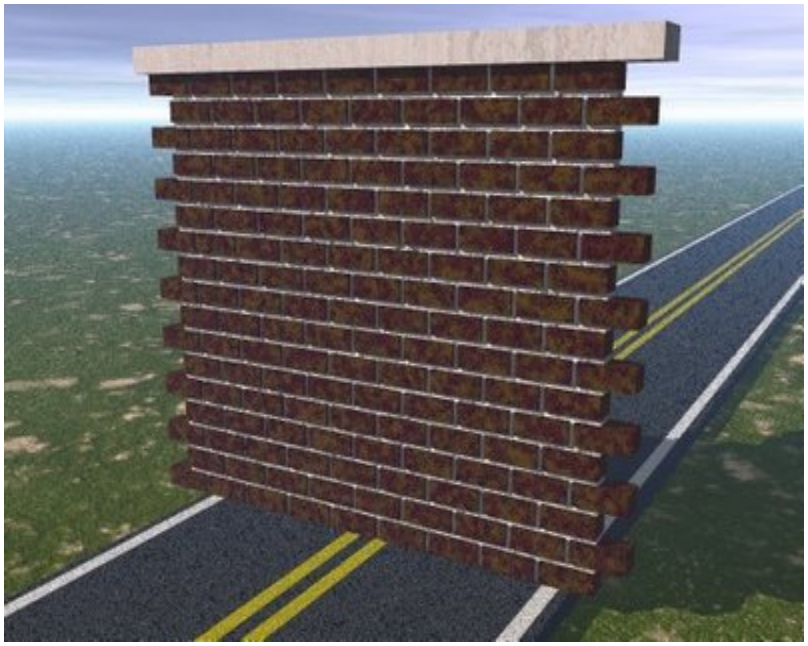
- FERC landmark Order 888 (1996)
  - Sought generation competition
  - Required transmission owners to provide non-discriminatory access
- FERC Order 2000 (1999)
  - Encouraged utilities to participate in regional transmission organizations (RTOs)
- These two orders helped establish a non-discriminatory market
  - Fell short of being fully effective

Despite all the attention to the concept of regional transmission & RTOs, NOT ONE INCH of truly regional transmission has been built

Present Transmission Policy

- **Existing transmission policy results in significant barriers to investment / development**
  - Barriers for existing transmission owners
  - Barriers to entry to new, potential transmission owners
- **Problems with present transmission policy include:**
  - Uncertainty of cost allocation and cost recovery
  - Unpredictable and excessively lengthy state and local siting for projects with regional benefits
  - Disproportionately high costs to generators for network upgrade projects
  - Uncertainty on regulated rates of return
- **What is impeding regional transmission?**

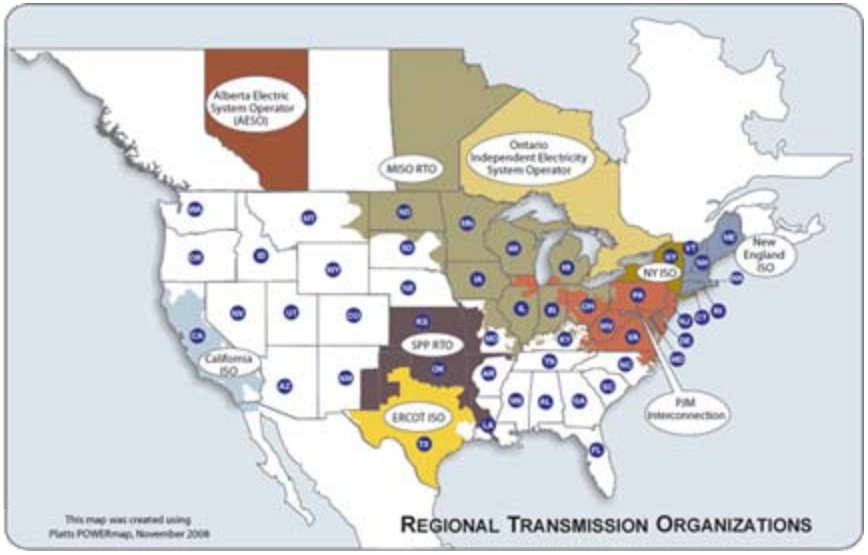
Impediments to Regional Transmission



- What is impeding transmission investment?
  - Lack of collective industry vision
  - Parochialism caused by vertically integrated utilities and state regulation
  - Influence of market participants
  - Fallacy of generation vs. transmission debate
  - Local opposition / NIMBY challenges

All of these issues are interrelated and stem from the lack of a national energy policy and legislation that addresses regional planning, cost allocation and siting

Challenges of RTOs



- Voluntary nature of RTO membership, governance structure
- Influence of members and stakeholders on regional planning within RTO
- Competing interests in planning regional transmission and running an energy market
- Disagreement as to who should pay for regional projects

SPP's forward-thinking policies on issues such as cost allocation are setting the standard for other RTOs

Significant Transmission Policy Changes Necessary

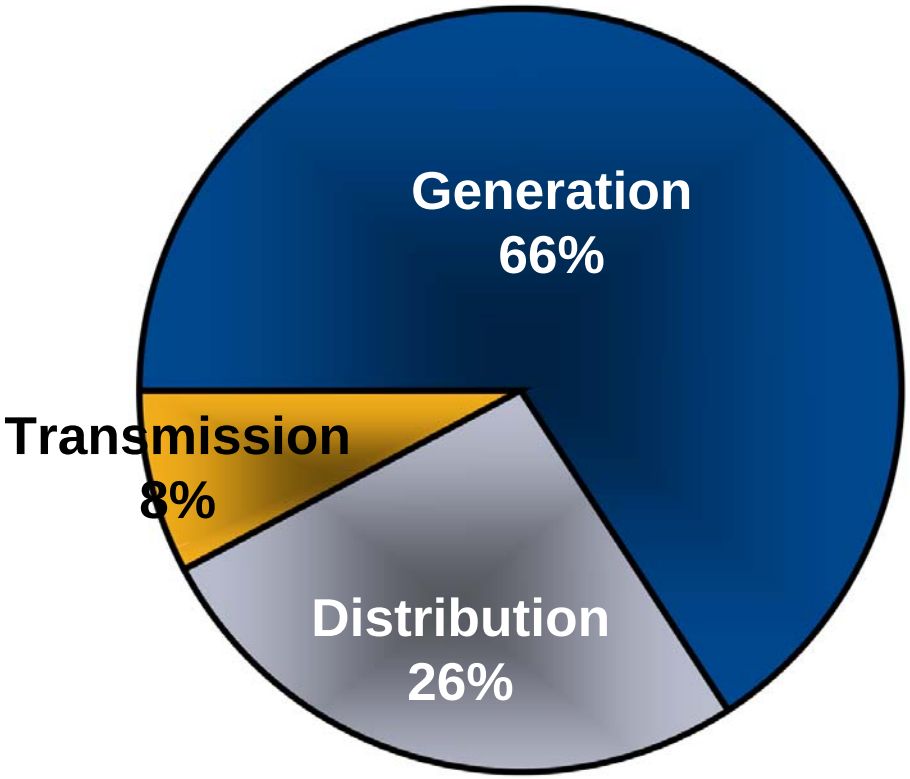
- **Need general recognition of constraints which the existing structure places on development / access to renewable energy sources**
  - Report: The Governors' Wind Energy Coalition (bi-partisan group of 29 Governors) – including Governor Richardson from New Mexico
- **Major changes could come within 2 to 3 years**
  - Regional / inter-regional planning
  - Regional cost allocation
  - Federal siting for regional projects
- **Policy changes could result from several sources**
  - Pending federal legislation concerning energy
  - Reinterpretations by FERC of existing statutes
  - Court decisions

Modernize the Grid via Modernized Rules

- ***National energy policy vision***
  - Guide decisions on planning of future energy delivery system
  - Foundation for energy policy (e.g., national RES, carbon pricing, etc.)
- ***Independent regional planning***
  - Interconnection-wide
  - Membership is determined by geography
  - Budget is paid for by planning assessment
- ***Cost allocation***
  - Should be harmonized for all transmission investment regardless of primary driver
  - Costs should be recovered from entire region via postage stamp rates
- ***Federal siting***
  - FERC should be given backstop authority to site transmission if a state fails to act

Transmission as Component of Bill

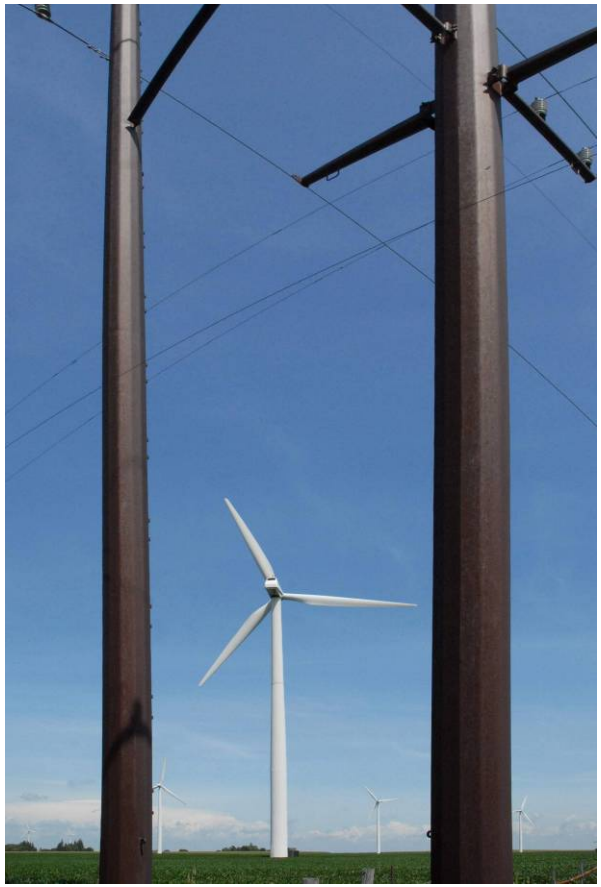
Proportions by Service Category (1)



- All of this work is accomplished while having transmission currently representing only approximately 8% of the electricity bill

(1) Source: EIA Annual Energy Outlook 2009 with Projections to 2030

Closing Remarks



- To make regional transmission a reality, there must be an energy policy vision
- Once established, the vision will guide:
  - Independent regional planning
  - Broad Regional Cost allocation
  - Backstop federal siting authority
- Doing so will lower transmission policy barriers to facilitate expansion of renewable energy