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June 26, 2007

ITC Holdings Corp.

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ITC Holdings Corp.

Major Rating Factors

Corporate Credit Rating
BBB/Positive/--

Strengths:

- Steady cash flows from electric transmission subsidiaries International Transmission Co. and Michigan Electric Transmission Co.,
- Minimal competition from high regulatory and political barriers to entry,
- Low technological and operating risk, and
- Electric-transmission-only investments.

Weaknesses:

- Modest exposure to revenue volatility from electric load variability,
- Limited economic diversity,
- Ambitious capital spending plan, and
- Highly leveraged capital structure.

Rationale

The ratings on ITC Holdings Corp. (Holdings) reflect the consolidated credit profile of it and its electric transmission subsidiaries, Michigan Electric Transmission Co. (METC) and International Transmission Co. (ITC Transmission).

As of March 31, 2007, Novi, Mich.-based Holdings had $1.4 billion of consolidated debt.

ITC Transmission and METC benefit from being sole providers of electricity transmission service to Detroit Edison Co. (BBB/Stable/A-2), Consumers Energy Co. (BBB-/Stable/--), and numerous cooperatives and municipal utilities. Holdings announced in January 2007 that it will acquire for $750 million the transmission assets of Interstate Power & Light Co. (IP&L), a subsidiary of Alliant Energy Corp. The inclusion of IP&L's transmission assets in Minnesota, Illinois, and largely Iowa should help further geographically diversify Holdings' revenues and cash flows and broaden its customer base. Moreover, there is minimal competitive risk because of high regulatory and political barriers to entry.

Prospectively, the added customer, economic, and geographic diversity provided by this acquisition further support Holdings' consolidated business risk profile. Holdings', METC's, and ITC Transmission's business risk profiles are scored '2' (excellent) and reflect very supportive regulation, minimal operating risk, and increasingly diversified markets and customers, offset by Holdings' aggressive growth and exposure to weather-related demand variability. (Business profiles are categorized from '1' (excellent) to '10' (vulnerable)).

Holdings' current cash flow measures are adequate for the rating. For the 12 months ended March 31, 2007, after adjustments, consolidated funds from operations (FFO) interest coverage was 2.8x, down from 3x at year-end 2006. FFO to total debt was 7% about the same as year-end 2006. Debt to total capital rose to 72% from 70.5% at year-end 2006. We expect leverage to remain around 70%, as indicated by Holdings, and cash flow measures to be inline for the rating.

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The transmission subsidiaries will continue to require annual rate increases to recover capital expenditures that are projected to exceed $1 billion through 2010. The company will not be able to internally finance these capital expenditures and will require external funding through equity or debt issuances. Given the company's currently high debt leverage of around 70%, proceeds from equity offerings would be considered more favorable for credit quality than increasing debt.

Liquidity

Although internally generated cash flow should grow, the company, after dividend payments, will require external funding for capital spending and the pending acquisition of IP&L's transmission assets. As of March 31, 2007, Holdings' liquidity consisted of $31.3 million of cash and equivalents on hand and 30% availability under its $125 million revolving credit facility. ITC Transmission and METC have access to $80 million and $35 million under a credit agreement that, respectively, had 59% and 100% availability as of March 31, 2007. Holdings has minimal refinancing risk with no significant debt maturities over the next several years.

Outlook

The positive outlook reflects our expectation of the maintenance of financial measures consistent with the rating through ongoing rate recovery of capital improvements. The ratings could be raised after a successful track record has been established now that METC has been integrated, the necessary regulatory approvals are received without major concessions for the acquisition of IP&L's transmission assets, and the FERC-authorized tariff for the new assets bolsters cash flow. The outlook could be revised to stable if the expected post-METC integration track record is not achieved, the FERC authorizes a rate tariff for transmission assets that does not provide the necessary cash flow support, or state regulatory commissions require large concessions for the acquisition to proceed and Holdings acquiesces.

Table 1

ITC Holdings Corp. Peer Comparison*

	--Average of past three fiscal years--		
	ITC Holdings Corp.	**American Transmission Co.**	**AltaLink L.P.**
Corporate credit rating	BBB/Positive/--	A+/Stable/A-1	A-/Stable/--
(Mil. mixed currency)	U.S.$	U.S.$	C$
Revenues	185.1	299.8	169.8
Net income from cont. oper.	23.5	98.8	31.3
Funds from operations (FFO)	71.2	146.4	78.1
Capital expenditures	120.6	311.4	123.0
Cash and investments	17.4	0.1	0.0
Debt	766.9	695.3	686.9
Preferred stock	0.0	0.0	0.0
Common equity	327.7	663.1	389.6
Total capital	1,094.5	1,358.4	1,076.5
Adjusted ratios			
EBIT interest coverage (x)	2.1	3.3	1.8
FFO int. cov. (X)	3.0	4.6	3.1
FFO/debt (%)	9.3	21.1	11.4

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Table 1

ITC Holdings Corp. Peer Comparison* (cont.)			
Discretionary cash flow/debt (%)	(10.7)	(34.6)	(10.1)
Net Cash Flow / Capex (%)	43.6	22.8	51.2
Debt/total capital (%)	70.1	51.2	63.8
Return on common equity (%)	7.3	15.0	7.4
Common dividend payout ratio (un-adj.) (%)	79.1	76.3	48.2

*Fully adjusted (including postretirement obligations).

Table 2

ITC Holdings Corp. Financial Summary*				
	--Fiscal year ended Dec. 31--			
	2006	**2005**	**2004**	**2003**
Rating history	BBB/Positive/--	BBB/Stable/--	BBB/Negative/--	BBB/Stable/--
(Mil. $)				
Revenues	223.6	205.3	126.4	102.4
Net income from continuing operations	33.2	34.7	2.6	(8.1)
Funds from operations (FFO)	90.6	80.9	42.1	32.4
Capital expenditures	167.1	117.9	76.7	26.8
Cash and investments	13.4	24.6	14.1	8.1
Debt	1,274.5	532.4	493.7	453.9
Preferred stock	0.0	0.0	0.0	0.0
Common equity	532.2	256.1	194.6	188.1
Total capital	1,806.7	788.6	688.3	642.0
Adjusted ratios				
EBIT interest coverage (x)	2.1	3.0	1.2	0.5
FFO int. cov. (x)	3.0	3.6	2.4	1.9
FFO/debt (%)	7.1	15.2	8.5	7.1
Discretionary cash flow/debt (%)	(11.3)	(13.9)	(5.6)	(0.4)
Net Cash Flow / Capex (%)	31.3	53.8	54.9	19.7
Debt/total capital (%)	70.5	67.5	71.7	70.7
Return on common equity (%)	7.1	13.6	0.3	(4.4)
Common dividend payout ratio (un-adj.) (%)	115.4	50.3	0.0	(334.5)

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of ITC Holdings Corp. 2006 Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*								
ITC Holdings Corp. reported amounts								
	Debt	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	1,262.3	125.4	125.4	85.2	42.0	61.8	61.8	167.5
Standard & Poor's adjustments								
Operating leases	1.5	1.0	0.1	0.1	0.1	0.9	0.9	0.6

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Table 3

Reconciliation Of ITC Holdings Corp. 2006 Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)								
Postretirement benefit obligations	7.2	2.7	2.7	2.7	0.8	(0.4)	(0.4)	--
Capitalized interest	--	--	--	--	1.0	(1.0)	(1.0)	(1.0)
Asset retirement obligations	3.5	--	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	4.7	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	29.2	--
Total adjustments	12.2	3.6	2.7	7.4	1.8	(0.5)	28.8	(0.4)

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	1,274.5	129.0	128.1	92.7	43.9	61.4	90.6	167.1

*ITC Holdings Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of June 26, 2007)*	
ITC Holdings Corp.	
Corporate Credit Rating	BBB/Positive/--
Senior Unsecured	
Local Currency	BBB-
Corporate Credit Ratings History	
22-Sep-2006	BBB/Positive/--
12-May-2006	BBB/Watch Neg/--
21-Mar-2005	BBB/Stable/--
07-Jul-2004	BBB/Negative/--
02-Jul-2003	BBB/Stable/--
Business Risk Profile	**1** **2** 3 4 5 6 7 8 9 10
Financial Risk Profile	Highly leveraged
Related Entities	
International Transmission Co.	
Issuer Credit Rating	BBB/Positive/--
Senior Secured	
Local Currency	BBB+
Michigan Electric Transmission Co	
Issuer Credit Rating	BBB/Positive/--
Senior Secured	
Local Currency	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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