

STATE OF ILLINOIS

BEFORE THE ILLINOIS COMMERCE COMMISSION

Interstate Power and Light :
Company and ITC Midwest LLC :
:
Joint Petition For Approval Of :
Sale of Utility Assets Pursuant To :
Section 7-102; Transfer of : Docket No. 07-0246
Franchises, Licenses, Permits or :
Rights to Own Pursuant to :
Section 7-203; Transfer of :
Certificates of Convenience and :
Necessity Pursuant to Section 8- :
406; Approval of the :
Discontinuance of Service :
Pursuant to 8-508; and the :
Granting of All Other Necessary :
and Appropriate Relief. :

ITC Midwest Exhibit PAW 7.8

OFFICIAL FILE

I.C.C. DOCKET NO. 07-0246
Joint Pet Exhibit No. 7.8
Witness _____
Date 7/26/07 Reporter _____



Moody's Investors Service

Global Credit Research
Announcement
22 JAN 2007

Announcement: ITC Holdings Corp.

Moody's Affirms ITC Holdings' Ratings; Outlook Remains Stable

Approximately \$1.26 billion of Debt Securities Affected

New York, January 22, 2007 – Moody's Investors Service has affirmed the ratings of ITC Holdings (Baa3 senior unsecured), International Transmission Company (ITC Transmission, A3 senior secured), and Michigan Electric Transmission Company (METC, A3 senior secured). The rating outlook continues to be stable for all three issuers.

The affirmation of the ratings considers the announcement on January 19th that ITC Holdings has signed a definitive agreement to acquire the transmission assets of Interstate Power & Light Company (IP&L) in an all cash transaction worth approximately \$750 million. ITC is expected to own and operate IP&L's transmission assets, which are located in Iowa, parts of Minnesota and Illinois, under a newly created and separate subsidiary called ITC Midwest following the closing of the acquisition. The transaction requires the approval of the state regulatory commissions of Iowa, Illinois and Minnesota as well as the Federal Energy Regulatory Commission (FERC).

The rating affirmation and stable outlook reflect Moody's expectation that ITC's overall business risk profile will improve due to the increased scale and geographic diversification ITC's transmission operations across the Midwest. Additionally, the acquired assets are expected to benefit from the same formula tariff structure currently in place for both International Transmission Company and METC. ITC's existing transmission assets and IP&L's transmission assets are part of the Midwest Independent System Organization (MISO) and benefit from the annually resetting 'Attachment O' formula tariff mechanism approved by the FERC.

The Midwest assets are expected to add approximately \$400 million to \$425 million to ITC's existing approximately \$1 billion of rate base. As such, the rating affirmation reflects Moody's expectation that the consolidated ratio of adjusted funds from operations (FFO) to debt will remain within a 10% to 12% range and the adjusted FFO to interest ratio will remain within a 2.8x to 3.0x range on a pro forma basis beginning in 2008, immediately following the expected closing of the acquisition in late 2007. These ratios of pro forma consolidated FFO to debt and FFO to interest are consistent with credit ratios for a Baa3 senior unsecured rating for a pure electric transmission company whose business risk profile is in the upper third of the low business risk category as defined in Moody's published rating methodology for global regulated electric utility companies. The risk position of the pro forma consolidated entity reflects the relatively low operating risk for a pure transmission company, characterized by the effective monopoly of the transmission business, and supportive FERC tariffs that underpin reliable and consistent cash flow.

The ratings affirmation and stable outlook further assume that the balance sheets of both ITC Transmission and METC will be unaffected by the proposed transaction and maintained in accordance with the approximately 40% debt and 60% equity target capital structure accepted by the FERC under its previous rate filings. Moody's anticipates that the company will also manage ITC Midwest's capital structure close to this level.

The affirmation of the ratings is contingent upon the expectation that the company will execute its stated financing plan, particularly the proposed issuance of approximately 30% of the \$750 million acquisition consideration through the issuance of new equity. The affirmation of the ratings also reflects the expectation that ITC Holdings will not be issuing more than approximately \$540 million of additional debt to finance the acquisition and that a portion of the acquisition related debt will be placed at the new operating company. Moody's notes that the failure to issue the proposed level of equity on a timely basis or an increase in the amount of leverage used to finance the transaction could result in a negative rating action.

Based in Novi, Michigan, ITC Holdings Corporation (ITC Holdings) is engaged in the electric transmission business serving distribution customers and independent power producing customers in the lower peninsula of Michigan, which includes a service territory that is approximately 26,000 square miles.

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