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9/4/07 CHS

Exhibit EMR 9.0

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
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.

Docket No. 07-0246

OFFICIAL FILE
I.C.C. DOCKET NO. 07-0246
Pet Exhibit No. 90-9.4
Witness _____
Date 9/4/07 Reporter _____

SURREBUTTAL TESTIMONY OF EDWARD M. RAHILL

I. INTRODUCTION

- 1 Q. Please state your name and business address.
- 2 A. My name is Edward M. Rahill. My business address is 39500 Orchard Hill Place,
- 3 Suite 200, Novi, Michigan 48375.
- 4
- 5 Q. By whom are you presently employed and in what capacity?
- 6 A. I am employed by ITC Holdings Corp. ("ITC Holdings"), a publicly traded
- 7 independent electric transmission company, as Senior Vice President and Chief
- 8 Financial Officer. In this position, I have responsibility for financial operations
- 9 and oversee accounting, financial reporting, treasury management, tax, and
- 10 planning and analysis functions for ITC Holdings and its subsidiaries, including

1 International Transmission Company ("ITC*Transmission*") and Michigan Electric
2 Transmission Company, LLC ("METC").
3

4 **Q. What is your educational background?**

5 A. I received a Bachelor of Business Administration degree from the University of
6 Notre Dame in 1975 and a Master of Business Administration degree, with a
7 Certification in Finance in 1978 and an additional Certification in Managerial
8 Economics in 1980, from the State University of New York at Buffalo.
9

10 **Q. Please describe your professional experience.**

11 A. Prior to my current position with ITC, I headed the Planning and Corporate
12 Development functions for DTE Energy Company and engaged in the
13 development and management of energy-related businesses and services in
14 Michigan including DTE's electric utility, gas utility, and non-utility operations.
15

16 My professional experience includes over 22 years in finance and accounting
17 with leading energy and Fortune 500 companies. In 1976, I was employed by
18 Carborundum Corporation in Niagara Falls, New York, as a Corporate
19 Accountant. I was responsible for the monthly close of that company's financial
20 statements and analysis of accounts. In 1978, I joined McGraw-Edison-
21 Worthington Group in Buffalo, New York as a Financial Analyst. From 1981-
22 1985, I was employed at Atlantic Richfield Company located in Rolling Meadows,
23 Illinois, and held various positions including Senior Financial Analyst, Integrated

1 Planning Manager, and Technology and Market Forecasting Specialist. From
2 1985 to 1990, I was employed at Bell & Howell Company in Evanston, Illinois,
3 and served as Vice President of Planning and Development where I was
4 responsible for developing and executing a comprehensive growth strategy for
5 that company. This included managing acquisitions, joint ventures, and the
6 strategic and planning functions. From 1990 to 1996, I was a Principal of EMR
7 Enterprises, an advisory firm whose major client was the Atlanta Chamber of
8 Commerce, and served as Program Director of the 1996 Centennial Olympic
9 Park Project until 1996. In 1996, I was employed by Equitable Resources
10 located in Pittsburg, Pennsylvania, where I served as Director of Mergers and
11 Acquisitions. My primary responsibilities included investment banking
12 relationship management, acquisition target identification, deal valuations,
13 negotiations, legal, tax, transaction structure, and due diligence.

14
15 **Q. What is the purpose of your surrebuttal testimony?**

16 A. I am testifying on behalf of ITC Midwest, addressing the only issue raised in the
17 Rebuttal Testimony of the Staff ("Staff") of the Illinois Commerce Commission
18 ("Commission"). On January 18, 2007, ITC Midwest LLC ("ITC Midwest"), a
19 newly formed subsidiary of ITC Holdings, entered into an Asset Sale Agreement
20 with Interstate Power and Light Company ("IPL") to acquire all of IPL's
21 transmission assets in Iowa, Minnesota, Illinois, and Missouri. I will generally
22 refer to the transmission sale as the "Transaction." My testimony specifically
23 responds to the Rebuttal Testimony of Staff Witness McNally (ICC Staff Exhibit

1 5.0) who questions the ability of ITC Holdings to maintain its investment grade
2 ratings after the Transaction is consummated.

3
4 **Q. Do you have any initial comments?**

5 A. Yes. While I address the issues raised by Mr. McNally, ITC Midwest remains
6 concerned that Staff continues to attempt to assert that the Commission has
7 jurisdiction over issues subject to exclusive regulation by the Federal Energy
8 Regulatory Commission ("FERC"). The Administrative Law Judge ("ALJ") has
9 made a ruling recognizing that certain issues are beyond the Commission's
10 jurisdiction, yet it appears that Staff is either disregarding or attempting an end-
11 run around that ruling. ITC Midwest also is concerned that, in Mr. McNally's
12 Rebuttal Testimony, Staff has proposed that the Commission indirectly regulate
13 an unregulated entity, ITC Holdings. Thus, while my testimony explores and
14 discusses these issues, it should be made very clear that nothing in my
15 testimony should be taken to suggest ITC Midwest is waiving any objection
16 related to Staff's proposals.

17
18 **II. RESPONSE TO STAFF WITNESS MCNALLY (STAFF EX. 5.0)**

19
20 **Q. Is there a legitimate basis for a concern that ITC Midwest cannot finance
21 the Transaction?**

22 A. No. ITC Midwest has provided ample evidence of its ability to finance the
23 Transaction in both the Joint Petition and in the direct and rebuttal testimony
24 submitted to date. Most notably, Mr. McNally does not take issue with the facts

1 recited in the Joint Petition or the testimony, including the Rebuttal Testimony of
2 Ms. Wenzel, who provided substantial evidence regarding the financial condition
3 of ITC Midwest and ITC Holdings and highlighted specific flaws in Mr. McNally's
4 original testimony.

5 Instead of examining the ability of ITC Midwest to consummate the
6 Transaction, Mr. McNally appears fixated upon the future financial condition of
7 the holding company, proposing that the Commission impose certain ongoing
8 conditions on ITC Midwest, based on the credit ratings or coverage ratios of ITC
9 Holdings. (ICC Staff Exhibit 5.0 at lines 37-56, 105-19.)

10 Although ITC Midwest believes that it has provided sufficient evidence, to
11 further address Staff's concerns around the financial strength and the future
12 credit ratings of ITC Midwest and ITC Holdings, I will present the Commission
13 with additional financial information that supports ITC Midwest's ability to acquire
14 and operate the IPL transmission assets. I also will address the proposed
15 conditions by Staff. Accordingly, I address each of Mr. McNally's specific
16 concerns below.

17
18 **Financial Strength of ITC Midwest and ITC Holdings**

19
20 **Q. Mr. McNally expresses concern that, even if ITC Midwest receives favorable**
21 **rate treatment from FERC, ITC Midwest will remain subject to the influence**
22 **of ITC Holdings. Is this true?**

23 **A.** Mr. McNally never actually explains with any degree of specificity what he means
24 by "influence." Of course, all subsidiary companies are subject to some level of
25 "influence" by its parent company, but to the extent that this is a "concern," the

1 concern is present with regard to all existing gas and electric utilities in Illinois –
2 including Alliant Energy's "influence" over IPL. Moreover, Mr. McNally still fails to
3 acknowledge the extensive rate regulation of ITC Midwest by the FERC. The
4 rate treatment approved for ITC Midwest by the FERC will include an approved
5 target capital structure for ITC Midwest that will have to be maintained. As
6 discussed in the Rebuttal Testimony of Ms. Wenzel and in ITC Midwest's FERC
7 application, ITC Midwest is seeking approval to target a capital structure made
8 up of 60% equity and 40% debt. (See Joint Petitioners' Exhibit PAW 7.0 at p.
9 11.) If ITC Midwest receives approval from the FERC to target this capital
10 structure, then ITC Holdings will provide the necessary equity to maintain this
11 capital structure. (See *Id.* at Table PAW 7.3) In addition, a capital structure of
12 60% equity and 40% debt is consistent with the capital structure targeted by
13 ITC *Transmission* and METC; both ITC Holdings and ITC Midwest are prepared
14 to operate under this structure.

15
16 **Q. How do you respond to Mr. McNally's concern regarding ITC Holdings'**
17 **ability to maintain investment grade credit ratings with its existing capital**
18 **structure?**

19 A. Without explanation, Mr. McNally has ignored the evidence presented regarding
20 the credit rating agencies' view of ITC Holdings, ITC Midwest, and the impact of
21 the Transaction.

22 Specifically, Mr. McNally does not and cannot deny the point made in Ms.
23 Wenzel's Rebuttal Testimony: ITC Holdings has maintained investment grade

1 ratings from both Standards & Poor's ("S&P") and Moody's Investor Services
2 ("Moody's") with its current capital structure. ITC Holdings maintains a business
3 risk rating of '2' (excellent) from S&P on a scale of '1' (excellent) to '10'
4 (vulnerable). In addition, Moody's and S&P reaffirmed the credit ratings of ITC
5 Holdings, ITC *Transmission*, and METC, which included a positive outlook by
6 S&P for all the companies, *after* the announcement of the proposed Transaction,
7 taking into account ITC Holdings' capital structure. Moody's indicated that "[t]he
8 affirmation of the ratings is contingent upon the expectation that [ITC Holdings]
9 will execute its stated financing plan, particularly the proposed issuance of
10 approximately 30% of the \$750 million acquisition through the consideration of
11 equity." (Joint Petitioners' Exhibit PAW 7.8.)

12 Mr. McNally's asserted concern apparently is based upon an unsupported
13 fear that under a FERC-approved target capital structure, at some unidentified
14 time in the future, some unidentified event might theoretically result in a
15 downgrade in the credit rating of ITC Holdings. However, Mr. McNally has
16 provided no basis for the Commission to question the uniform opinion of both
17 S&P and Moody's that ITC Holdings is investment grade and is expected to
18 remain investment grade. ITC Holdings is committed to maintaining its
19 investment grade credit ratings.

20
21 **Q. Why is ITC Holdings committed to maintaining investment grade credit**
22 **ratings?**

1 A. ITC Holdings expects continued investments in the transmission assets of its
2 subsidiaries. ITC Holdings must maintain its access to the capital markets in the
3 future in order to support this expected investment. Thus, ITC Holdings has a
4 clear motivation to maintain, and is committed to maintaining, its investment
5 grade credit ratings so that it can access the capital markets and obtain debt and
6 equity financings at optimal pricing.

7

8 **Q. How do the credit ratings of ITC Holdings and its regulated operating**
9 **subsidiaries compare to those of other utility holding companies and their**
10 **electric utilities in the State of Illinois?**

11 A. The credit ratings of ITC Holdings and its regulated operating subsidiaries
12 compare very favorably to other holding companies and their regulated operating
13 subsidiaries in the state of Illinois. Ms. Wenzel already has explained that ITC
14 Holdings' credit rating compares favorably to IPL's parent Alliant Energy. (See
15 Joint Petitioners' Exhibit PAW 7.0 at Table PAW 7.1.) In addition, Ms. Wenzel
16 also explained that ITC Holding's regulated operating subsidiaries',
17 ITC*Transmission* and METC, credit ratings compare favorably to IPL. (See Joint
18 Petitioners' Exhibit PAW 7.0 at Table PAW 7.2). Table EMR-1 below provides a
19 comparison of the S&P and Moody's credit ratings for ITC Holdings and its
20 regulated operating subsidiaries versus Ameren and Exelon and their regulated
21 operating subsidiaries within the state of Illinois.

22 In comparing the holding companies, the table demonstrates that both
23 Ameren and Exelon have Moody's credit ratings one notch stronger than ITC

1 Holdings. Exelon has the same "stable" Moody's outlook as ITC Holdings and
2 Ameren's Moody's outlook is currently on review for a possible downgrade in the
3 future.

4 However, the S&P credit ratings are more telling as they provide additional
5 detail with respect to their business risk profile. Once again, as the table
6 demonstrates, ITC Holdings has a slightly stronger S&P credit rating than
7 Ameren and a slightly weaker S&P credit rating than Exelon. Notably, the S&P
8 outlooks for Ameren and Exelon are both currently on negative watch while ITC
9 Holdings has a positive outlook. It is important to recognize that ITC Holdings
10 has a significantly stronger S&P business risk profile and a stronger S&P outlook
11 than any of the other holding companies.¹

12 In comparing the regulated operating subsidiaries, *ITC Transmission* and
13 *METC* both have one of the strongest ratings from S&P and Moody's. In
14 addition, *ITC Transmission* and *METC* have stronger outlooks from both S&P and
15 Moody's as all of the other companies are either under review for downgrade or
16 are under a negative watch. Once again, it is important to note that both
17 *ITC Transmission* and *METC* have a significantly stronger business risk profile
18 than all of the other regulated operating subsidiaries within the state of Illinois.
19 The capital structure of 60% equity and 40% debt, and other elements of the ITC
20 Midwest rate construct sought for approval with the FERC, will result in credit
21 ratings for ITC Midwest that are comparable to *ITC Transmission* and in turn ITC

¹ Ms. Wenzel presented unchallenged testimony regarding the importance of the business risk profile.
(See Joint Petitioners' Exhibit PAW 7.0 at pp. 18-23.)

1 Midwest will be one of the strongest rated regulated electric companies in Illinois
 2 by S&P and Moody's.
 3

4 **TABLE EMR 9.1**
 5 **Comparison of Credit Ratings of ITC Holdings, Ameren and Exelon and Subsidiaries**

Company	Credit Rating		Outlook		S&P Business
	Moody's	S&P	Moody's ²	S&P ³	Position
ITC Holdings Corp.	Baa3	BBB	Stable	Positive	2
ITC Transmission	A3	BBB+	Stable	Positive	2
METC	A3	BBB	Stable	Positive	2
Ameren Corp.	Baa2	BBB-	On Review	Neg. Watch	7
Central Illinois Light Co.	Ba1	BB	On Review	Neg. Watch	8
Central Illinois Public Service Co.	Ba1	BB	On Review	Neg. Watch	8
CILCORP Inc.	Ba1	BB	On Review	Neg. Watch	8
Illinois Power Co.	Ba1	BB	On Review	Neg. Watch	8
Union Electric Co.	Baa1	BBB-	Negative	Neg. Watch	5
Exelon Corp.	Baa2	BBB+	Stable	Neg. Watch	7
Commonwealth Edison Co.	Ba1	BBB+	On Review	Neg. Watch	8

6

² According to the Moody's Rating Symbols and Definitions, dated March 2007, "A Moody's rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV – contingent upon an event)." (Moody's Rating Symbols and Definitions, dated March 2007 at page 50, a copy of the Moody's rating Symbols and Definitions is attached as Exhibit EMR 9.2). "Moody's uses the Watchlist to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for downgrade (DNG), or more rarely with direction uncertain (UNC)." (*Id.*)

³ According to the S&P Corporate Rating Criteria for 2006, "A ratings outlook is assigned to all long-term debt issuers and assesses the potential for a rating change. Outlooks have a longer time frame than CreditWatch listings – typically, two years – and incorporate trends or risks with less certain implications for credit quality." (S&P Corporate Rating Criteria 2006 at page 15, a copy of the S&P Corporate Rating Criteria is available at the S&P web site (www.corporatecriteria.standardandpoors.com)). In addition, S&P "recognizes the potential for future performance to differ from initial expectations. Ratings outlooks and CreditWatch listings address this possibility by focusing on the scenarios that could result in a rating change. Ratings appear on CreditWatch when an event or deviation from an expected trend has occurred or is expected, and additional information is necessary to take a rating action" (*Id.* at 14.).

1 **Q. Has ITC Holdings' been successful in obtaining debt and equity financing**
2 **historically?**

3 A. Yes. ITC Holdings has been successful in every debt and equity financing effort
4 to date, totaling \$1.5 billion of debt issuances and \$380 million of equity offerings.
5 As recently as August of 2007, ITC Holdings successfully completed a private
6 debt placement of \$100 million.

7

8 **Proposed Conditions**

9 **Q. What conditions has Staff proposed to impose upon ITC Midwest?**

10 A. Staff has proposed two alternative conditions that would restrict ITC Midwest's
11 ability to issue a dividend: (1) an original proposal tied to ITC Holdings' credit
12 rating; and (2) an alternative proposal tied to an ITC Holdings' coverage ratio.

13

14 **Q. Please describe Staff's original proposed condition that is tied to ITC**
15 **Holdings' credit ratings.**

16 A. Staff's original proposed condition would prohibit ITC Midwest from paying a
17 dividend, or otherwise transferring cash to ITC Holdings, if ITC Holdings receives
18 an issuer credit rating of BB+ or lower from S&P or Ba1 or lower from Moody's.
19 (See ICC Staff Exhibit 5.0 at lines 37-56.) This condition would remain in place
20 for five (5) years⁴ following the close of the Transaction; however, if ITC Holdings
21 were to fall below investment grade at any time during the five-year period, the

⁴ Staff's data request to ITC Midwest inquired whether ITC Midwest would agree to such a provision for a three (3) year period. (See ITC Midwest Response to Staff Data Request 4.01, attached hereto as Exhibit EMR 9.3.) Mr. McNally offers no explanation as to why he now advocates for a five (5) year period.

1 condition would be extended an additional five years from such time as ITC
2 Holdings regains investment-grade issuer credit ratings from both S&P and
3 Moody's. (*Id.*)
4

5 **Q. Please describe Staff's alternative proposed condition that is tied to an ITC**
6 **Holdings' coverage ratio.**

7 A. Staff's alternative proposed condition would prohibit the declaration of and
8 payment of dividends by ITC Midwest, or otherwise transferring cash to ITC
9 Holdings or any of its affiliates, if ITC Holdings' funds from operations or "FFO"
10 coverage ratio falls below 2 to 1. (See ICC Staff Exhibit 5.0 at lines 105-19.)
11 The prohibition would continue until such time as ITC Midwest is able to
12 demonstrate to the Commission's satisfaction that ITC Holdings has re-
13 established an FFO coverage of 2 to 1 or greater or that such payment would
14 meet the conditions set forth in Section 7-103(2) of the Act. (*Id.*)
15

16 **Q. Is either condition acceptable to ITC Midwest?**

17 A. No. Mr. McNally's proposed conditions are unacceptable for a number of
18 reasons. First, the proposed conditions by Staff are an indirect attempt to try to
19 regulate an unregulated entity, ITC Holdings, through a regulated entity, ITC
20 Midwest. Second, if ITC Midwest's ability to pay dividends was restricted, ITC
21 Midwest may not be able to maintain its approved FERC capital structure,
22 contrary to FERC requirements. Third, as indicated to the Commission, ITC
23 Midwest understands that credit rating agencies such as S&P and Moody's take

1 a negative view of automatic triggers that are based upon credit ratings. As a
2 result, adoption of Mr. McNally's proposed credit ratings condition could have the
3 consequence of increasing the likelihood of a ratings action or downgrade at ITC
4 Holdings, which in turn likely will result in higher rates to the customers of ITC
5 Midwest. Ironically, to the extent that Mr. McNally is concerned about the
6 financial strength of ITC Holdings, the imposition of either of his proposed
7 conditions could become a self-perpetuating situation. Mr. Bodmer provides
8 more details on these points in his surrebuttal testimony.

9
10 **Q. How do you respond to Mr. McNally's assertion that without any controls,**
11 **such as those proposed by Staff, ITC Holdings would have unrestricted**
12 **access to ITC Midwest's funds, including funds that would otherwise be**
13 **used to pay expenses incurred to maintain service quality at a reasonable**
14 **level?**

15 **A.** The conditions proposed by Staff have no impact on the ability of ITC Midwest to
16 maintain service quality at a reasonable level. ITC Midwest's ability to provide
17 quality service has never been in question. Mr. Jipping provided un-rebutted
18 evidence of the historical service quality of ITC *Transmission* and METC, and the
19 commitment of ITC Holdings to have ITC Midwest provide the same reliable
20 service. (See ITC Midwest Exhibit JEJ 4.0 at pp. 7-11.) Indeed, the direct
21 testimony of Staff witness Linkenback concluded that ITC Midwest will provide
22 quality service.

23 ITC Midwest demonstrated that its parent company ("ITC Holdings
24 Corp."), through its existing subsidiaries, has experience operating

1 electric transmission systems and maintaining and adequately funding
2 electric transmission systems, and has better than average reliability
3 when compared to its peers.
4

5 (ICC Staff Exhibit 3.0 at lines 93-97; *see also id.* 98-113.) In summary, ITC
6 Midwest has provided more than sufficient evidence that ITC Midwest will
7 maintain a service quality at more than a reasonable level and any future
8 financing concerns are FERC jurisdictional.

9 In addition, Staff is under the false impression that there are no controls
10 over ITC Midwest and that ITC Holdings is free to do as it pleases with ITC
11 Midwest. ITC Midwest will be regulated by the FERC with respect to rates. One
12 component of the rate is ITC Midwest's capital structure. As discussed above,
13 ITC Midwest is currently seeking approval from the FERC to target a capital
14 structure of 60% equity and 40% debt. Once again, it is unclear to me how Mr.
15 McNally can say that there are no controls in place when the company's rates
16 are regulated by the FERC.
17

18 **Q. How do you respond to Mr. McNally assertion that ITC Holdings' indenture**
19 **filed with the Securities and Exchange Commission indicates that ITC**
20 **Holdings' subsidiaries are not allowed to issue debt if ITC Holdings'**
21 **consolidated FFO credit ratio, after giving effect on a pro forma basis to**
22 **such incurrence of such indebtedness and the use of the proceeds thereof,**
23 **falls below 2 to 1?**

24 **A.** It is unclear why or when Mr. McNally sought out a copy of that SEC-filed
25 document; it is not part of the evidentiary record in the instant proceeding, and

1 there is no testimony referencing that document because it is not relevant to this
2 Transaction. Although it is a publicly available document, Mr. McNally previously
3 stated that he did not review any documents other than those provided by Joint
4 Petitioners and those cited in his direct testimony. (See Staff Response to ITC
5 Midwest Data Request 1.1 attached hereto as Exhibit EMR 9.1.) In any event,
6 Mr. McNally has not accurately described this indenture.

7
8 **Q. Please explain how Mr. McNally has misinterpreted the indenture.**

9 A. Mr. McNally's reference to the indenture overlooks an important detail with
10 respect to the FFO credit ratio. Mr. McNally incorrectly asserts categorically that
11 ITC Holdings' cannot issue debt if ITC Holding's FFO coverage ratio falls below 2
12 to 1. The specific covenant referenced by Staff in Section 10.8 is entitled
13 Limitation on Incurrence of Debt. That covenant only restricts the ability of ITC
14 Holdings and its subsidiaries to issue debt **other than "Permitted**
15 **Indebtedness,"** as defined within the indenture. Permitted Indebtedness
16 includes a whole list of things, one of which is indebtedness incurred by its
17 subsidiary that is not prohibited by applicable legal and regulatory requirements,
18 including the rules and the regulations of the FERC. In other words, if the FERC
19 approves the issuance of the debt, then the covenant is of no effect. Only if the
20 debt to be issued does not meet the definition of Permitted Indebtedness must
21 ITC Holdings meet the coverage ratio test described by Mr. McNally. Of course,
22 Mr. McNally's proposed coverage ratio condition does not contain a similar
23 exception.

1 In addition, it is important to understand the operating environment of ITC
2 Holdings at the time it entered into this indenture. ITC Holdings owned one
3 operating subsidiary, ITC *Transmission*, which was under a rate freeze. Since
4 this indenture, ITC *Transmission* emerged from the rate freeze and ITC Holdings
5 acquired another operating subsidiary, METC. Due to these changes since the
6 inception of the indenture, ITC Holdings would not accept this covenant in any
7 financings that it would currently pursue.

8
9 **Q. Do you have any other observations related to Mr. McNally' proposed
10 coverage ratio condition?**

11 A. Yes. At base, Mr. McNally's coverage ratio proposal is little more than an
12 attempt to have Section 7-103 of the Public Utilities Act ("Act") apply to ITC
13 Midwest. Thus, this appears to be an overt attempt to circumvent the ALJ's
14 ruling regarding the proper scope of the Commission's jurisdiction. Indeed, Mr.
15 McNally seems to recognize that, under the ALJ's ruling, Section 7-103 of the Act
16 does not apply to ITC Midwest; if it did apply, ITC Midwest's ability to issue a
17 dividend without Commission approval already would be restricted.

X Appears
to
ITC

18
19 **Q. Has ITC Midwest proposed any alternative conditions to Staff that would be
20 acceptable to ITC Midwest?**

21 A. Yes. In an attempt to address what ITC Midwest understands to be Staff's
22 underlying concern, while preserving its objection to the Commission attempting
23 to assert jurisdiction over the on-going financial condition of ITC Midwest and/or

1 ITC Holdings, ITC Midwest would be willing to accept the following alternative
2 condition:

3 In FERC Docket Nos. ER07-89-000 and ER07-887-000, ITC Midwest
4 has proposed the FERC approve a capital structure targeting 60%
5 equity and 40% debt. ITC Midwest shall continue to advocate for the
6 60%/40% ratio of equity and debt, respectively, and assuming FERC
7 approval, ITC Midwest shall maintain a ratio of equity to total capital of
8 not less than 60% for three (3) years following the close of the
9 transaction. The calculation will be based on the FERC Form 1
10 financial statements, and therefore will exclude any goodwill that is on
11 ITC Midwest's GAAP financial statements at the time the Transaction
12 closes. In addition, if ITC Holdings, ITC Midwest or any of ITC
13 Holdings affiliates' ratings are placed on credit watch or given a credit
14 downgrade, ITC Midwest will inform Staff of the Illinois Commerce
15 Commission within ten (10) business days. Finally, ITC Midwest would
16 commit to maintain a reasonable cash reserve balance for a period of
17 three (3) years after the date of closing of the Transaction, at a level to
18 be reasonably agreed upon by ITC Midwest and Staff of the Illinois
19 Commerce Commission not to exceed \$10 million.
20

21 ITC Midwest believes that its proposed alternative condition would produce
22 additional safeguards, structure, and protection for customers. ITC Midwest
23 would not be able to pay dividends to the extent the equity to total capital would
24 drop below 60%. If earnings are not sufficient to maintain the ratio, ITC Holdings
25 would need to infuse equity into ITC Midwest in the form of cash. Finally, the
26 cash reserve balance protects against any fears that ITC Holdings would be
27 unable or unwilling to infuse such equity.
28

29 **Q. Please summarize your conclusions.**

30 A. ITC Midwest has provided ample evidence of its ability to finance the Transaction
31 in both the Joint Petition and in the direct and rebuttal testimony, and Mr. McNally
32 does not take issue with the facts presented to date. Rather, Mr. McNally

1 appears fixated upon the future financial condition of ITC Holdings, proposing
2 that the Commission impose certain ongoing conditions on ITC Midwest, based
3 on the credit ratings or coverage ratios of ITC Holdings.

4 Mr. McNally's proposed conditions should be rejected in whole for a
5 number of reasons. First, both proposed conditions are an indirect attempt to try
6 to regulate an unregulated entity, ITC Holdings, through ITC Midwest, an entity
7 subject to regulation by both the Commission and the FERC (although subject to
8 exclusive FERC jurisdiction on certain items that Mr. McNally's proposed
9 conditions apparently seek to address). Second, the adoption of either of the
10 conditions would preclude ITC Midwest's ability to maintain its approved FERC
11 capital structure, contrary to FERC requirements. Third, the adoption of Mr.
12 McNally's proposed credit ratings condition could have the consequence of
13 increasing the likelihood of a ratings action or downgrade at ITC Holdings, which
14 in turn likely will result in higher rates to the customers of ITC Midwest.

15 In short Mr. McNally's proposed conditions impinge upon areas subject to
16 exclusive regulatory jurisdiction of the FERC, and, ironically, threaten to harm
17 ITC Holdings' financial condition without providing any off-setting benefit to
18 ratepayers or any other person or entity.

19
20 **Q. Does this conclude your prepared surrebuttal testimony?**

21 **A. Yes.**

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Interstate Power and Light Company :
and ITC Midwest LLC :

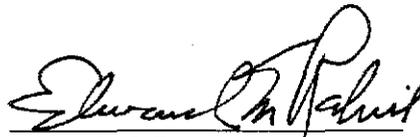
Joint Petition For Approval Of Sale of :
Utility Assets Pursuant To Section 7- :
102; Transfer of Franchises, Licenses, :
Permits or Rights to Own Pursuant to :
Section 7-203; Transfer of Certificates :
of Convenience and Necessity :
pursuant to Section 8-406; Approval :
of the Discontinuance of Service :
Pursuant to 8-508; and the Granting :
of All Other Necessary and :
Appropriate Relief. :

Docket No. 07- 0246

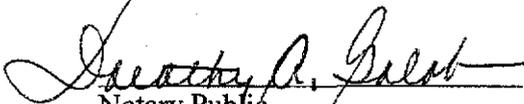
VERIFICATION OF EDWARD M. RAHILL

STATE OF MICHIGAN)
) SS
COUNTY OF OAKLAND)

Edward M. Rahill, being duly sworn, states that he has read the response of ITC Midwest LLC to Staff Data Request 4.01, and the answer made therein is true and correct to the best of his knowledge and belief.


Edward M. Rahill

Subscribed and sworn to before me
This 10th day of August 2007.


Notary Public

Dorothy A. Golob, Notary Public
State of Michigan, County of Oakland
My Commission Expires 10/21/2010
Acting in the County of Oakland