

**BEFORE THE**

**MISSOURI PUBLIC SERVICE COMMISSION**[illegible]

## DIRECT TESTIMONY AND EXHIBITS

OF

JOSEPH L. WELCH

**ON BEHALF OF ITC MIDSOUTH LLC**

**APRIL 2013**

ITC Exhibit No. 7  
Date 6-18-13 Reporter XF  
File No. EO-2013-0396

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## **EXHIBIT LIST**

**Exhibit JLW-1**

**ITC Holdings Corp. Policy on Independence**

I. **INTRODUCTION**

A. **Qualifications**

**Q54. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Joseph L. Welch. My business address is 27175 Energy Way, Novi, Michigan 48377.

**Q55. BY WHOM ARE YOU PRESENTLY EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by ITC Holdings Corp. ("*ITC*") as President and Chief Executive Officer ("*CEO*").

**Q56. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS PRESIDENT AND CEO OF ITC.**

A. As CEO of ITC, I am responsible—directly or indirectly—for the overall strategic direction, vision, and all operational aspects of ITC's holding company and its subsidiaries. ITC is the nation's first, largest and only publicly-traded independent transmission company. ITC's four transmission company subsidiaries that own transmission assets are International Transmission Company, d/b/a *ITCTransmission* ("*ITCT*"), Michigan Electric Transmission Company, LLC ("*METC*"), ITC Midwest LLC ("*ITCMW*"), and ITC Great Plains, LLC ("*ITCGP*"). I am testifying on behalf of applicant ITC Midsouth LLC, ITC's fifth subsidiary that will own additional operating subsidiaries that in

1           turn will own transmission assets as described further in my testimony. ITC  
2           Midsouth is a limited liability company organized and existing under the laws of  
3           the State of Delaware.

4   **Q57. WHAT ARE YOUR EDUCATIONAL BACKGROUND AND**  
5   **PROFESSIONAL CREDENTIALS?**

6   A.    I have a Bachelor of Science degree in Electrical Engineering from the University  
7           of Kansas. I am also a licensed Professional Engineer in the State of Michigan.

8  
9   **Q58. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

10   A.   Prior to working for ITC, I had a thirty-two year career at Detroit Edison  
11           Company ("*Detroit Edison*"), where I held positions of increasing responsibility  
12           in the areas of electric transmission, electric distribution, rates for service, load  
13           research, marketing, pricing and regulatory affairs. Immediately prior to founding  
14           ITCT, I was serving as Director of Transmission, where I led Detroit Edison's  
15           electric transmission area, the development of a business plan for the company's  
16           transmission system, and the resulting formation of ITCT. I was also a member of  
17           the CEO's corporate strategy team and the Management Council, responsible for  
18           implementation of corporate strategy.

19           While at Detroit Edison, I was active with Regional Transmission  
20           Organization ("*RTO*") formation and integration. For six years I led Detroit

Edison's initial efforts to form the Alliance RTO,<sup>1</sup> and then the integration of its transmission assets (by that time owned by its subsidiary ITCT) into Midwest Independent Transmission System Operator ("*MISO*"). Therefore, my testimony is based on my thirty-two years of working for a vertically-integrated utility, including six years of working at the vertically-integrated utility to establish and integrate into an RTO, and now nine years of running an independent transmission company. Based on this experience, I wrote a book in 2009 called "Competitive Electricity Markets: The Power of Choice" with my co-author C.J. Bolling about the importance of wholesale competition in electricity markets to provide lower prices for retail customers and the role of the transmission grid in facilitating the greatest possible market liquidity.

**Q59. ARE YOU OR HAVE YOU BEEN A MEMBER OF ANY ORGANIZATIONS OR WORKING GROUPS?**

**A.** Yes. I am involved in several business groups locally and nationally as a board member or advisor. For instance, I am a Director and the current Vice Chair on the Board of the Detroit Regional Chamber of Commerce and will serve as Chair of the 2013 Mackinac Policy Conference. This conference brings together more than 1,500 attendees from business, government, entrepreneurs, and regional champions from across Michigan to discuss challenges and opportunities for

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<sup>1</sup> The Alliance RTO members were Ameren, Consumers Energy, Detroit Edison, Exelon, First Energy, American Electric Power, and Virginia Power. The original proposal for an owner/operator Transco model was filed in June 1999 but ultimately was not approved by FERC.

1 success and establish a list of to-do's for the coming year to make the region and  
2 the state more competitive. I am also on the Boards of Directors for the Detroit  
3 Economic Club and Lotus Bank, where I serve as Chair of the Compensation  
4 Committee.

5 In addition, I am a member of the Business Roundtable, a national  
6 organization that brings together CEOs from various industries to play a  
7 leadership role in developing policies that expand economic opportunity for all  
8 Americans and am on the Energy and Environment Committee.

9 I have also participated in government policy groups like the Great Lakes  
10 Wind Council created by former Michigan Governor Jennifer Granholm which  
11 was an advisory body to examine issues and make recommendations related to  
12 offshore wind development in Michigan.

13 Finally, because I believe it is important to train more of our nation's  
14 students to become talented engineering professionals, I serve on the Advisory  
15 Board for the College of Engineering at the University of Kansas.

16  
17 **Q60. HAVE YOU PROVIDED TESTIMONY IN PRIOR PROCEEDINGS**  
18 **BEFORE ANY STATE COMMISSIONS?**

19 **A.** I testified in numerous cases while I was an employee of Detroit Edison, which I  
20 am not listing here. More recently and relevant to this proceeding, on behalf of  
21 ITC, I testified in the following cases:

- 1           • Iowa: In Re: Interstate Power and Light Company and ITC Midwest, LLC;  
2           IUB Docket No. SPU-07-11.
- 3           • Minnesota: In the Matter of the Joint Petition for Approval of Transfer of  
4           Transmission Assets of Interstate Power and Light Company to ITC  
5           Midwest LLC, MPUC Docket No. E-001/PA-07-540.
- 6           • Illinois: Interstate Power and Light Company and ITC Midwest LLC; ICC  
7           Docket No. 07-0246.
- 8           • Additionally, I am sponsoring testimony before the Federal Energy  
9           Regulatory Commission ("FERC") and am testifying in Texas, Louisiana  
10          and New Orleans, Arkansas, and Mississippi regarding the transaction that  
11          is the subject of this proceeding.

12  
13   **Q61. HAVE YOU PROVIDED TESTIMONY IN PRIOR PROCEEDINGS**  
14   **BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION**  
15   **("FERC")?**

16   **A.**   Yes. Again, I testified in several FERC cases while an employee of Detroit  
17   Edison. Most recently and relevant to this proceeding, on behalf of ITC, I  
18   testified in the following cases: Docket Nos. EL02-111; ER03-343 and EC03-40;  
19   ER06-1006; ER07-95; EC07-89 and ER07-887.

20

21   **Q62. HAVE YOU TESTIFIED BEFORE CONGRESS?**

22   **A.**   Yes. In the last three years I have testified twice before the House Energy and  
23   Commerce Subcommittee on Energy and Power. I also testified once before the

Senate Energy and Natural Resources Committee on energy policy and legislation  
and on FERC Order No. 1000.

**B. Purpose and Summary of Testimony**

**Q63. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. On December 4, 2011, Entergy Corporation, the Entergy Operating Companies, and ITC entered into agreements under which Entergy Arkansas, Inc. (“EAI”) and the other Entergy Operating Companies<sup>2</sup> will separate and then merge their electric transmission businesses into ITC’s corporate structure.<sup>3</sup> I will generally refer to this separation and merger, collectively, as the “*ITC Transaction*” or “*Transaction*.”

This is a multi-state transaction, involving Entergy Corporation’s electric transmission businesses operating in Arkansas, Louisiana, Mississippi, Texas, the City of New Orleans, and a small portion of Missouri. The Transaction is subject to regulatory approval requirements in each of these jurisdictions, as well as the FERC. The purpose of my testimony is to support the joint application submitted by ITC and EAI seeking approval of the Transaction. In addition, I also support the application of Transmission Company Arkansas LLC (or as I refer to it in my

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<sup>2</sup> The other Entergy operating companies are Entergy Louisiana, LLC (“ELL”), Entergy Gulf States Louisiana, L.L.C. (“EGSL”), Entergy Mississippi, Inc. (“EMI”), Entergy New Orleans, Inc. (“ENO”), and Entergy Texas, Inc. (“ETI”). All of Entergy’s operating companies are referred to collectively as the “Entergy Operating Companies”.

<sup>3</sup> Publicly available at:  
<http://www.sec.gov/Archives/edgar/data/1317630/000119312511332173/0001193125-11-332173-index.htm>.



testimony "ITC Arkansas") to be recognized and certificated as a public utility in Missouri.

**Q64. CAN YOU PROVIDE A BRIEF OVERVIEW OF THE TRANSACTION?**

A. Yes. This is explained in more detail in the direct testimonies of ITC witness Mr. Cameron Bready. Generally, the terms of the Transaction call for each Entergy Operating Company to transfer its transmission assets into a separate wires subsidiary ("Wires Sub"), and for the Wires Subs to be owned under a separate subsidiary of Entergy Corporation, "Mid South TransCo, LLC" (hereinafter "Mid South TransCo"). In Missouri, the Wire Sub will be Transmission Company Arkansas, LLC which ITC will rename post-closing of the Transaction as ITC Arkansas LLC ("ITC Arkansas").<sup>4</sup> The ownership of Mid South TransCo<sup>5</sup> then will be distributed to the shareholders of Entergy Corporation in the form of a tax-free spin-off. Mid South TransCo then will merge with the newly-created subsidiary of ITC, ITC Midsouth LLC, with Mid South TransCo being the surviving entity but owned by ITC as part of its corporate family. In connection with the Transaction, the ownership interests of Mid South TransCo held by shareholders of Entergy Corporation will convert into shares of ITC common stock. As witness Bready explains, this entire set of corporate actions is called a Reverse Morris Trust ("*RMT*") transaction and is more easily understood as a

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<sup>4</sup> For consistency and because ITC will change the name of Transmission Company Arkansas LLC to ITC Arkansas LLC post-closing, I will simply refer to Transmission Company Arkansas, LLC in my testimony as "ITC Arkansas."

<sup>5</sup> Note: In the Merger Agreement, these are referred to as "TransCo Common Units".

1           “spin-merge” transaction. As part of this RMT structure, the merger phase will  
2           result in shareholders of Entergy Corporation receiving shares that amount to 50.1  
3           percent of ITC Holdings Corp. at closing of the Transaction.

4  
5   **Q65. IN SUMMARY, WHAT WILL YOUR TESTIMONY ADDRESS?**

6   **A.**   My testimony explains that the Transaction serves the public interest and should  
7           be approved. With this Transaction, ownership of the transmission business of  
8           each Entergy Operating Company will move to ITC – a fully independent  
9           transmission company. As a result, wholesale and retail customers and other  
10          stakeholders in the mid-South region will benefit from ITC’s superior business  
11          model for owning and operating transmission systems. In my view, the  
12          Transaction is critical to developing a robust, highly interconnected electric grid  
13          that will efficiently and effectively meet this region’s future electrical energy  
14          needs, and to further integrating the Entergy Operating Companies’ transmission  
15          systems into the national energy grid that is being developed. This opportunity  
16          for customers should not be lost.

17               My testimony is organized into the following parts:

- 18               • First, I discuss the evolution of the electric industry and, given that  
19               evolution, how electric transmission must be viewed and addressed in  
20               a new way to unlock the full benefits of a robust and fully-capable  
21               grid. I believe this context is helpful in understanding the importance  
22               of this Transaction.

- 1                   • Second, I describe ITC and its business model. I explain what it  
2                   means to be an independent transmission company, the impact of such  
3                   independence, and how we run our company as a fully-independent  
4                   transmission company. In describing ITC's business model, I also will  
5                   highlight the benefits ITC will bring to Missouri and the mid-South  
6                   region, which include: 1) ownership and operation of the transmission  
7                   system by a company structured to ensure independent business  
8                   decisions that drive value for all customers and treat all generators  
9                   equally in all aspects; 2) operational excellence in transmission system  
10                  performance, which results from a singular focus on transmission; 3) a  
11                  regional approach to identifying the most effective transmission  
12                  solutions and supporting more robust competitive wholesale power  
13                  markets, which ultimately benefits customers; and 4) full dedication of  
14                  capital and resources to the transmission system by a financially strong  
15                  and capable company.
- 16                 • Third, I discuss in more detail why the Transaction makes sense and is  
17                  in the public interest. I explain further how the Transaction benefits  
18                  customers and stakeholders in Missouri and the region, and discuss  
19                  some practical matters related to post-Transaction operations of ITC.

20

21   **Q66. ARE YOU SPONSORING ANY EXHIBITS AS PART OF THIS FILING?**

22   **A.**     Yes. In support of my testimony, I am sponsoring the following exhibits:

**Exhibit JLW-1: ITC Holdings Corp. Policy on Independence**

**II. OVERVIEW AND VISION FOR THE ELECTRIC TRANSMISSION  
INDUSTRY**

**Q14. ARE YOU FAMILIAR WITH THE HISTORY AND DEVELOPMENT OF  
THE ELECTRICITY INDUSTRY IN THE UNITED STATES?**

**A.** Yes. I have spent my entire 41 year career in the electric utility industry, and I have observed and been part of an incredible evolution that is still underway. Vertically-integrated electric utilities (that provide generation, distribution, and transmission service) became a dominant model for providing electric service in the early days of the industry. Today, there are over 220 investor-owned utilities, approximately 900 cooperative utilities, and approximately 2,000 publicly-owned municipal utilities operating their own systems for providing electric service to end-use consumers.<sup>6</sup>

For decades, electric transmission systems were developed and used by utilities in a balkanized fashion to serve local systems and an established customer base. While this model was used in the past, it will not be sufficient (let alone optimal) to meet the energy challenges of the future. Power is now brokered across multiple states and is increasingly integral to maintaining our technology-driven lifestyles. The price and availability of generation resources are in flux and pressure from growing global markets make the future energy mix uncertain.

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<sup>6</sup> See <http://www.nreca.coop/members/Co-opFacts/Pages/default.aspx>.

1 At the same time, the drive for more sustainable resources make it important to  
2 access more diverse forms of electric generation. These other forms – like  
3 renewables – are often located far distances from where electric service is needed  
4 by many businesses and homes. Mandatory grid reliability standards are in place,  
5 with new and revised standards still under development and becoming more  
6 stringent, and financial penalties are being assessed for non-compliance. All of  
7 these challenges will require investment in the nation’s energy infrastructure. In  
8 order to meet these future needs, the way we view the transmission grid must  
9 evolve.

10  
11 **Q15. WHAT DO YOU MEAN WHEN YOU SAY “THE WAY WE VIEW THE**  
12 **TRANSMISSION GRID MUST EVOLVE”?**

13 **A.** The electric transmission grid needs to be the strong backbone of our system for  
14 delivering power to customers. It can (and in my view must) tie local electric  
15 utility systems together, make more generation sources available to load, and  
16 vice-versa, and make the whole system stronger and more reliable. Without a  
17 strong grid, however, electricity service will continue to be provided through a  
18 less effective, less efficient, and less reliable patchwork of local systems. The  
19 2003 Northeast Blackout, for example, showed in real terms how local electricity  
20 customers are affected by the regional grid, where failure by one company to  
21 properly maintain and operate its transmission system ultimately allowed an event

1       that started with a single line tripping out of service to cascade to 50 million  
2       people throughout eight U.S. states and Ontario, Canada.

3               To drive full value and capability for each end-use customer, we must  
4       view electric transmission as part of building and maintaining a strong regional  
5       grid. In fact, I think the national highway system is a great analogy to what the  
6       future electric transmission grid should look like. The highway system connects  
7       population centers within states and across the country. It provides a network to  
8       move commerce efficiently to many destinations across the United States. Yes,  
9       state highways existed prior to the national highway system. People and  
10      commerce made it to their destinations along those roads. Yet, the multi-lane,  
11      high speed national highway system that was planned to interconnect entire  
12      regions is significantly more efficient and now an invaluable backbone for  
13      interstate commerce that continues to be built even today. It is critical to our  
14      economy and lifestyle to have this efficient and reliable way of traveling and  
15      exchanging commerce. Similarly, a well-planned, highly interconnected, high-  
16      voltage electric transmission system is needed to provide the backbone of our  
17      system for getting energy to customers. Thus, our approach to transmission must  
18      be modernized to more efficiently and reliably meet current and future energy  
19      needs.

1   **Q16. HAVE RECENT REGULATORY DEVELOPMENTS SUPPORTED A**  
2       **TRANSITION TO VIEWING TRANSMISSION IN THIS WAY?**

3   **A.**   Yes. The implementation of open-access transmission service after FERC Order  
4       Nos. 888<sup>7</sup> and 2000<sup>8</sup> were helpful steps in fostering an evolution of balkanized  
5       transmission assets into a more regional system. The growth of RTOs is just  
6       starting to tie transmission systems together and allow greater power flows  
7       between utility assets. The most recent step in this migration just last year was  
8       FERC Order No. 1000,<sup>9</sup> which promotes further optimization of regional planning  
9       and cost allocation, and continues the process of looking for interregional  
10      efficiencies.

11

12   **Q17. IN YOUR OPINION, ARE OPEN ACCESS REGULATION AND RTOS**  
13       **SUFFICIENT TO ADDRESS ELECTRIC TRANSMISSION ISSUES?**

14   **A.**   No. They are a step in the right direction, but standing alone, will not achieve the  
15       evolved model for transmission that is needed to tackle our nation's future energy  
16       challenges. Even with open access rules and RTO membership, the transmission  
17       owners (as the owners of the assets) drive the development, maintenance, and  
18       management of their transmission systems. Ownership of transmission must be  
19       structured to best support the grid as the regional backbone of our electric  
20       delivery system. Specifically, transmission must be owned by an entity that is

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<sup>7</sup> 75 FERC ¶ 61,080.

<sup>8</sup> 89 FERC ¶ 61,285.

<sup>9</sup> 136 FERC ¶ 61,051.

1 solely focused on transmission and independent of ownership in generation. With  
2 such independence, the transmission owner can be purely dedicated to the grid for  
3 the benefit of all transmission customers (without needing to weigh transmission  
4 issues against its other lines of business), while taking an appropriately regional  
5 view of the grid in addressing transmission issues.

6 While open access regulations have been implemented to provide  
7 increased transparency and separation between transmission and generation  
8 interests, they are not a substitute for independence.<sup>10</sup> While I have not studied  
9 the Entergy transmission system's practices, based on my experience, regulation  
10 does not assure market participants that the transmission provider has a fully  
11 unbiased view of the grid. Only full structural separation (achieved through the  
12 independent transmission company model) fully eliminates the opportunity for  
13 bias in decision making. As the Federal Trade Commission noted:

14 Although operational unbundling can make a transmission owner  
15 powerless to discriminate in the operation of the grid, such an  
16 owner still may have incentives and the ability to hold back on  
17 expanding or maintaining the grid if that would reduce the  
18 competition that its generation assets will face. Regulatory efforts to  
19 prevent such behavior through regional transmission planning and  
20 maintenance or through reliability standards are an ongoing  
21 challenge. Vertically integrated utilities' full divestiture of  
22 transmission assets to entities (whether for-profit or not-for-profit)  
23 that are not vertically integrated could neutralize transmission  
24 owners' incentives to underinvest in transmission. By contrast, an  
25 independent Transco derives revenue solely from transmission

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<sup>10</sup> See FERC Standards of Conduct, 18 CFR § 358 (2011).



1 services and thus should have incentives to increase the use of  
2 transmission.<sup>11</sup>

3 Full structural separation eliminates any possible real or perceived tension  
4 between generation and transmission and best aligns incentives for supplying  
5 generation and building needed transmission.  
6

7  
8 **Q18. WHAT ROLE DO YOU SEE ITC PLAYING IN THE DEVELOPMENT OF**  
9 **THE STRONG REGIONAL GRID YOU HAVE DISCUSSED?**

10 **A.** Given the importance of independence to support our needed electric transmission  
11 grid, ITC is the industry leader. Unlike vertically-integrated utilities, ITC is  
12 totally independent of energy buyers and sellers. Unlike RTOs, we own and  
13 operate our transmission systems. Thus we can see the needs of the transmission  
14 grid in a fully independent and regional manner, which is necessary to unlock the  
15 full benefits of building a true backbone grid. We enjoy a unique perspective  
16 regarding the challenges to, and opportunities provided by, a transmission grid  
17 planned and developed by a fully independent transmission company with a  
18 regional view. ITC is uniquely positioned to lead the evolution of the electric  
19 transmission system to form the true backbone grid that I described above.

20 Because we are independent, no other line of business can affect our view  
21 of transmission system needs or our dedication to addressing those needs. For

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11 Comment of the Federal Trade Commission, Standards of Conduct for Transmission Providers, Docket No. RM07-1-00, May 7, 2008, fn. 17.

1 example, our transmission system operations allow us to see inefficiencies in the  
2 grid, determine where repairs or upgrades are needed, and identify available  
3 lower-cost generation in the market. We act on this information to optimize the  
4 value of the transmission system for customers.

5 In addition, with respect to taking a regional view, we look across utility  
6 and RTO boundaries to identify solutions to system needs that provide local and  
7 regional benefits. One example that I will discuss in more detail later in my  
8 testimony is the Green Power Express ("*GPE*") project. As proposed, GPE would  
9 stretch across the Upper Midwest to serve load centers in Chicago and beyond.  
10 The existing RTO planning process was not structured to generate this idea.  
11 However, ITC developed the idea by trying to find the best way to move growing  
12 power generation development that exceeded local needs in the Upper Midwest to  
13 load centers and markets where more power is used. As it turns out, GPE became  
14 the impetus for a number of projects that are now part of MISO's regional  
15 transmission plan across the Midwest.<sup>12</sup>

16  
17 **Q19. IS THIS APPROACH CONSISTENT WITH THE TYPE OF PLANNING**  
18 **REQUIRED BY ORDER 1000?**

19 **A.** Yes. Order No. 1000 was designed to support the construction of needed regional  
20 and interregional transmission projects and included the basic tenets ITC had been  
21 advocating for prior to the Order's issuance, such as larger coordinated planning

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<sup>12</sup> "ITC's Green Power Express, though Unlikely to be Built, is Agent of Change", Transmission Hub dated 7/2/12 by Rosey Lum.

1 areas between regional and inter-regional entities. As a result, the policy  
2 environment will be more conducive to efficiently meeting customers' needs  
3 through a regional and interregional view.  
4

5 **Q20. HOW IS THIS VIEW OF THE ELECTRIC INDUSTRY'S EVOLUTION**  
6 **RELATED TO THIS TRANSACTION?**

7 **A.** As I have described, most effectively, efficiently, and reliably serving customers'  
8 electric needs in Missouri, now and into the future, requires transformational, not  
9 incremental, solutions. This Transaction is such a transformational step, which  
10 will benefit customers in Missouri by bringing ITC's independent transmission  
11 company approach to the region. At the same time, separating out the  
12 transmission system will also strengthen EAI's focus on generation and  
13 distribution. In that way, the Transaction will improve the provision of electricity  
14 to end-use customers going forward.

15  
16 **III. BENEFITS OF THE ITC BUSINESS MODEL AND THE TRANSACTION**

17 **Q21. CAN YOU SUMMARIZE HOW THIS PARTICULAR TRANSACTION**  
18 **SERVES THE PUBLIC INTEREST?**

19 **A.** I sum up the various benefits of the Transaction this way: it is better for ITC to  
20 own and operate the transmission system. I am proud of our company and the  
21 role we play as a good steward of the electric transmission grid. I believe our  
22 independent transmission company model is a superior way for electric

1 transmission assets to be owned and operated. By extension, I believe the public  
2 interest will be served by our independent transmission company model.

3 Specifically, through the Transaction, customers will benefit from: 1)  
4 ITC's independence from all buyers and sellers of electric energy, which means  
5 our pure and total dedication is to being a good steward of the electric  
6 transmission grid; 2) ITC's singular focus on electric transmission, which drives a  
7 dedication to transmission service, operational excellence, and expertise in  
8 transmission; 3) enhancement of the benefits of the wholesale energy market,  
9 through ITC's regional view, improvement of the transmission grid, and its  
10 structural separation from users of the transmission grid; and 4) ownership of the  
11 transmission business by a financially strong and capable entity, whose resources  
12 are fully dedicated to the capability and performance of the transmission system.

13  
14 **Q22. CAN YOU EXPLAIN EACH OF THESE BENEFITS IN MORE DETAIL?**

15 **A.** Yes. A good way to explain these benefits is to describe who ITC is and how we  
16 operate our business. I will first describe the company's overall structure and  
17 history. Then I will further explain the four beneficial attributes of our  
18 independent transmission company business model that drive benefits for  
19 customers.

1 **A. Independent Business Model**

2 **Q23. PLEASE PROVIDE AN OVERVIEW OF ITC.**

3 A. ITC is an independent transmission company. Our business is owning, planning,  
4 constructing, operating, maintaining, and investing in electric transmission  
5 infrastructure. We have a singular focus on being an excellent owner and operator  
6 of electric transmission systems.

7 I have a passion for electric transmission and the value it provides. I find  
8 that our employees are proud of the role they play in the energy industry. They  
9 are dedicated to making the grid strong, improving and maintaining electric  
10 reliability, economically reducing congestion, and lowering the overall cost of  
11 delivered energy for customers.

12 At ITC, we talk about being a solid team that stays dedicated to  
13 consistently achieving operational excellence and “doing the right thing” for the  
14 grid and its customers. A lot of companies may speak in those terms about their  
15 goals, but the difference at ITC is that all of our aspirations, goals, and efforts are  
16 focused solely on electric transmission.

17  
18 **Q24. HOW WAS THE COMPANY FORMED?**

19 A. In 2001, Detroit Edison organized its transmission business as a separate  
20 corporate subsidiary named International Transmission Company. I was Director  
21 of Transmission at Detroit Edison at that time, and I led the development of a  
22 business plan for creating an independent transmission company. On February

20, 2003, FERC approved an order authorizing the sale of International Transmission Company to ITC Holdings Corp.<sup>13</sup> Upon the close of that transaction, International Transmission Company (now doing business as ITCTransmission) became a fully independent transmission company, operating a transmission system in Southeast Michigan.

**Q25. HOW HAS THE COMPANY GROWN SINCE THEN?**

A. ITC is an excellent model for owning and operating transmission systems and meeting the important needs of the grid so the company has grown rapidly. Also, the company has looked for and implemented opportunities to grow its business model into new geographic areas, where possible.

ITC Holdings Corp. completed an initial public offering ("*IPO*") in July 2005, and became a publicly traded company listed on the New York Stock Exchange. At that time, the company implemented additional measures approved by FERC to assure its continuing independence.<sup>14</sup>

In October 2006, ITC completed the acquisition of METC.<sup>15</sup> METC owns the former transmission assets of Consumers Energy, which cover the western part of Michigan's Lower Peninsula.

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<sup>13</sup> 102 FERC ¶ 61,182 ("This order benefits customers because the transfer of transmission facilities to an independent entity is one of the most effective means of separating transmission interests from generation interests and achieving independence through a for-profit transmission company."); *Order Denying Rehearing and Accepting Compliance Filing*, 104 FERC ¶ 61,033 (2003).

<sup>14</sup> 111 FERC ¶ 61,149 (2005).

<sup>15</sup> 116 FERC ¶61,271 (2006).

Also in 2006, ITC formed ITC Grid Development, LLC to pursue the development of regional transmission projects in new areas. As part of this effort, ITCGP was established that year to partner with local utilities in the construction of needed transmission in the Southwest Power Pool ("*SPP*") region. Since then, ITCGP has become authorized to conduct business in Kansas and Oklahoma, owns and operates transmission facilities in those states, and is a transmission owning member of SPP.

In December 2007, a new ITC subsidiary named ITC Midwest acquired the transmission assets of Interstate Power and Light.<sup>16</sup> ITCMW's assets are located in parts of Iowa, Minnesota, Illinois, and a short part of a transmission line that passes through Missouri.

In 2009, ITC formed Green Power Express, LLC to build, own, and operate high-voltage regional transmission in the Upper Midwest to allow emerging renewable energy to be transported to load centers further east.

**Q26. PLEASE DESCRIBE ITC'S CURRENT OPERATIONS.**

**A.** Today, ITC's subsidiaries own and maintain approximately 15,000 transmission line miles in seven states operating in two RTO's. Those assets serve a combined system peak load of over 26,000 megawatts. Our corporate headquarters are located in Novi, Michigan, with regional headquarters for ITCMW in Cedar Rapids, Iowa and ITCGP in Topeka, Kansas. We also maintain a number of

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<sup>16</sup> 121 FERC ¶ 61,229 (2007).

1           warehouses, office space, and a backup control center across ITC's geographic  
2           footprint to support local operations.

3           ITC's two Michigan transmission companies, ITCT and METC, operate  
4           contiguous, transmission systems in Michigan's lower peninsula that transmit  
5           electricity to local electricity distribution facilities from generating stations  
6           throughout Michigan and the surrounding region. In total, ITCT and METC serve  
7           a combined peak load of roughly 22,400 megawatts and have more than 8,300  
8           miles of transmission lines.

9           ITCMW operates a contiguous system in parts of Iowa, Minnesota, Illinois  
10          and Missouri that serves a peak load of roughly 3,700 megawatts. ITCMW has  
11          more than 6,600 miles of transmission lines. The transmission facilities owned by  
12          ITCT, METC and ITCMW are under the functional control of MISO.

13          ITCGP owns and operates two stations in Kansas and two new  
14          transmission lines in Kansas and Oklahoma (known as Kansas Electric  
15          Transmission Authority ("*KETA*"), Phase I and Hugo-Valliant, respectively) that  
16          are under the functional control of SPP. In addition to completing KETA Phase II  
17          later this year or early next year, ITCGP is engaged in constructing a portion of  
18          the Kansas V-Plan project, which is due to be in service in 2014. Together,  
19          ITCGP's three new high-voltage transmission projects in the SPP region will  
20          result in 314 miles of new 345 kV transmission lines.



1                                    **B. First Beneficial Attribute: Independence**

2    **Q27. WHAT DO YOU MEAN WHEN YOU SAY THAT ITC IS AN**  
3    **INDEPENDENT TRANSMISSION COMPANY?**

4    **A.**    ITC's only line of business is electric transmission, and the company is structured  
5           to be free from influence by entities that buy or sell energy as a commodity. ITC  
6           does not own generation or distribution assets, or fuel suppliers, and it makes no  
7           retail or wholesale electricity sales. In addition, unlike other companies that have  
8           set up stand-alone transmission companies, ITC is not owned by utility  
9           companies, the holding companies of utilities, or entities that buy or sell energy as  
10          a commodity. The company also maintains corporate governance rules that  
11          protect its independence.

12  
13   **Q28. WHAT GOVERNANCE RULES DOES ITC MAINTAIN TO PROTECT**  
14   **ITS INDEPENDENCE?**

15   **A.**    First, in order to safeguard its independence and abide strictly by all conditions  
16           that have been imposed by FERC in connection with its independence  
17           designation, ITC has developed a Policy on Independence that is posted on the  
18           Open Access website of each of its operating subsidiaries. A copy of that Policy  
19           is attached to my testimony as **Exhibit JLW-1**.

20           Under the Policy on Independence, all members of the company's Board  
21           of Directors and management, as well as all employees, are prohibited from  
22           having any "direct financial interest in, or a financial conflict of interest with, any

1 Market Participant<sup>17</sup>, or an Affiliate of any Market Participant.” In addition,  
2 contractors or consultants employed by ITC must disclose any direct financial  
3 interest in any market participant, or any affiliate of a market participant. ITC  
4 retains the right to disqualify a contractor should it deem such an affiliation to  
5 create a conflict of interest.

6 Second, ITC’s Articles of Incorporation restrict potential ownership of  
7 stock in the company by market participants to avoid any influence on the  
8 company that could hinder its independence. Under the Articles of Incorporation,  
9 a market participant (or a group containing a market participant) is generally  
10 restricted from owning more than five percent of any class of ITC stock, and in  
11 any event may not vote shares of the company in excess of 5% of ITC’s stock.

12 If a holder owns more than 5% of ITC’s stock, it is required by SEC rules  
13 to make an annual disclosure to the company. The Board of Directors then starts  
14 an investigation into whether each such shareholder is a market participant, and  
15 the Board has the right to redeem shares in excess of 5% ownership held by any  
16 such market participant. ITC also is required to inform FERC when it receives  
17 notification that a market participant has acquired 5% or more of ITC’s stock so  
18 that FERC may conduct its own, independent investigation of the market  
19 participant status of such a shareholder.

20  

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<sup>17</sup> Market Participant is defined at 18 C.F.R. § 35.34(b)(2).

1   **Q29. CAN YOU DESCRIBE THE IMPACT OF INDEPENDENCE ON HOW ITC**  
2       **BEHAVES AS A COMPANY?**

3   **A.**   Yes. Because our corporate family has absolutely no interest in any other line of  
4       business, our pure and total dedication is to being a good steward of the electric  
5       transmission system. That pure perspective starts at the top of our company and  
6       flows through to employees at all levels of the company.

7           Market participants are restricted from exercising influence over the  
8       company as shareholders. Each member of our Board of Directors and  
9       management is individually free from market participant influence. Our  
10      management team and employees are people who have chosen to dedicate  
11      themselves to supporting the electric transmission grid, with no influence from  
12      market participants. We are totally dedicated to being a non-discriminatory  
13      provider of transmission service and view all interests related to the transmission  
14      grid in a non-discriminatory manner. This is not only a function of the regulations  
15      or directives applicable to ITC; it is who we are as a company and how we are  
16      structured.

17           Having worked at a traditional vertically-integrated utility, I am familiar  
18      with the challenges of being a generation, distribution and transmission provider  
19      under one roof. A vertically-integrated utility has multiple business lines to  
20      oversee, with transmission typically being the smallest. Across the electric  
21      industry, transmission is typically about 10% of the asset base of a utility

1 compared to 60% for generation and 30% for distribution.<sup>18</sup> Having spent most of  
2 my career in a traditional, integrated utility model, and now leading a truly  
3 independent transmission company for almost a decade, based on my personal  
4 experience I believe that independence drives a stronger dedication to being an  
5 open-access transmission provider for the benefit of all customers of the grid.  
6 With an independent transmission company, the fact is that transmission is always  
7 in the spotlight, and there is no potential for other lines of business to diminish  
8 our total dedication to being a good steward of the electric transmission system.

9  
10 **Q30. PLEASE PROVIDE A PRACTICAL EXAMPLE OF THE IMPACT OF**  
11 **INDEPENDENCE ON ITC'S APPROACH TO TRANSMISSION.**

12 **A.** One area where independence is particularly important is transmission planning.  
13 We pro-actively identify and pursue transmission projects purely based on the  
14 needs of the transmission system, have more opportunity for customer and  
15 stakeholder engagement, and (due to our regional focus) can take a broader view  
16 of the transmission system's needs. Our planning approach is explained in ITC  
17 witness Thomas Vitez's testimony, but I will discuss some aspects of it here.

18 In its transmission planning process, ITC identifies, proposes, and pursues  
19 needed projects by reviewing the needs of the transmission system. Our  
20 independence provides the highest assurance that these decisions cannot be

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<sup>18</sup> While the transmission component of a customer's bill may vary by customer class and by region, the U.S. Department of Energy estimates that transmission comprises eight percent of a customer's bill. See e.g., Energy Information Administration, "Major Components of U.S. Average Electric Price, 2010," available at: [http://www.eia.gov/energyexplained/index.cfm?page=electricity\\_factors\\_affecting\\_prices](http://www.eia.gov/energyexplained/index.cfm?page=electricity_factors_affecting_prices).

1           influenced by market impacts to a particular generating facility or owner unless it  
2           has benefits for the consumer.

3           Importantly, while RTOs have regional planning processes, the results of  
4           those processes depends on projects being proposed. As Mr. Vitez explains, the  
5           RTO planning process is mainly “bottom-up,” meaning that the RTO evaluates  
6           projects submitted by local transmission owners and stakeholders. For this  
7           reason, the consideration of projects is to a large degree a function of the  
8           objectives of the transmission planner.

9           Overall, as a result of our independent model, ITC looks at the  
10          transmission system broadly to evaluate the most efficient, long-term solutions for  
11          regional system needs. ITC looks within and outside of its own footprint for  
12          solutions that will benefit customers now and in the future, and this view plays an  
13          important role in defining the projects that ITC proposes in RTO planning  
14          processes. In contrast, a transmission owner who views planning narrowly,  
15          looking only within its footprint, may propose a project that is not regionally  
16          optimized because it does not have the broader view of regional possibilities in  
17          mind. Again, while RTOs have their regional planning processes, individual  
18          transmission owners have a significant role in identifying and determining what  
19          projects to propose in that process.

20

**Q31. DOES INDEPENDENCE IMPACT ITC'S APPROACH TO CUSTOMER  
AND REGULATOR INTERACTIONS IN TRANSMISSION PLANNING?**

**A.** Yes. We supplement our own studies by engaging in regular communication with customers, stakeholders, and regulators to seek input on various issues, including planned projects and the needs of the transmission system. An example is our Partners in Business ("*PIB*") meetings, where we meet with stakeholders and, among other topics, gather information about the needs of customers and stakeholders, seek opportunities to improve the reliability and quality of electric transmission services and operations, and solicit economic development intelligence to guide our planning process. In fact, we have established goals for meetings with our customers, which are: 1) listen to customers and respond to their needs; 2) lead teams of subject matter experts to identify challenges, foster creative alternatives and drive solutions through implementation; 3) seek opportunities to improve the reliability and quality of stakeholders' electric transmission services and operations; 4) solicit economic development intelligence to share in planning; and 5) facilitate construction meetings and the monitoring of key activities and deliverables. The testimony of ITC witness Mr. Thomas Wrenbeck provides greater detail about ITC's stakeholder relations. This is above and beyond MISO's planning process, where we also meet with stakeholders, federal and state regulators, utility generation owners, non-utility generators, and consumer representatives to review and debate the results of the planning models and proposed projects. This MISO stakeholder group also

1 evaluates generation and demand response alternatives to proposed transmission  
2 projects.

3  
4 **Q32. WILL THE TRANSACTION NEGATIVELY IMPACT ITC'S**  
5 **INDEPENDENCE?**

6 **A.** No, not at all. Importantly, the ITC common stock being issued in connection  
7 with the Transaction will be issued directly to shareholders of Entergy  
8 Corporation – not to Entergy Corporation itself. In addition, all the corporate  
9 governance requirements that protect our independence will remain in place. The  
10 restrictions on market participant stock ownership will continue to apply to all  
11 ITC shareholders (including the Entergy Corporation shareholders that receive  
12 ITC stock at closing of the Transaction). Our Board of Directors and management  
13 will remain independent of market participants (including the two new Board  
14 members our existing Board will add, in accordance with the Merger Agreement).  
15 Also, our Policy on Independence will continue to apply to all our employees,  
16 including the personnel from the Entergy Operating Companies and Entergy  
17 Services, Inc. (“*ESI*”) who join ITC as part of the Transaction. As a result, these  
18 employees will be required to divest any direct financial interest in a market  
19 participant, including ownership of Entergy Corporation stock, within the FERC-  
20 approved timeframe.

21 As part of the Merger Agreement, Entergy Corporation has an option to  
22 transfer some of its ownership interests in Mid South TransCo to a trust. Upon

1 closing of the Transaction, those interests would convert into shares of ITC  
2 common stock. For a period up to six months following the closing of the  
3 Transaction, Entergy Corporation would be able to direct the trustee to offer  
4 Entergy Corporation shareholders to exchange their shares of Entergy Corporation  
5 common stock for shares of ITC common stock out of the trust. At the end of the  
6 six month period, any shares remaining in the trust would be distributed to the  
7 Entergy Corporation shareholders on a pro rata basis. The number of shares that  
8 could be held in this trust is capped at less than 5% of ITC's outstanding shares,  
9 and the trustee would be required to vote in accordance with the votes of the other  
10 holders of ITC stock, not at the direction of Entergy Corporation. ITC agreed to  
11 this trust exchange arrangement as part of the Transaction because it carries with  
12 it sufficient restrictions to protect ITC's independence and, under the Merger  
13 Agreement, it must be approved by FERC for it to be utilized.

14 **C. Second Beneficial Attribute: Singular Focus**

15 **Q33. WHAT DO YOU MEAN WHEN YOU SAY THAT ITC'S SINGULAR**  
16 **FOCUS ON TRANSMISSION IS A POSITIVE ATTRIBUTE OF ITS**  
17 **BUSINESS MODEL?**

18 **A.** I mean simply that ITC's only business is being an owner and operator of electric  
19 transmission systems, so we strive to be the very best transmission company. Our  
20 management team focuses only on transmission and our employees are specialists  
21 in transmission. I doubt the CEO of a vertically-integrated utility often gets  
22 significant questions from his or her Board regarding transmission performance



1           because it is such a small component of the business. However, as the CEO of  
2           ITC, I wake up every morning thinking about transmission and am accountable to  
3           the ITC Board of Directors for the performance of our systems. This singular  
4           focus drives specialization throughout the organization and stronger performance.

5   **Q34. CAN YOU DESCRIBE THE BENEFITS DERIVED FROM THIS**  
6   **SINGULAR FOCUS?**

7   **A.**   Yes. Each year the company sets goals for itself, which shows where we put our  
8           focus. In summary, those focus areas are: 1) operational excellence, particularly  
9           in the areas of transmission system reliability, maintenance, compliance, safety,  
10          and efficient operations; and 2) capital investments and improvements to the  
11          transmission system. In addition, as part of our singular focus on transmission,  
12          we also work hard at actively engaging with transmission stakeholders and the  
13          communities where we operate, as well as being a good corporate citizen as a  
14          transmission company.

15

16   **Q35. CAN YOU FURTHER DESCRIBE HOW ITC'S SINGULAR FOCUS ON**  
17   **TRANSMISSION IMPACTS SYSTEM RELIABILITY?**

18   **A.**   With a singular focus on electric transmission, ITC pursues operational excellence  
19           which is measured by strong transmission system performance. ITC witness Mr.  
20           Jon Jipping provides detailed testimony about ITC's approach to improving  
21           transmission system reliability, which illustrates the value of our singular focus.  
22           As Mr. Jipping explains, important elements of ITC's approach to transmission

1 system reliability include preventive maintenance, proactive investment plans to  
2 improve system performance and reduce customer outages, and a strong  
3 dedication to compliance with all North American Electric Reliability Corporation  
4 (“NERC”) reliability standards. This approach pays off in measurable ways.

5 ITC has a strong track record of improving the performance of every  
6 transmission system it owns. Our goal is for the transmission system of each ITC  
7 operating company to achieve top decile reliability performance. We have  
8 achieved that for our longest-standing operating companies, ITCT and METC,  
9 and we see continued improvement toward that goal for ITCMW. As ITC witness  
10 Mr. Douglas Collins explains, ITCMW performance has improved significantly  
11 and continues to trend in a positive direction. Overall, for 2011, ITCMW was in  
12 the third quartile for sustained outage performance and the second quartile for  
13 average duration of circuit outages. In the 100 kV and above category, ITCMW is  
14 top decile for average circuit momentary outages and top quartile for average  
15 circuit outages and duration in 2011. In 2010, ITCMW’s overall performance was  
16 in the fourth quartile for sustained outages and the third quartile for outage  
17 duration so we are making great progress.

18  
19 **Q36. HOW DOES ITC PRIORITIZE SAFETY?**

20 **A.** Safety must be – and is – our top priority. Given all the maintenance and capital  
21 investment work we have done on our existing transmission systems, we have a

1 lot of work going on in the field. Safety comes before everything else to make  
2 sure everyone makes it home safely at night.

3 Our strong commitment to safety is evident in our safety statistics. ITC  
4 witness Jon Jipping explains in detail how we approach safety at ITC but I would  
5 like to highlight that here again we are a top performer in the industry. All  
6 employees receive regular safety training in addition to job-specific training.  
7 Protective equipment is never optional and we do regular safety audits to ensure  
8 compliance with safety standards. We also have safety briefings twice a day for  
9 field work to make sure all safety issues are being addressed in a timely manner.  
10 Even minor safety incidents are thoroughly reviewed to identify lessons learned  
11 and make changes as appropriate. We like to say that everyone's first job is to go  
12 home safely to their families at the end of the day. We would continue this  
13 approach in our operations and work in the EAI region.

14  
15 **Q37. DOES YOUR SINGULAR FOCUS AS A COMPANY TRANSLATE TO**  
16 **EMPLOYEES?**

17 **A.** Yes. As a company, we have an acute focus on achieving solid transmission  
18 system performance because that is our only business. As a result, we have an  
19 added ability to attract and retain personnel with high levels of interest and  
20 expertise in electric transmission.

21 Our focus on transmission also puts us in a better position to help address  
22 the near-term shortage of skilled workers, particularly power engineers. In a 2009

1 report, the U.S. Power and Energy Engineering Workforce Collaborative noted  
2 that approximately 45% of U.S. electrical engineers would be eligible for  
3 retirement or could leave engineering for other reasons in the subsequent five  
4 years. This translates to over 7,000 highly-skilled engineering roles which must  
5 be filled if the grid is to remain functioning at its current level.<sup>19</sup> We are driven to  
6 maintain a skilled workforce to meet our performance objectives and therefore  
7 focus heavily on training our force in the field and the control room.

8 Through the Transaction, ITC will add the expertise of Entergy  
9 transmission employees and leverage any transmission-related and storm response  
10 best practices utilized by EAI. Entergy transmission employees' knowledge of  
11 the history and conditions of the Entergy transmission system will be extremely  
12 valuable, especially when coupled with ITC's independent business model. These  
13 experienced transmission professionals will get to work in a company where  
14 transmission is the only focus. For its part, EAI will be able to focus all of its  
15 attention and effort specifically on generation and distribution – which I believe  
16 will similarly enhance its focus and expertise in those areas. I see this as part of  
17 the benefits of the Transaction.

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18  
<sup>19</sup> "Preparing the U.S. Foundation for Future Electric Energy Systems: A Strong Power and Energy Engineering Workforce", U.S. Power and Energy Engineering Workforce Collaborative, available at: [http://www.ieee-pes.org/images/pdf/US\\_Power\\_&\\_Energy\\_Collaborative\\_Action\\_Plan\\_April\\_2009\\_Adobe72.pdf](http://www.ieee-pes.org/images/pdf/US_Power_&_Energy_Collaborative_Action_Plan_April_2009_Adobe72.pdf).

1   **Q38. DOES A SINGULAR FOCUS ON TRANSMISSION HELP ITC OPERATE**  
2   **EFFICIENTLY?**

3   **A.**   Yes. First, we believe that a critical part of operational excellence is being a cost-  
4       efficient transmission provider. We take care with the costs of our business,  
5       knowing that our expenses translate to charges recovered from users of the  
6       transmission system, and ultimately from end-use consumers. Thus, in  
7       conducting our business and maintaining our transmission systems, we look to  
8       drive the most value over time and be cost efficient. ITC witness Mr. Jon Jipping  
9       describes in more detail how the singular focus drives operational efficiencies.

10           In addition, because we are dedicated to applying operational excellence  
11       solely in the area of electric transmission, we are able to achieve operational  
12       efficiencies in the process. This is achieved through specialization and  
13       standardization. Just like Southwest Airlines flies only one type of airplane across  
14       its fleet so that everyone knows the equipment well, ITC attempts to utilize  
15       standard equipment when possible to drive greater efficiencies. For example, in  
16       the area of maintenance, ITC has reduced the average amount of time it takes to  
17       complete a breaker replacement from six weeks to two weeks. This is because we  
18       have developed a consistent process with standard materials and are doing more  
19       of them so we are more efficient.

20           We also have worked to develop strategic alliance relationships with our  
21       vendors as ITC witness Jon Jipping discusses, which has helped us ensure that  
22       needed equipment is available to meet our project timelines. We purchase a large

1 volume of transmission equipment each year to support our capital plans and have  
2 leveraged that purchasing power into better pricing for equipment. With the  
3 increased size resulting from the Transaction I am hopeful we could successfully  
4 pursue further efficiencies.

5  
6 **Q39. CAN YOU FURTHER DESCRIBE HOW ITC'S SINGULAR FOCUS ON**  
7 **TRANSMISSION IMPACTS ITS APPROACH TO INVESTING IN AND**  
8 **IMPROVING THE TRANSMISSION SYSTEM?**

9 **A.** As stated above, ITC studies the transmission system and engages with customers  
10 and stakeholders to identify and pursue needed capital investment projects and  
11 other improvements. For instance, when we first purchased ITCT, we quickly  
12 began to work with the RTO to change the Available Flowgate Capacity ("**AFC**")  
13 calculations to eliminate some artificial barriers in the form of excessive or  
14 overlapping reliability margins. This change allowed more economic power to  
15 flow on the system more often.

16 Where system investment is needed, we move aggressively to complete  
17 those projects. Due to our singular focus, we champion the needs of the  
18 transmission system and turning transmission project plans into reality. In  
19 systems it has previously acquired, ITC has completed capital projects targeted at  
20 remediating the industry-wide effects of decades of underinvestment, improving  
21 reliability, providing non-discriminatory access to transmission, promoting  
22 competition in electric energy markets and facilitating interconnection of new

1 generation and load. These investments have been fully vetted as part of the  
2 applicable RTO planning process.

3 As documented in ITC witness Cameron Bready's testimony, from ITCT's  
4 first year of operation as an independent transmission company in 2003 through  
5 June 2012, the total capital investments for ITC's operating companies were  
6 approximately \$3.0 billion, an amount that averaged two times cash flow from  
7 operations. ITC witnesses Jon Jipping and Thomas Vitez also discuss in further  
8 detail ITC's efforts to improve the transmission systems it owns and our  
9 independent planning approach to identify and pursue those capital investment  
10 projects.

11

12 **Q40. DID THE ITC OPERATING COMPANIES MAKE PARTICULAR**  
13 **INVESTMENTS YOU WOULD LIKE TO HIGHLIGHT? IF SO, PLEASE**  
14 **EXPLAIN.**

15 **A.** Yes. As ITC witness Thomas Vitez explains in detail, ITCT completed the Jewell-  
16 Spokane project in 2004. That project in southeast Michigan was a one-time  
17 \$10.2 million investment that is estimated to provide *annual* net benefits of over  
18 \$60 million, with a benefit to the ITCT footprint alone of over \$64 million.<sup>20</sup>  
19 This project was originally identified in 1988 by the previous owner who decided  
20 to operate around the constrained facility instead of relieving it.

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<sup>20</sup> Richard D. Tabor testimony, FERC Case No. EC01-137-002, Exhibit IT-200, pg. 12.

1                Similarly, ITC witness Douglas Collins speaks to additional key  
2                investments currently taking place at ITCMW. ITCMW is in the process of  
3                constructing the Salem-Hazelton project, a new 80 mile 345 kV line to improve  
4                reliability in eastern Iowa and improve market efficiency by reducing  
5                transmission congestion. In 2006, MISO found that the construction of the  
6                Salem-Hazelton line would reduce annual load and production costs by over \$108  
7                million compared to an estimated total cost of the line of \$123 million. Although  
8                the need for the line was recognized for several years prior to 2006 by the prior  
9                owner, it was not built due to competing needs of available capital.

10              I am also proud to talk about what ITC has done in Kansas. After the state  
11              government became frustrated with the pace of transmission development in  
12              Kansas, it established the KETA to define, and if necessary, finance needed  
13              transmission. KETA worked with stakeholders to identify and study a project  
14              from Spearville, Kansas to a new substation north of Hays, Kansas and continuing  
15              north to Axtell, Nebraska. KETA sought companies to make the Kansas portion  
16              of this project a reality. ITC stepped up through ITCGP and was selected to build,  
17              own and operate this 345 kV project. In June 2012, the 89-mile Phase I of the  
18              KETA project went into service under budget. We anticipate that Phase II of the  
19              KETA project will be in service by the end of 2012, also under budget and  
20              delivering benefits to the region approximately 6 months ahead of the SPP  
21              planned in-service date.



ITCGP is now working to acquire land and begin construction on its next big Kansas project, the Kansas V-plan, a double-circuit 345 kV line from Spearville substation south to the new Clark County substation, and east to the new Thistle substation near Medicine Lodge, Kansas in Barber County. This project will connect eastern and western Kansas to improve electric reliability and enable energy developers to tap into the transmission grid, further establishing a competitive energy market in the state. ITC witness Mr. Jon Jipping has more information on these projects in his testimony.

**Q41. WITH SUCH A FOCUS ON TRANSMISSION INVESTMENT, IS THERE A RISK OF OVERBUILDING?**

**A.** No. Our proposals for capital investment projects are generated by the needs of the transmission system (resulting from our studies on the system and feedback from customers and stakeholders). Then, through the open and transparent RTO planning processes, project proposals are vetted to assure they solve an identified need. As described in the direct testimony of ITC witness Mr. Thomas Vitez, the MISO Transmission Expansion Plan (“*MTEP*”) process provides a forum for interested parties to review MISO studies of proposed projects and propose transmission and non-transmission alternatives. If conflicting solutions cannot be resolved by the sponsoring parties, MISO makes the final determination as to what project should be submitted for approval. Also, as discussed earlier, ITC also maintains regular communications with regulators, customers and

1 stakeholders above and beyond the RTO processes to make sure we are  
2 addressing their needs and concerns. Thus, capital project plans are generated  
3 based on need and thoroughly vetted in various review processes before any  
4 project is initiated.

5 Importantly, the avenues to stop a transmission owner from making  
6 unneeded investments are much stronger than the avenues available to require an  
7 owner to make needed investments. For regulators in particular, the model of ITC  
8 within an RTO is significantly more effective at achieving a desired transmission  
9 system than the status quo. In the RTO process, retail regulators have access to  
10 existing RTO resources for planning data and inquiries and discussions with  
11 independent RTO experts that are more comprehensive and cost effective than  
12 each jurisdiction retaining its own experts and attempting to evaluate needs  
13 individually.

14 Also, as a practical matter, the need for transmission investment remains  
15 significant.<sup>21</sup> Failing to make necessary transmission investments prevents  
16 improvements to grid reliability and misses opportunities to economically relieve  
17 congestion. The real risk for end-use consumers is failing to complete justified  
18 transmission investment that would provide access to those opportunities,

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<sup>21</sup> See American Society of Civil Engineers, *Failure to Act: The Economic Impact of Current Investment Trends in Electricity Infrastructure* (April 2012) available at: [http://www.asce.org/uploadedFiles/Infrastructure/Failure\\_to\\_Act/energy\\_report\\_FINAL2.pdf](http://www.asce.org/uploadedFiles/Infrastructure/Failure_to_Act/energy_report_FINAL2.pdf). Concludes that increased investment trends of recent years will still result in a transmission investment gap of approximately \$112 billion by 2040.

1 particularly considering that transmission is such a small part of end use  
2 consumers' bills.

3 Finally, as Mr. Vitez explains, we are extremely protective of our  
4 reputation and understand that it is shaped by our performance as a transmission  
5 company. We know our stakeholders and regulators monitor our business, and the  
6 future success of our business model to a large extent depends on our reputation.  
7 We want to make sure we maintain a reputation as a prudent investor in the  
8 transmission grid and review each project alternative to identify the best long-  
9 term value.

10  
11 **Q42. ASSUMING THE TRANSACTION CLOSES, WILL ITC ALSO BE**  
12 **FOCUSED ON INVESTING IN THE TRANSMISSION SYSTEM IN THE**  
13 **REGION**

14 **A.** Yes. ITC witnesses Jon Jipping and Thomas Vitez discuss our approach to future  
15 investment, but generally ITC would expect to complete any in-progress  
16 transmission projects and follow through on near-term planned projects. The  
17 Entergy Operating Companies' current investment plans indicate that we will be  
18 making significant capital investments of approximately \$500 million annually in  
19 the transmission systems across the Entergy Operating Companies.

20 In the longer term, after starting with the existing Entergy Operating  
21 Company capital plans as a base, ITC will apply its own independent planning  
22 judgments and processes to determine the amount and timing of proposed

transmission investments, given our regional view and stakeholder process. Consistent with our track record of improving the transmission systems we currently own, we would be pro-active and focused on improving the newly-acquired transmission system.

**Q43. WILL ITC WORK WITH REGULATORS IN THE ENTERGY REGION ON PLANNING AND INVESTMENT ISSUES?**

A. Yes. Utility regulators are key participants in the transmission development process for ITC. To maintain an open line of communication, ITC designates a single point of contact for regulators in each of its operating company jurisdictions. It is a primary responsibility for that point of contact to provide information on upcoming activities, answer questions, and discuss concerns so that they can be addressed effectively and efficiently.

In addition, regulators play a vital role in the MISO planning process by providing important input on needs and concerns in their jurisdictions related to the development of projects. Regardless of how the role of the Organization of MISO States ("*OMS*") is addressed in relation to the Entergy Operating Companies' MISO memberships, ITC will regularly consult with and advise each regulator in the Entergy region regarding future transmission upgrade plans.

1   **Q44. HOW DOES ITC'S SINGULAR FOCUS ON TRANSMISSION**  
2       **TRANSLATE TO ITS APPROACH TO CUSTOMER SERVICE AND**  
3       **ENGAGEMENT WITH STAKEHOLDERS?**

4   **A.**   ITC is dedicated to providing high quality customer service. This is another area  
5       where our singular focus on transmission drives excellence in our performance.  
6       Because transmission is our only business, we work hard at communicating with  
7       customers and other stakeholders, being responsive, and providing good customer  
8       service on electric transmission issues. We would bring this same philosophy to  
9       Missouri.

10           ITC witnesses Jon Jipping and Thomas Wrenbeck discuss in further detail  
11       how we handle stakeholder relations, so I will just highlight that ITC has several  
12       groups that focus solely on stakeholder outreach. It is important to us to make  
13       sure we understand the needs and concerns of our stakeholders. In addition to the  
14       regulatory contacts mentioned above, we have a Stakeholder Relations group that  
15       schedules regular meetings throughout the year to maintain communications with  
16       industrial customers, cooperatives, and municipal utilities to discuss any items of  
17       concern. We coordinate with these customers on planned outages to minimize  
18       impact on customer operations. We also have state and local government  
19       relations groups to provide a point of contact for government officials to learn  
20       about activities that will affect their jurisdictions and share concerns. Maintaining  
21       good stakeholder relations requires us to maintain open communication so we  
22       make it a priority to do so.

1

2 **Q45. AS A TRANSMISSION-ONLY COMPANY, DOES ITC VIEW ITS**  
3 **RELATIONSHIP TO THE COMMUNITIES IT SERVES AS**  
4 **IMPORTANT?**

5 **A.** Yes. We are dedicated to providing high quality transmission service in the  
6 communities we serve and we view ourselves as part of each of those  
7 communities. While ITC assets transmit electricity across numerous states, we  
8 also know that transmission is a local issue to the communities where our assets  
9 are located. We work hard to be a good neighbor and a positive part of those  
10 communities. ITC will also bring this philosophy to its operations in Missouri.

11 ITC has interacted with more than 1,800 communities throughout  
12 Michigan, Iowa, Minnesota, Kansas and Oklahoma, and sponsored hundreds of  
13 community and charitable events. We work to understand the needs and concerns  
14 of local communities and work with local leaders and residents to support  
15 community improvement initiatives.

16 In one example, ITC worked with communities to grant rights to use  
17 transmission corridors for bike paths and nature trails. In addition, our employees  
18 began the "Right Plant, Right Place" program to help property owners understand  
19 the importance of vegetation management and the proper types of low-growing  
20 plants that can be safely located near transmission lines. In another recent  
21 example, ITC donated and moved a house used in the construction of the Hugo-  
22 Valliant project in Oklahoma to a local school. The house is now being used by

1 the school for administrative space, freeing up additional classroom space for  
2 students with special needs. These examples highlight the effort we undertake to  
3 be a good neighbor and support our communities.

4 ITC also responds to communities in need. The company donates and  
5 matches employee contributions to support recovery efforts after local, national,  
6 and international disasters. Our employees also are actively engaged in a regular  
7 ongoing program to support different charitable activities, and our employees are  
8 active in various community support activities. While ITC provides a wholesale  
9 service and many people might not recognize the role we play in bringing  
10 electricity to homes and businesses, we think it is important for our company to  
11 be active in the community and be engaged with people in those communities.

12 **D. Third Beneficial Attribute: Enhancing the Benefits of Wholesale Energy**  
13 **Markets**

14  
15 **Q46. IN WHAT WAY DOES THE INDEPENDENT MODEL ENHANCE THE**  
16 **BENEFITS OF WHOLESALE ENERGY MARKETS?**

17 **A.** As I have discussed, ITC has a broader regional perspective on the transmission  
18 planning process than a traditional vertically-integrated utility. In seeking to help  
19 reduce the delivered cost of energy to customers, ITC looks both inside and  
20 outside its footprint to understand where transmission investment could result in  
21 the greatest benefits to end-use customers.

22 An example of ITC's broader approach is the GPE project, which as  
23 proposed would touch or cross two RTO regions, non-RTO regions, seven states,

1 and twenty utility service territories, in addition to ITC's current footprint. GPE  
2 was proposed because it was identified by ITC as the most efficient means to  
3 develop and interconnect the wind-rich Upper Midwest with load centers further  
4 east.<sup>22</sup> When initially proposed, there was no process to consider a project like  
5 GPE because of its inter-regional scope and because the criteria then employed by  
6 RTOs to define beneficial projects were too narrow. In significant part because of  
7 GPE, and the initiatives inspired by GPE's proposal including the Midwest ISO  
8 Regional Generation Outlet Study ("RGOS"), MISO developed a broader  
9 planning process to address regional projects that serve multiple purposes,  
10 including state policy initiatives.<sup>23</sup> This broader approach enhances competitive  
11 wholesale electricity markets by creating a more robust regional infrastructure  
12 that fosters greater market liquidity, and therefore access to the lowest possible  
13 cost delivered energy.

14 Another key role that ITC plays in facilitating the wholesale market is  
15 ensuring that all generation has equal access to the energy market. As an  
16 independent transmission company, we are fully dedicated to making the  
17 transmission grid equally accessible to all generators and customers alike. We are  
18 totally independent and unbiased in the process, do not pick winners and losers,  
19 and simply focus on quickly connecting any generator that has completed the  
20 RTO interconnection process. Eliminating any potential for, or perception of,

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<sup>22</sup> See *Green Power Express LP*, 127 FERC ¶ 61,031 (2009).

<sup>23</sup> See *Midwest Independent Transmission System Operator, Inc.*, 133 FERC ¶ 61,221 (2010), *Order denying in part and granting in part rehearing* (2011) for discussion of Multi Value Projects as defined and approved by the Midwest ISO.



1 favoritism in the operation or development of the transmission grid is in itself  
2 beneficial for customers. As noted by the Staff of the Federal Trade  
3 Commission,<sup>24</sup>

4 Discrimination or uncertainty about the terms and conditions for  
5 obtaining connections to the grid will raise the risk of new  
6 generation investments with respect to their commercial viability  
7 and timing. Discrimination in the selection of future grid expansion  
8 projects may disrupt such projects by similarly increasing  
9 uncertainty about future entrants (for example, discriminatory  
10 position of a new transmission line may disproportionately reduce  
11 demand for power from the entrant). By eliminating or delaying  
12 generation entry, or deflecting it to a different site, a transmission  
13 owner may reduce the competitive pressure on its own generation  
14 assets, particularly if the prospective entrant's assets are likely to be  
15 more efficient. As a result of such discrimination, consumers are  
16 likely to face higher electricity prices because more efficient  
17 generators fail to displace less efficient generators.

18  
19 When generation owners are confident they will be treated impartially,  
20 they will be more willing to share information about future plans and invest to  
21 increase the generation options in the market.

22 Further, as ITC witness Thomas Vitez explains, ITC's pursuit of projects  
23 that support more efficient competitive markets through the economic reduction  
24 of congestion is critical to lowering the delivered cost of energy for customers.  
25 Beyond congestion relief, ITC identifies and pursues projects that provide other  
26 benefits, such as storm hardening, reduced need for costly reliability must run  
27 ("*RMR*") resources, and greater access to available generation resources.

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<sup>24</sup> Comment of the Staff of the Bureau of Economics of the Federal Trade Commission, *Regional Transmission Organizations*, Docket No. RM99-2-000, Aug. 16, 1999.

Economically rational, unbiased transmission investment and increased market confidence can lead to more generation options, and therefore lower prices for end-use consumers.

**Q47. WILL ITC'S BUSINESS MODEL ENHANCE WHOLESALE ENERGY MARKETS?**

A. Yes. Bringing value to customers is a key to our success and allows our company to grow. Therefore, it is both in our best interest and the best interest of customers to ensure that the transmission system is robust, to pursue the economic reduction of congestion and lower the overall cost of delivered energy, and provide access to all generators. We will also look for opportunities to increase connections with other regions where such projects will bring value to customers. Similar to how we have conducted business in our current operating companies, we will apply our broad and independent transmission planning approach to identify transmission solutions that make sense for customers in the long-term. I believe this attribute of our business model will benefit customers in Missouri and the surrounding region by enhancing the benefits that stem from wholesale energy markets, and in particular further capitalize on EAI's entry into MISO's Day 2 Market.<sup>25</sup>

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<sup>25</sup> Day 2 Markets are centralized region-wide markets operated by RTOs that include day ahead unit commitments, a real time balancing market, and an integrated ancillary services market. In a Day 2 Market, generators are required to schedule or bid into the market, locational marginal prices are used to price the use of the transmission grid, congestion charges replace "first come, first served" transmission service, and financial transmission rights are used to hedge congestion. The "Day 2" label arose because RTOs began to implement these markets after they initially began to operate, or in the "Day 2" of their creation.

1                                   **E. Fourth Beneficial Attribute: Financial Capability**

2   **Q48. HOW DOES THE INDEPENDENT TRANSMISSION COMPANY MODEL**  
3   **PROVIDE GREATER FINANCIAL STRENGTH FOR ITC?**

4   **A.**   First and foremost, there is no internal competition or competing priorities for  
5           capital or other resources among functions at ITC as there is in other utility  
6           business models. All of our resources are dedicated to transmission and all of our  
7           capital is invested in transmission. In addition, our singular focus has contributed  
8           to stronger credit quality for ITC, which lowers the cost of capital reflected in  
9           rates.

10               As explained more fully by ITC witness Cameron Bready, ITC has a  
11           strong balance sheet, steady cash flow generation, and enjoys solid investment  
12           grade ratings. ITC has been able to attract capital and maintain access to cost-  
13           effective capital even in times of challenging market conditions. This access to  
14           capital and ITC's strong credit quality allows ITC to make efficient infrastructure  
15           investment and supports ITC's operational excellence. ITC intends and expects to  
16           maintain its strong investment grade status after closing the Transaction. This  
17           financial strength and focus has been a key driver behind ITC's record for  
18           achieving high performance in reliability and interconnection of generation  
19           necessary to increase access to competitive power markets and lower the  
20           delivered cost of electric energy to customers.

1   **Q49. HOW IS THE FINANCIAL STRENGTH ATTRIBUTE OF ITC'S**  
2       **BUSINESS MODEL PART OF THE BENEFITS OF THE TRANSACTION?**

3   **A.**   This issue is addressed in detail by ITC witness Cameron Bready. A key element  
4       of the Transaction, however, will be bringing the current transmission businesses  
5       of each Entergy Operating Company into ownership by ITC with its strong  
6       financial capability and sole focus on transmission. At the same time, it will  
7       provide enhanced flexibility for EAI to focus its capital on generation and  
8       distribution. The separate balance sheets of ITC and EAI will more effectively  
9       deal with rising capital investment requirements facing the industry and provide a  
10      greater ability to respond to the financial challenges of storm restoration and other  
11      unforeseen events. Customers will receive the benefit of lower borrowing rates  
12      due to ITC's strong credit ratings and greater investment in the energy  
13      infrastructure for a stronger, more reliable system.

14

15           **F. ITC's Beneficial Attributes Drive Benefits of the Transaction**

16   **Q50. CAN YOU EXPLAIN WHY ITC ENTERED INTO THIS TRANSACTION**  
17       **WITH ENTERGY CORPORATION?**

18   **A.**   We believe our business model is an optimal way for electric transmission assets  
19       to be owned and operated for the benefit of customers, and we look for  
20       opportunities to grow our business in new areas where investment is needed. This  
21       Transaction presents an opportunity for us to grow, and bring the value of our  
22       independent transmission company approach and practices to a new region. In

1           addition, ITC is a perfect partner for the Entergy Operating Companies as they are  
2           pursuing MISO membership. ITC's experience integrating and operating  
3           transmission across several states inside of MISO provides a good platform to  
4           assist in the transition of the Entergy transmission system into MISO. ITC is well  
5           positioned to accomplish the Transaction and post-Transaction operations.  
6

7   **Q51. WHY DO YOU BELIEVE THIS IS THE RIGHT TIME FOR THIS**  
8   **TRANSACTION?**

9   **A.**   The immense need for investment in the nation's energy infrastructure is  
10          weighing on utility companies. For a vertically-integrated company, deciding  
11          which line of business to allocate valuable capital to when all are in need can be  
12          difficult. ITC has significant financial strength to absorb these large transmission  
13          capital requirements. It also is at a stage in its growth where it has the capacity to  
14          undertake a comprehensive evaluation of the Entergy transmission system and  
15          upgrade it to ensure it achieves our performance expectations. As I have said, I  
16          believe this Transaction represents an important opportunity in the development  
17          of our needed regional backbone grid. ITC and Entergy Corporation are currently  
18          at a point where they are able to enter and complete this Transaction and do so in  
19          a tax-free manner, so this is the right time to complete it.  
20

**Q52. WHY SHOULD THE MISSOURI PUBLIC SERVICE COMMISSION  
VIEW THE TRANSACTION AS POSITIVE?**

**A.** The Transaction will expand ITC's business model to southern Missouri, with independence, singular focus, regional view and support of the wholesale energy market, as well as financial strength dedicated to transmission. I have explained these beneficial attributes in my testimony, and they are further illustrated in the testimony of other ITC and EAI witnesses.

I recognize that the benefits of ITC's business model may not be fully appreciated at first. After all, ITC is unique and represents evolution in the electric industry. I also recognize that there may be some skepticism about changing from the status quo without guaranteed dollar figures to rely on as the benefit. I understand based on other witnesses' testimony, however, that any rate impacts of the Transaction are modest, particularly because Transmission represents such a small part of end-use consumers' bills. Even in our most mature systems after significant investments and drastic system improvement, the transmission component of the customers' bill still remains under four percent. More importantly, in any event, the benefits of the Transaction are substantial. In reviewing the Transaction, it is important to consider it in real terms. A good way to understand the value of the Transaction is to look at who ITC is, how our structure drives our priorities and focus, how we approach running our business, and the resulting track record. That is why I have explained those points in my testimony (and pointed to other witnesses who further explain them). ITC's

1 structure and track record illustrate how we are an excellent owner and operator  
2 of transmission systems, we consistently improve the reliability and capability of  
3 transmission systems, and are totally dedicated to open-access transmission and  
4 serving the interests of all transmission customers and stakeholders. That is why  
5 it is important to seize the opportunity of this Transaction to improve the energy  
6 infrastructure in Missouri and the full region covered by the Entergy Operating  
7 Companies.

8  
9 **Q53. HOW WILL THE BENEFITS OF THE TRANSACTION BE DIFFERENT**  
10 **THAN WHAT WOULD OCCUR PURELY AS A RESULT OF EAI**  
11 **BECOMING A MEMBER OF MISO?**

12 **A.** Participation in an RTO supports transmission open-access and planning, and ITC  
13 has been a member of RTOs since its inception. However, in my view, without  
14 the ITC business model, no company's participation in an RTO can provide the  
15 full independence, singular focus, regional view, enhancement of wholesale  
16 market benefits, and the financial strength dedicated to transmission that I have  
17 talked about in my testimony. The RTO is an overlay on the companies that make  
18 it up. To have full access to transmission-related benefits, the difference needs to  
19 be at the source – the member transmission company.

20 Obviously, an RTO does not own transmission. It does not perform local  
21 operations, fund or perform maintenance on the system, fund or build capital  
22 projects or generator interconnections, or respond to customer needs or concerns

1 on the ground. In fact, ITC investments represent over 60% of MISO's total new  
2 in-service transmission investments (and MISO started 2 years before ITC).<sup>26</sup>  
3 The RTO, therefore, cannot drive the benefits that ITC can through its  
4 independent transmission company model, which I explained above.

5 One notable benefit the Transaction provides that cannot be achieved from  
6 EAI joining MISO alone relates to the development of transmission projects. As I  
7 said, the RTO planning process starts with evaluation of projects identified and  
8 submitted by transmission owners – a bottom-up process. Therefore, a  
9 transmission owner's approach to planning has a big impact on what projects are  
10 evaluated by MISO. ITC's broader regional approach to transmission planning  
11 and independent business model result in more robust project proposals to meet a  
12 variety of customer and public policy needs.

13 EAI's planned entry into MISO actually provides further rationale for why  
14 this Transaction makes sense and specifically at this time. ITC has experience  
15 with RTO integration processes and has been operating in MISO since its  
16 inception. ITC has extensive operating experience in MISO, and with its planning  
17 process, and a staff that is familiar with the MISO transmission tariffs, protocols,  
18 and organization. In that sense, ITC's ownership of the transmission system will  
19 help ease and ensure a smooth transition of EAI into MISO.

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<sup>26</sup> MISO's total investments are \$4.3 billion.  
(<https://www.midwestiso.org/Planning/TransmissionExpansionPlanning/Pages/BenefitsofMTBP.aspx>) with  
almost \$2.8 billion of ITC investment in MISO (as of June 30, 2012).



1                   **IV.    ADDITIONAL TRANSACTION-RELATED MATTERS**

2   **Q54.  ASSUMING THE TRANSACTION CLOSES, WHAT ARE SOME**  
3       **IMMEDIATE PRIORITIES YOU SEE FOR A SMOOTH TRANSITION?**

4   **A.**    I believe it is very important for ITC to continue building its knowledge of the  
5       Entergy transmission system and the stakeholders in the local areas where EAI  
6       operates. At the same time, it also is critically important to smoothly integrate  
7       Entergy transmission system employees into our company so we can rely on their  
8       knowledge and expertise, ensure a good continuity of operations and service, and  
9       effectively apply ITC's approach to owning and operating the transmission  
10      system.

11           Through our own efforts and the integration process with Entergy  
12      Corporation for the Transaction, ITC is learning more and more about the  
13      transmission system and local areas where EAI operates. We also are working to  
14      meet and build relationships with stakeholders in the areas where EAI provides  
15      service. To supplement these efforts, I also note that under Section 1.08 of the  
16      Merger Agreement, ITC has committed to add two new independent directors to  
17      the ITC Holding Corp. Board of Directors that will be selected by the ITC Board.  
18      These will be individuals who have transmission industry knowledge and  
19      familiarity with the Entergy region and like all Directors will be independent of  
20      market participants.

21           As I said, we also will rely on the experience and knowledge of employees  
22      coming to ITC with the transmission business. That will include retaining

1 approximately 750 Entergy transmission employees, including some individuals  
2 who currently are in key transmission-related leadership positions. In addition,  
3 ITC will be looking for best practices utilized in the Entergy transmission  
4 business that could help enhance ITC's corporate processes as applied in that area.

5 Because the independent transmission company model is unique, it also  
6 will be important to familiarize the former Entergy transmission system  
7 employees with ITC's culture and business goals. To do so, we will have ITC  
8 management on the ground and in the trenches to facilitate a successful transition.  
9 Our integration process for the Transaction, and for the transition of employees to  
10 ITC, is described in more detail by ITC witness Jon Jipping in his testimony.

11  
12 **Q55. WHERE WILL THE ITC OPERATING COMPANIES RESULTING FROM**  
13 **THE TRANSACTION MAINTAIN OFFICES?**

14 **A.** ITC will maintain field facilities (offices and warehouses) in Arkansas and  
15 across the region. ITC will locate its regional headquarters in Jackson,  
16 Mississippi (where the Entergy transmission business has its headquarters). ITC  
17 witness Jon Jipping provides additional information about planned ITC offices  
18 and other facility locations.

1   **Q56. WHAT ARE YOUR PLANS TO PREPARE FOR STORM RESTORATION**  
2       **NEEDS?**

3   **A.**    ITC has a strong record of timely restoration of service after large storms, most  
4           notably in response to severe floods and tornados. As a result, we bring with us  
5           tested experience in dealing with severe weather conditions and related  
6           transmission outages.

7           However, we also understand that storm restoration is a particularly high  
8           priority issue, in light of ice storms and other extreme weather. As explained in  
9           the direct testimony of ITC witness Mr. Jon Jipping, we and Entergy Corporation  
10          are taking a careful approach to ensuring we have absolute continuity in storm  
11          restoration readiness. We will be adding key storm response personnel from the  
12          Entergy transmission business to the ITC team as part of the Transaction. This is  
13          useful to ensure that on day one after the Transaction closes ITC can utilize the  
14          experience and expertise of personnel who have been addressing severe storms in  
15          the EAI region. Our plan is to adopt the Entergy transmission business' storm  
16          restoration practices that it has employed in the region, while looking for ways to  
17          improve. As part of our integration efforts, we already are conducting storm  
18          restoration drills to work toward ensuring readiness. Our plans for storm  
19          restoration include, as we do in our current service territories, working closely  
20          with municipal and electric cooperative utilities and other wholesale customers to  
21          ensure we understand their needs and concerns regarding storm restoration.  
22          Again, we understand the importance of storm restoration readiness and are

1 focused on continuing to be an excellent performer in that area after the  
2 Transaction closes.

3  
4  
5  
6 **Q57. WHAT IS THE PLAN FOR CLOSING THE TRANSACTION, AND HOW**  
7 **DOES THAT RELATE TO EAI'S PENDING MISO INTEGRATION?**

8 **A.** A condition of closing the Transaction is that all Entergy Operating Companies  
9 must have achieved required approvals from their respective state regulators to  
10 join MISO or another "acceptable RTO." In addition, ITC and Entergy  
11 Corporation obviously must obtain all required regulatory approvals for the  
12 Transaction and satisfy other closing conditions of the Transaction. Once those  
13 closing conditions are satisfied, we hope to close the Transaction as soon as  
14 possible (commensurate with the initial termination date of ITC's agreements with  
15 Entergy).

16 As explained by ITC witness Thomas Wrenbeck, ITC and Entergy  
17 Corporation are prepared to close the Transaction when all regulatory approvals  
18 for the Transaction and other closing conditions are satisfied, without that closing  
19 being linked to the completion of the Entergy Operating Companies' integration  
20 into MISO. Being able to close the Transaction upon satisfaction of all the  
21 Transaction closing conditions, without additional delay, will avoid exposing the  
22 Transaction to unnecessary timing uncertainty and the parties to further market

1 risk while the Transaction remains pending. It also will provide clarity to  
2 employees, transmission customers, regulators and other stakeholders. Finally, it  
3 will allow ITC to begin its efforts to bring the benefits of its business model to  
4 customers at the earliest time possible.

5 Closing the Transaction is the point in time when ITC can begin  
6 implementation of its philosophies with respect to transmission system operations,  
7 maintenance, planning and other areas. With respect to system planning, for  
8 example, as discussed by ITC witness Thomas Vitez, ITC's independent business  
9 model features enhanced bottom up planning through collaboration and open and  
10 transparent communications with regulators, customers and other stakeholders; a  
11 broader regional view, and evaluation of the needs of customers in a single  
12 transmission planning process that will facilitate low cost energy delivery for  
13 customers. Closing the Transaction by the end of summer 2013 would enable  
14 these benefits of ITC's ownership to be captured in the MISO planning process  
15 that begins in September 2013. Upon its entrance into MISO, ITC will be in a  
16 position to apply its unique, broader planning approach in the MISO planning  
17 process a full cycle earlier than if the Transaction were to close later in the year.

18 With respect to ITC's strong credit quality, as discussed in ITC witness  
19 Cameron Bready's testimony, this enhanced credit quality will benefit  
20 transmission customers as debt is refinanced. Closing the Transaction  
21 expeditiously will allow this refinancing to occur, and then the related credit  
22 quality benefits will begin to be realized sooner rather than later.

1           The benefits of the operational excellence stemming from ITC's sole focus  
2           on transmission also will begin to accrue once the Transaction is able to close. As  
3           described in ITC witness Jon Jipping's testimony, ITC has a track record of  
4           steadily improving the performance of its newly-owned transmission systems.  
5           Here again, closing the Transaction will allow ITC to begin to apply its singular  
6           focus on transmission system performance.

7           Closing of the Transaction also will allow the Entergy Operating  
8           Companies' own integration into MISO to be more seamlessly coordinated with  
9           ITC's ownership of the transmission assets formerly owned by the Entergy  
10          Operating Companies, and it also will allow the Entergy Operating Companies to  
11          begin focusing singularly on the development of the systems, processes, and  
12          expertise necessary to function in the MISO markets. Today, the Entergy  
13          Operating Companies are focused on the integration of both their transmission  
14          and generation systems; closing the Transaction will allow the Entergy Operating  
15          Companies to concentrate their efforts on the generation systems and MISO  
16          markets.

17          Finally, ITC has significant experience operating as a Transmission Owner  
18          in MISO. Closing will also allow ITC's expertise to be in place and in progress  
19          the first day that the Entergy Operating Companies begin participation in the  
20          MISO markets.

21                                   **V.   PUBLIC INTEREST**

**Q58. HOW IS THE TRANSFER OF EAI'S TRANSMISSION BUSINESS TO ITC  
IN THE PUBLIC INTEREST?**

**A.** As I have said throughout my testimony, the public interest is served by having ITC own and operate EAI's transmission system. As a result, customers and stakeholders in the region, will get the benefits of a transmission owner and operator that is fully independent from market participants, with a singular focus on transmission, a regional view and dedication to facilitating the development of the wholesale energy market, and financial strength totally dedicated to transmission.

My testimony and that of other ITC witnesses show that ITC has a strong track record of improving the reliability of the transmission grid and reducing congestion to make energy markets more competitive. ITC plans for the future to support states' economic growth and provides flexibility to access more generation resources to utilize the most cost effective resources over time. We manage our transmission business differently and that results in a more robust electric grid for customers with the goal of lowering the delivered cost of energy. All of these benefits support a finding that the public interest is served by this transaction.

Furthermore, serving the public interest is also aligned with our ability to continue to be successful and grow. If ITC does not serve the public interest, and we do not provide value that is above and beyond what existed before ITC owned

1           and operated the system, there is no future for our company or the independent  
2           business model. Serving the public interest is at the core of what we do.

3  
4  
5   **Q59. WILL ITC ARKANSAS PROVIDE RETAIL ELECTRIC SERVICE IN**  
6   **MISSOURI?**

7   A.   No. ITC Arkansas will not provide retail electric service to customers in Missouri.  
8        ITC Arkansas will only provide transmission services to wholesale customers.  
9        Accordingly, ITC Arkansas has requested PSC waiver of certain rules that apply  
10       to public utilities providing retail electric service to customers.

11

12   **Q60. PLEASE IDENTIFY THE RULES FOR WHICH ITC ARKANSAS**  
13   **REQUESTS WAIVER DUE TO INAPPLICABILITY TO THE LIMITED**  
14   **TRANSMISSION FACILITIES IN MISSOURI SERVING WHOLESALE**  
15   **CUSTOMERS.**

16   A.   Commission Rules 4 CSR 240-3.105, 3.145, 3.165, 3.175 and 3.190(1)-  
17       (3).

18



1 **VI. CONCLUSION**

2 **Q61. CAN YOU SUMMARIZE YOUR PROPOSALS AND**  
3 **RECOMMENDATIONS FOR THE COMMISSION?**

4 **A.** The proposed transaction between ITC and Entergy Corporation presents a unique  
5 opportunity to efficiently and effectively meet the future challenges of the electric  
6 industry by bringing the benefits of the independent transmission company model  
7 to the Entergy region. The RMT structure, which makes this transaction tax free,  
8 is unique and may not be available in the future. Further, we are the only  
9 independent, transmission-only entity that is the right size to make the Transaction  
10 work and that situation may not be the same in the future. This is a  
11 transformational next step in the development of a robust and highly-  
12 interconnected transmission grid and for the reasons stated throughout the  
13 testimony in this case, I recommend that it be approved.

14  
15 **Q62. WHAT OTHER ITC WITNESSES ARE SUBMITTING TESTIMONY IN**  
16 **THIS PROCEEDING IN SUPPORT OF THE REQUESTED APPROVALS?**

17 **A. Cameron Bready** – Mr. Bready is Executive Vice President and Chief Financial  
18 Officer. His testimony describes the merits and benefits of the proposed  
19 transaction from a financial perspective along with the benefits it will bring to  
20 customers. He also discusses how ITC's rate construct and financial strength are  
21 well suited to address sustained levels of capital investments to meet planned and  
22 unplanned investment needs.

1       **Douglas Collins** – Mr. Collins is President of ITCMW and a Vice President of  
2       ITC. His testimony explains how the ITC independent business model has been  
3       applied in the ITCMW footprint and provided benefits to customers.  
4       Specifically, he explains the value of investments in the ITCMW system since the  
5       company began in 2007 and provides examples to demonstrate that ITC follows  
6       through on the commitments it makes to the jurisdictions it serves, is responsive  
7       to the transmission wants and policy objectives of its jurisdictions, and is  
8       successful in meeting those objectives, including improving system reliability and  
9       efficiency through proactive maintenance and investment focused on lowering  
10      energy costs through removal of transmission constraints.

11      **Jon Jipping** – Mr. Jipping is Executive Vice President and ITC's Chief Operating  
12      Officer. He provides an in-depth discussion about ITC's singular focus on  
13      transmission and how that provides a platform for ITC's stewardship of the  
14      transmission networks it operates and maintains. Mr. Jipping explains ITC's  
15      proven track record of operational excellence and how that is achieved. Further,  
16      he discusses the current management structure of ITC and how ITC Arkansas and  
17      the other new ITC operating companies will be integrated into the ITC  
18      organizational structure while ensuring business continuity of the critical  
19      functions necessary for the safe and reliable operation of the EAI transmission  
20      system.

1       **Thomas Vitez** – Mr. Vitez is Vice President of Planning for ITC. He will  
2       describe ITC's transmission planning process, how it works with the MISO  
3       planning process, and the benefits of independent planning compared to  
4       traditional planning within a vertically-integrated utility. In addition, he will  
5       explain how ITC's ownership of EAI's transmission assets will provide benefits in  
6       excess of what could be expected from EAI's participation in an RTO planning  
7       process and ITC's plans with respect to EAI's current transmission projects.

8       **Thomas Wrenbeck** – Mr. Wrenbeck is Director, Regulatory Strategy for ITC. He  
9       will provide an overview of the formula rate proposed for ITC, including the  
10      annual true-up adjustment and summary of the formula rate protocols through  
11      which ITC will share information regarding the annual formula rate projection  
12      and true-up adjustment. He will also describe how the formula rate will be  
13      implemented for ITC in 2013 and 2014. Finally, Mr. Wrenbeck will describe  
14      ITC's plans for outreach to stakeholders in the Entergy footprint.

15  
16  
17   **Q63. WHAT FEDERAL APPROVALS ARE REQUIRED TO COMPLETE THIS**  
18   **TRANSACTION?**

19   **A.**   The Transaction is contingent upon obtaining approvals from the FERC under the  
20   following sections of the Federal Power Act ("*FPA*"):

- 21       • Section 203 for the transfer of Entergy's transmission assets;  
22       • Section 204 for the issuance of debt and securities by Entergy and ITC; and

- 1           • Section 205 rate filing for the resulting new ITC public utility operating  
2           companies.

3           In addition, the Transaction requires approval from the U.S. Department of  
4           Justice under the Hart–Scott-Rodino Act. Entergy also is seeking a private letter  
5           ruling from the U.S. Department of the Treasury Internal Revenue Services  
6           (“*IRS*”) supporting the tax-free nature of the Transaction. ITC has obtained  
7           approval of the Transaction from its shareholders. The rest of the Transaction  
8           must be, in compliance with the Securities Act and the rules and regulations of the  
9           New York Stock Exchange.

10

11   **Q64. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

12   **A.**   Yes.

STATE OF Michigan )  
 )  
COUNTY OF Oakland ) SS.

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**

In the Matter of the Joint Application )  
of Entergy Arkansas, Inc., Mid South )  
TransCo LLC, Transmission Company )  
Arkansas, LLC and ITC Midsouth LLC ) File No. EO-2013-0396  
for Approval of Transfer of Assets and )  
Certificate of Convenience and Necessity, )  
and Merger and, in connection therewith, )  
Certain Other Related Transactions )

**AFFIDAVIT OF JOSEPH L. WELCH**

COMES NOW Joseph L. Welch, of lawful age, sound of mind and being first duly sworn, deposes and states:

1. My name is Joseph L. Welch; I am President and Chief Executive Officer ("CEO") of ITC Holdings Corp.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony in the above-referenced case.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge, information and belief.

Joseph L. Welch  
Joseph L. Welch

SUBSCRIBED AND SWORN to before me, a Notary Public, this 24<sup>th</sup> day of April, 2013.

Sandra K. Biggar  
Notary Public

My Commission Expires:  
(SEAL)

SANDRA K. BIGGAR  
NOTARY PUBLIC, STATE OF MI  
COUNTY OF WAYNE  
MY COMMISSION EXPIRES JUN 22, 2016  
ACTING IN COUNTY OF Oakland

**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**

In the Matter of the Joint Application	)	
of Entergy Arkansas, Inc., Mid South	)	
TransCo LLC, Transmission Company	)	
Arkansas, LLC and ITC Midsouth LLC	)	File No. EO-2013-0396
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Certificate of Convenience and Necessity,	)	
and Merger and, in connection therewith,	)	
Certain Other Related Transactions	)	

**EXHIBIT JLW-1**

**ITC'S POLICY ON INDEPENDENCE**

**ITC HOLDINGS CORP.  
POLICY ON INDEPENDENCE**

**I. GENERAL POLICY**

International Transmission Company d/b/a *ITCTransmission*, Michigan Electric Transmission Company, LLC ("METC"), ITC Midwest LLC ("ITC Midwest"), and ITC Great Plains, LLC ("ITC Great Plains") are independent transmission companies engaged exclusively in the development, construction, and ownership of transmission facilities.<sup>1</sup> The Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") operates the transmission facilities of *ITCTransmission*, METC and ITC Midwest in accordance with the Midwest ISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Midwest ISO OATT"). The Southwest Power Pool ("SPP") operates the transmission facilities of ITC Great Plains in accordance with the SPP Open Access Transmission Tariff ("SPP OATT").

It is the policy of ITC Holdings Corp. ("ITC Holdings") to safeguard and maintain the independence of *ITCTransmission*, METC, ITC Midwest and ITC Great Plains from Market Participants. ITC Holdings therefore adheres to this Policy on Independence.

**II. CORPORATE INDEPENDENCE**

**A. Definitions**

*Affiliate* has the meaning set forth in 18 CFR § 358.3(a) of the regulations of the FERC.

*Control* has the meaning set forth in 18 CFR § 358.3(a)(3) of the regulations of the FERC.

*Director* means any member of the boards of directors of ITC Holdings or any of its Affiliates.

*Employee* means any employee of ITC Holdings, *ITCTransmission*, METC, ITC Midwest or ITC Great Plains.

*Market Participant* has the meaning set forth in 18 CFR § 35.34(b)(2) of the regulations of the FERC.

<sup>1</sup> *ITC Holdings Corp., et al.*, 102 FERC ¶ 61,182 (2003). See also *ITC Holdings Corp., et al.*, 111 FERC ¶ 61,149 (2005).

*Officer* means any employee of ITC Holdings or any of its Affiliates who holds a Director-approved position, typically Vice President and higher.

*Regional Transmission Organization* means the Midwest ISO, SPP, ISO New England, the New York ISO, PJM Interconnection, the Electric Reliability Council of Texas, or the California ISO.

**B. Market Participant Ownership of Securities in ITC Holdings Corp. is Restricted**

In order to protect the independence of *ITCTransmission*, METC, ITC Midwest and ITC Great Plains, the Articles of Incorporation of ITC Holdings restrict Market Participant ownership of ITC Holdings securities:

"First, ITC Holdings shall not issue shares of stock that would cause a market participant (or a group of stockholders containing a market participant) to beneficially own five percent or more of any class of ITC Holdings stock. Second, if a market participant (or a group containing a market participant) acquires five percent or more of any class of ITC Holdings stock, no market participant (or a group containing a market participant) may vote, give consent in respect of, or direct or control five percent or more of any class of ITC Holdings stock. Third, the Board of Directors of ITC Holdings shall be empowered to redeem shares so that a market participant (or a group containing a market participant) will not own five percent or more of any class of ITC Holdings stock."<sup>2</sup>

ITC Holdings will inform the FERC within ten days if it receives notice from the U.S. Securities and Exchange Commission, a Market Participant, or a group including a Market Participant, that the five percent stock ownership level has been reached or exceeded.<sup>3</sup> If ITC Holdings, has invoked one or more of the restrictions in its restated Articles of Incorporation to prevent a Market Participant's ownership share from exceeding five percent, it will describe to FERC the action taken and its effect on the Market Participant's ownership share.

**C. Obligation to Advise FERC of New Material Facts**

ITC Holdings will inform the FERC promptly of any material new facts that could affect the continued independence of *ITCTransmission*, METC, ITC Midwest or ITC Great Plains.

<sup>2</sup> *ITC Holdings Corp., et al.*, 111 FERC ¶ 61,149 (2005) at P 15.

<sup>3</sup> *ITC Holdings Corp., et al.*, 111 FERC ¶ 61,149 (2005) at P 25.



### **III. EMPLOYEE INDEPENDENCE**

#### **A. No Interests in Market Participants**

1. Directors, Officers, and Employees shall have no direct financial interest in, or a financial conflict of interest with, any Market Participant or any Affiliate of any Market Participant.

ITC Holdings will require any consultant, contractor, and/or subcontractor to disclose any direct financial interest in any Market Participant or any Affiliate of any Market Participant, or any potential financial conflict of interest between ITC Holdings and any Market Participant or any Affiliate of any Market Participant. ITC Holdings may disqualify any consultant, contractor, and/or subcontractor based on such direct financial interest or potential financial conflict of interest.

Employees shall not benefit financially from any transaction with any Market Participant or any Affiliate of any Market Participant.

Employees and their immediate family members (spouses and minor children living in the same households) may not directly own securities issued by any Market Participant or any Affiliate of any Market Participant. Each Employee (and each immediate family member thereof) shall dispose of any securities in any Market Participant or any Affiliate of any Market Participant within six (6) months of the commencement of his/her employment with ITC Holdings. If an Employee (or any immediate family member thereof) receives a gift or inheritance of securities in any Market Participant or any Affiliate of any Market Participant, he/she must dispose of such securities within six (6) months of the date of receipt.

2. Nothing in this Policy on Independence shall be interpreted to preclude an Employee (or any immediate family member thereof) from indirectly owning securities issued by any Market Participant or any Affiliate of any Market Participant through a managed diversified fund or similar arrangement (other than a managed fund or arrangement specifically targeted towards the electric utility industry, or any segment thereof).
3. Participation in a pension plan of a Market Participant or an Affiliate of a Market Participant shall be deemed to be a permissible financial interest as long as such pension plan is a defined benefit or defined contribution pension plan that does not involve ownership of the securities of the Market Participant or Affiliate sponsoring such plan.

**B. Annual Verification of Compliance**

All Directors and Officers will annually certify in writing, by May 1<sup>st</sup> of each year, that they are in compliance with this Policy on Independence.