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 for Approval of Transfer of Assets and Certificate of Convenience and Necessity, and Merger and, in connection therewith, Certain Other Related Transactions	))))))))))))))	File No. EO-2013-0396

DIRECT TESTIMONY AND EXHIBITS

OF

CAMERON M. BREADY

ON BEHALF OF ITC MIDSOUTH LLC

APRIL 2013

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Cameron M. Bready. I am Executive Vice President and Chief Financial Officer ("***CFO***") of ITC Holdings Corp. ("***ITC***" or "***the Company***"). My business address is 27175 Energy Way, Novi, Michigan 48377.

Q2. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS EXECUTIVE VICE PRESIDENT AND CFO OF ITC.

A. As CFO, I am responsible for all of the financial operations of ITC. I oversee the accounting, financial reporting, investor relations, treasury, risk management, tax, internal audit and financial planning and analysis functions for ITC and its operating subsidiaries, including International Transmission Company *dba* ITC*Transmission* ("***ITCT***"), Michigan Electric Transmission Company, LLC ("***METC***"), ITC Midwest LLC ("***ITCMW***") and ITC Great Plains LLC ("***ITC Great Plains***"). I will have the same responsibilities for ITC Midsouth, LLC. In addition to my CFO responsibilities, I am also responsible for transmission development activities through ITC Grid Development. In this capacity, I manage efforts to identify new opportunities for ITC to participate in the development of, and investment in, transmission infrastructure in certain markets within the United States.

Q3. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I earned a bachelor's degree in Business Administration from Oglethorpe University in

Atlanta. I am a Certified Public Accountant.

Q4. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

A. Yes. I serve on the Edison Electric Institute Financial Executive Advisory Committee and on the Boards of Trustees of the Judson Center and Oglethorpe University.

Q5. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. Prior to joining ITC in 2009, I served for one and a half years as Vice President of Finance at Northeast Utilities, where I was responsible for all corporate financial planning and analysis functions and financial policy matters, including cost of capital and capital structure requirements and dividend policy. In addition, I oversaw the financial assessment and structuring of Northeast Utilities' Federal Energy Regulatory Commission ("***FERC***") regulated transmission and state-regulated generation and distribution infrastructure investments in the Northeast. For seven and a half years before joining Northeast Utilities, I held various senior management positions at Mirant Corporation. Earlier in my career, I was a senior manager in the Transaction Advisory practice at Ernst & Young and an audit manager for Arthur Andersen.

Q6. HAVE YOU PROVIDED TESTIMONY IN PRIOR REGULATORY PROCEEDINGS?

A. Yes. I testified in the state of Connecticut regarding generation solicitation proceedings while I was employed by Northeast Utilities in 2008. Additionally, I am testifying in Texas, Louisiana and New Orleans, Arkansas, and Mississippi regarding the transaction that is the subject of this proceeding. I also have filed testimony in the FERC proceeding in Docket Nos. EC12-145-000, ER12-2681-000 and EL12-107-000 related to the transaction.

Q7. ARE YOU SPONSORING ANY EXHIBITS AS PART OF THIS FILING?

A. Yes. I am sponsoring Exhibits CMB-1 through CMB-8 as follows:

<u>Exhibit CMB-1</u>:	The Transaction Merger Agreement
<u>Exhibit CMB-2</u>:	The Transaction Separation Agreement
<u>Exhibit CMB-3</u>:	Credit Ratings Range for Moody's Investor Services, Inc. ("Moody's) and Standard & Poor's ("S&P") Rating Services
<u>Exhibit CMB-4</u>:	Moody's Key Ratings Factors
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<u>Exhibit CMB-8</u>:	Employee Matters Agreement

II. <u>PURPOSE OF TESTIMONY</u>

Q8. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying on behalf of ITC Midsouth LLC ("***ITC Midsouth***"). The purpose of my testimony is to demonstrate the benefits of the transmission assets of Entergy Arkansas, Inc. ("EAI")[1] being owned and operated by ITC, an independent transmission company with a singular focus and a proven track record of significant investment in needed transmission infrastructure and solid operational performance. I describe the merits of the proposed transaction between Entergy Corporation and ITC (collectively, the "***Parties***") and explain, from a financial perspective, the cumulative and progressive benefits it will bring. Further, I discuss how ITC is well positioned to address the challenges of managing a transmission business that requires sustained levels of significant capital investments, as is the case for Entergy's transmission business, by ensuring sufficient cash flow generation and access to cost-effective capital to support such investments.

The challenge of significant and sustained capital transmission investment, coupled with projected strained cash flows, increases pressure on the Entergy Operating Companies' credit quality resulting in less efficient access to the capital markets and reduced financial flexibility. My testimony explains why these problems are remedied by ITC, which provides a separate, strong balance sheet to support transmission investment, while allowing EAI to use its balance sheet to support its generation and distribution business. In addition, I address how ITC's financial strength makes it better suited to address both planned and unplanned transmission system investment needs, including those stemming from storm-related restoration activities.

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[1] My testimony uses the term "Entergy Operating Companies" or "***EOCs***" to refer collectively to EAI, 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").

My testimony details how ITC's business model, consisting of its full independence, sole focus on transmission and rate construct, produces a strong financial platform with solid credit quality that ensures access to cost-effective capital in virtually all market conditions. To support this point, I provide an analysis of the estimated debt cost savings assuming ITC ownership of the Entergy Operating Companies' transmission business. In aggregate, these savings range from approximately $159 million to $197 million (in nominal dollars) or $127 million to $156 million on a net present value ("***NPV***")[2] basis over the five-year period 2014 through 2018 as a result of the Transaction. EAI specific savings are presented in Exhibit CMB-5.

Additionally, I am providing ITC financial statements, rating agency reports, and shareholder information to support my testimony.[3]

III. SUMMARY OF TESTIMONY

Q9. PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY

A. My testimony explains the merits and benefits of the proposed transaction from a

[2] Assumes 8% discount rate as utilized *In the Matter of a Show Cause Order Directed to Entergy Arkansas, Inc. Regarding Its Continued Membership in the Current Entergy System Agreement, or Any Successor Agreement Thereto, and Regarding the Future Operation and Control of Its Transmission Assets*, Docket No. 10-011-U, Document No. 367 ("An Evaluation of the Alternative Transmission Arrangements Available to the Entergy Operating Companies and Support for Proposal to Join MISO"), Exhibit No. 4 – Cost Benefit Analysis of Entergy/ Cleco Power or Entergy Arkansas Joining the Midwest ISO, Addendum Study at p. 37 of 42. (hereinafter cited as ***"Entergy Transfer of Functional Control Application"***).

[3] Attached hereto as Exhibit CMB-7 is the ITC 2011 Annual Report to Shareholders (7A) and 2011 Form 10K (7B).

financial perspective. I describe the structure of the proposed transaction, its financing components, and the anticipated debt financings. I also explain why the structure of this particular transaction, at this time, ensures the maximum benefits of ITC's ownership of the transmission assets.

I further testify to the financial benefits the transaction will deliver by describing the predictable access to cost-effective capital and strong credit quality of ITC's current operating subsidiaries, as well as why ITC expects to realize these same benefits for ITC Arkansas LLC ("***ITC Arkansas***"), which will become the ITC subsidiary that will own the EAI transmission assets, including the assets in Missouri, post-closing of the transaction.[4] Additionally, I highlight the importance of solid investment grade ratings in attracting debt capital at reasonable terms and why this is a critical differentiating factor between ITC ownership versus Entergy Corporation ownership of the transmission business, and the resulting ability to support significant needed investments in transmission.

My testimony then explains the regulatory model ITC proposed in its application for approval of the transaction from FERC, including an overview of accounting policies and procedures under FERC regulation.

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[4] EAI will separate its electric transmission business, including the transmission assets in Missouri, into Transmission Company Arkansas LLC. Post-closing of the separation and merger, ITC will change the name of Transmission Company Arkansas LLC to ITC Arkansas LLC. For consistency I will refer to Transmission Company Arkansas LLC as "ITC Arkansas" in my testimony.

IV. STRUCTURE OF THE TRANSACTION

Q10. PLEASE DESCRIBE THE PROPOSED TRANSACTION BETWEEN ITC AND ENTERGY CORPORATION.

A. On December 4, 2011, Entergy Corporation and ITC entered into agreements under which Entergy Corporation will first separate its electric transmission businesses located in Arkansas, Louisiana, Mississippi, Texas, New Orleans, and small portions of Missouri from the Entergy Operating Companies into separate transmission companies referred to as the ***"Mid South Operating Companies."*** At the completion of the separation, Mid South TransCo LLC (***"Mid South TransCo"***), a newly created holding company and wholly owned subsidiary of Entergy Corporation, will be "spun off" to Entergy Corporation shareholders and then merged into a newly created subsidiary of ITC. The Mid South Operating Companies will be subsidiaries of Mid South TransCo.[5] I will refer to this separation and merger collectively as the ***"Transaction."*** For Missouri specifically, EAI will separate its electric transmission business into Transmission Company Arkansas LLC, which will be one of the Mid South Operating Companies. Following the merger of Mid South TransCo into ITC, Transmission Company Arkansas LLC will be renamed ITC Arkansas and, going forward, Missouri wholesale customers will be served by ITC Arkansas.

Q11. WHAT ARE THE NECESSARY APPROVALS REQUIRED FOR THE TRANSACTION?

[5] Post-closing of the Transaction, ITC will change the name of Mid South TransCo to ITC Midsouth LLC.

A. The Transaction requires a number of state and federal regulatory approvals as described by ITC witness Joseph Welch. In addition to these approvals, Entergy Corporation is seeking a private letter ruling[6] from the U.S. Department of the Treasury, Internal Revenue Service (“***IRS***”) supporting the tax-free nature of the Transaction, the receipt of which is a condition to closing the Transaction. On April 16, 2013, ITC received approval from its existing shareholders to effectuate the merger with Mid South TransCo.

Q12. WHAT ITC SHAREHOLDER APPROVALS WERE OBTAINED THAT WERE REQUIRED FOR THE TRANSACTION?

A. ITC shareholders approved: (i) the merger; (ii) amendments to the ITC Articles of Incorporation to increase the number of authorized shares of ITC common stock and (iii) the issuance of new shares in an amount greater than 20% of the outstanding shares of ITC common stock.

Q13. WHAT ARE THE KEY STEPS TO EFFECTUATE THE MERGER OF THE SPUN-OFF ENTERGY TRANSMISSION BUSINESS INTO ITC?

A. The steps needed to effectuate the merger of the Entergy Operating Companies' transmission assets into ITC using an all-stock, Reverse Morris Trust (“***RMT***”) transaction are described in detail in the Merger Agreement, the Separation Agreement,

6 A private letter ruling is issued by the IRS in the form of a written statement interpreting and applying tax laws to the taxpayer's specific set of facts. It is issued to establish with certainty the federal tax consequences of a particular transaction before the transaction is consummated. A private letter ruling is issued in response to a written request submitted by a taxpayer and is binding on the IRS if the taxpayer fully and accurately describes the proposed transaction in the request and carries out the transaction as described. *Understanding IRS Guidance – A Brief Primer*, http://www.irs.gov/uac/Understanding-IRS-Guidance---A-Brief-Primer

and the Employee Matters Agreement for the Transaction, which are included as Exhibits CMB-1, CMB-2, and CMB-8, respectively. The following summarizes the key financial aspects of the Transaction:

i. Entergy Corporation will raise up to $1.775 billion of new debt at the Mid South Operating Companies and Mid South TransCo; Entergy Corporation will then distribute approximately 90% of the ownership, in the form of common units, of Mid South TransCo (which will own the Mid South Operating Companies) to Entergy Corporation shareholders. Entergy Corporation may elect to distribute the remaining common units (less than 10% of Mid South TransCo which will convert into less than 5% of the outstanding common stock of ITC at the time of the merger) to an Exchange Trust of which Entergy shareholders will be the sole beneficial owners.

ii. Prior to merging Mid South TransCo (as owner of the Mid South Operating Companies) into ITC Midsouth LLC, a newly formed, wholly owned subsidiary of ITC, ITC Holdings will effectuate a recapitalization in an amount up to $700 million, which will take the form of a one-time special dividend, a share repurchase or a combination thereof ("***ITC Recapitalization***"), to align ITC's equity value with that of Mid South TransCo in order to meet the requirements of the RMT in a manner that is equitable to ITC; and

iii. Mid South TransCo will subsequently merge with ITC Midsouth LLC, with the Mid South Operating Companies, including Transmission Company Arkansas LLC (to be renamed ITC Arkansas), becoming the new ITC operating companies, collectively referred to throughout my testimony as the "***New ITC Midsouth***

Operating Companies." At the time of closing, Entergy Corporation shareholders will receive shares of ITC common stock representing a 50.1% ownership in ITC Holdings in exchange for the common units of Mid South TransCo that were previously distributed to them by Entergy Corporation, thereby each individually becoming an ITC shareholder.

Q14. WHAT IS AN RMT?

A. An RMT is a structure that combines two more conventional transactions: a spin-off and a stock-for-stock merger. This transaction structure, which can also be characterized as a "spin-merge," is designed to facilitate tax-free business combinations. While not common in the utility sector, RMT transactions have been used in numerous transactions in a variety of other industries. Mechanically, an RMT transaction entails the spin-off of a business unit or division of a company to its existing shareholders and then the subsequent merger of this subsidiary with another stand-alone, unaffiliated company. The shareholders of the parent company of the spun-off business unit or division (in this case, Entergy Corporation's shareholders) must own over 50% of the combined company immediately following the merger to meet the requirements of the IRS rules for tax-free treatment. An RMT is typically only feasible when the spun-off business unit or division and the merger partner have comparable equity values. Given the general alignment of the equity values of ITC and Entergy Corporation's transmission businesses at this point in time, the RMT is currently available to the Parties and is advantageous as it enables customers and stakeholders to realize the full benefits of the Transaction.

Q15. ARE THERE CONDITIONS ON THE TAX-FREE TREATMENT ASSOCIATED WITH THE RMT STRUCTURE?

A. Yes. The tax-free treatment of the Transaction is based on a variety of conditions, not the least of which is effectuating the spin-off and subsequent all-stock merger in a manner that complies with IRS requirements. Additionally, ITC is generally restricted from issuing equity for a two-year period after closing the Transaction if such issuance is deemed to be part of a "plan," as defined by the Internal Revenue Code and Treasury Regulations. Typically, issuing equity to effectuate additional mergers or acquisitions during this timeframe would be presumed to be part of a "plan," but issuing equity to address unplanned investment needs, such as storm restoration, would not. ITC believes that these IRS restrictions will not affect its ability to make necessary transmission investments during this period, whether planned or unplanned.

Q16. WHY IS THE RMT STRUCTURE IDEAL FOR THIS TRANSACTION?

A. The RMT structure is ideal for this transaction because of two primary benefits: 1) it avoids negative tax consequences from Entergy Corporation's divesting its transmission business, and 2) it allows ITC to utilize its stock in a manner that preserves its independence. As a result of the transaction structure, Entergy Corporation will not incur a tax liability upon divesting its transmission business, and customers will not realize the negative rate impact that they otherwise would in a taxable transaction. Under a taxable transaction, the tax basis of EAI's transmission assets would be reset and Accumulated Deferred Income Taxes (***"ADIT"***) would be re-measured, resulting in lower balances of ADIT. Because ADIT ultimately lowers transmission rates in cost of service ratemaking, re-measuring ADIT would otherwise result in higher transmission rates in a taxable transaction, all other things being equal. As a result of the RMT transaction structure, EAI's transmission assets will have the same tax basis once merged into ITC as they had prior to the Transaction. Accordingly, the negative rate effects for customers that otherwise would have resulted from a change in tax basis under a taxable transaction are avoided.

The issuance of ITC shares directly to Entergy Corporation shareholders preserves ITC's independence, while still allowing for the same beneficial tax treatment. In sum, the preservation of ITC's independence and the avoidance of negative tax consequences afforded by the tax-free spin-off coupled with the tax-free stock-for-stock merger make the RMT structure ideal for this Transaction for the Parties and customers.

Q17. WHAT ARE THE OTHER BENEFITS OF THE TRANSACTION?

A. In addition to the benefits noted above, the Transaction is beneficial to customers as it:

i. Moves the Entergy transmission business into ITC's independent model with its singular focus on transmission and regional planning expertise;

ii. Preserves and potentially enhances the credit quality of EAI, the other Entergy Operating Companies and ITC, as discussed below; and

iii. Further enhances ITC's financial strength and flexibility as ITC will roughly double in size as a result of the Transaction.

Q18. DO YOU HAVE CONFIRMATION THAT THE TRANSACTION WILL NOT BE TAXABLE?

A. The Transaction has been carefully designed to satisfy the requirements of an RMT transaction under Sections 355, 361, 368 and other relevant provisions of the Internal Revenue Code. Further, as discussed in Section 5.15(a) of the Merger Agreement (included as Exhibit CMB-1), Entergy has applied for a private letter ruling from the IRS confirming that certain requirements for the tax-free treatment of the spin-off are met and seeking an opinion that the spin-off and the merger will be tax-free. Receipt of a favorable private letter ruling from the IRS is a condition to closing the Transaction.

Q19. HOW WILL THE TRANSACTION BE FINANCED OR FUNDED BY ITC?

A. ITC will issue shares of its common stock to Entergy Corporation shareholders in exchange for their ownership of the common units of Mid South TransCo in an all-stock transaction. Entergy Corporation shareholders and the Exchange Trust, if applicable, will receive common units in Mid South TransCo as part of Entergy Corporation's separation (the spin-off) of its transmission businesses. The amount of shares to be issued by ITC will be determined in accordance with Section 1.02 of the Merger Agreement (included as Exhibit CMB-1). As of the date of this testimony, ITC has approximately 52 million shares of common stock issued and outstanding. Assuming the ITC Recapitalization takes the form of a special dividend, ITC would issue roughly 52 million shares of its common stock to Entergy Corporation shareholders in exchange for their units of Mid South TransCo to effectuate the merger. If a portion or all of the ITC Recapitalization takes the form of a share repurchase, the number of shares of common stock issued to Entergy Corporation shareholders in exchange for their common units of Mid South TransCo will essentially be reduced by the number of shares of ITC stock repurchased.

In addition, as the Transaction constitutes a merger, ITC will assume the debt that Entergy Corporation will raise at Mid South TransCo and the Mid South Operating Companies, which will be up to $1.775 billion in the aggregate.

Q20. DOES ITC ANTICIPATE ISSUING DEBT TO FINANCE THE TRANSACTION?

A. Yes. ITC Holdings will issue approximately $700 million of debt to fund the ITC Recapitalization. In addition, subsequent to the close of the Transaction, ITC will refinance a portion of the up to $1.775 billion of debt that will be issued at Mid South TransCo and its subsidiaries. Approximately $1.2 billion of this debt is expected to take the form of an unsecured 366-day bridge facility at the Mid South Operating Companies. ITC expects to refinance this $1.2 billion in debt with approximately $1.2 billion of longer-term debt at the New ITC Midsouth Operating Companies. ITC Arkansas' share of this debt is currently estimated to be approximately $400 million. The financing plan and resulting capital structure (detailed later in my testimony) for the New ITC Midsouth Operating Companies will be comparable to that of ITC's existing operating subsidiaries. The financing plans and expected debt issuances for the Transaction are designed to preserve ITC's current credit metrics and high credit quality.

V. <u>BENEFITS ITC PROVIDES</u>

Q21. WHAT BENEFITS DOES ITC BRING TO CUSTOMERS THROUGH THIS TRANSACTION?

A. As stated earlier, my testimony is generally limited to discussing the benefits of the

Transaction from a financial perspective. These benefits are cumulative and progressive in nature. One immediate benefit is that ITC's high credit quality allows for the refinancing of debt currently held by the EAI and the other Entergy Operating Companies at significantly lower rates. This is an application of ITC's financial strength to Entergy Corporation's transmission business and existing capabilities to align financing and investment needs in a more cost-effective manner. In addition, the Transaction also addresses the strain on the Entergy Operating Companies' collective balance sheets resulting from significant capital investment requirements. The transmission investment requirements will place a disproportionate amount of capital pressure on the Entergy Operating Companies, largely due to the high ratio of capital investment needs to cash flow generated by this segment of the business. Entergy's financial flexibility to fund its generation and distribution businesses is meaningfully increased by transferring the ownership of the transmission business to ITC, which has a business model better equipped to address the significant transmission-related capital investment requirements. More simply, the introduction of ITC's balance sheet and functional expertise to address escalating and sustained transmission investment requirements will empower Entergy to address opportunities and issues impacting its broader business more efficiently. In addition, not only does ITC's rate construct better support efficiently capitalizing the known investment requirements of the transmission business, but it is also better suited to address the inevitable unplanned capital investment needs, including storm restoration requirements. Additional near-term benefits associated with ITC's independence are explained by ITC witness Joseph Welch.

Long-term, in addition to the operational benefits highlighted by ITC witnesses Jon Jipping, Thomas Vitez, and Mr. Welch, separating and merging Entergy's transmission assets into ITC will bring greater focus and financial strength to the transmission business, as well as the generation and distribution functions that will remain under the Entergy Operating Companies' ownership. ITC is better equipped than Entergy to meet the sustained and significant transmission investment requirements that are projected because of ITC's rate construct and higher credit quality. ITC's existing operating subsidiaries' solid credit profiles provide consistent access to capital markets at better rates than would be available absent ITC ownership, which creates savings that will be passed on to customers in the form of reduced interest expense. The Transaction also reduces the risk of financial distress to EAI and the other existing Entergy Operating Companies.

As noted above, many of the financial benefits resulting from the Transaction, including enhanced credit quality and associated interest savings, greater access to capital, and improved liquidity, are directly attributable to ITC's rate construct. I will expand on these specific benefits.

1. <u>ENHANCED CREDIT QUALITY AND DEBT SAVINGS</u>

Q22. WHY ARE SOLID INVESTMENT GRADE CREDIT RATINGS IMPORTANT TO CUSTOMERS?

A. Solid investment grade credit ratings enable consistent and predictable access to cost-effective capital and ultimately lower debt financing costs. ITC's strong ratings attract a large pool of investors who are willing to invest in ITC and in its existing operating subsidiaries' debt. Given the capital intensive nature of transmission investment, solid investment grade ratings are critical to ITC and its operating subsidiaries as these ratings enable ITC to regularly access the capital markets at lower costs, which are ultimately reflected in our transmission rates.

Q23. PLEASE DESCRIBE HOW CREDIT QUALITY IS MEASURED BY THE RATING AGENCIES.

A. The rating agencies evaluate credit quality and assign credit ratings based on a variety of qualitative and quantitative factors that address business risk and financial risk, including regulatory risk, which is a critical factor for utility company credit ratings. For example, Moody's rating methodology for regulated utilities includes two key factors that consider regulatory risk. The first factor, "Regulatory Framework," considers regulatory consistency, predictability and supportiveness. The second factor, "Ability to Recover Costs & Earn Returns," considers the rate and tariff review process, including the outcomes and timeliness. Each of these factors is assigned a weight of 25% in Moody's ratings. The rating agencies also consider a variety of quantitative factors, typically referred to as credit ratios or metrics, such as the ratio of funds from operations ("***FFO***") to cash interest, FFO as a percentage of total debt, and total debt as a percentage of the total capitalization of an enterprise. Additionally, a weight of 10% is attributable to diversification, which measures the diversity of markets or locations in which a company operates. The credit ratings assigned to entities range from investment grade to non-investment grade ratings (also referred to as speculative or "junk"), with higher credit quality entities receiving investment grade ratings. Please see Exhibits CMB-3 and CMB-

4 that show the credit ratings scales for Moody's and S&P and an overview for Moody's key rating factors, respectively.

Q24. PLEASE EXPLAIN THE CREDIT QUALITY OF ITC'S OPERATING COMPANIES AS COMPARED TO THAT OF THE ENTERGY OPERATING COMPANIES.

A. The ITC Operating Companies are deemed to be of higher credit quality than the EOCs, as well as most vertically-integrated utilities, primarily for two reasons. First, the ITC Operating Companies have predictable cost recovery mechanisms that ensure timely recovery, of and on, capital investment in the business and an ability to earn authorized returns. Second, ITC's operating companies are more conservatively capitalized than the Entergy Operating Companies with equity ratios of sixty percent as a percentage of total capitalization versus approximately fifty percent for the Entergy Operating Companies.

Q25. DO YOU EXPECT LOWER DEBT COSTS FOR THE NEW ITC MIDSOUTH OPERATING COMPANIES COMPARED TO THE DEBT COSTS FOR THE ENTERGY OPERATING COMPANIES?

A. Yes. In order to calculate expected savings, ITC has made a comparison of ITC's existing operating subsidiaries that are members of MISO and the EOCs' current senior secured credit ratings that have a direct impact on the cost of debt for the regulated entities (included in the charts below) and determined a range of debt savings.

ITC's Opcos	Senior Secured S&P	Senior Secured Moody's
ITC*Transmission*	A	A1
METC	A	A1
ITC Midwest	A	A1

Entergy's Opcos	Senior Secured S&P	Senior Secured Moody's
Entergy Arkansas	A-	A3
Entergy Louisiana	A-	A3
Entergy Gulf States	BBB+	A3
Entergy New Orleans	BBB+	Baa3
Entergy Mississippi	A-	Baa1
Entergy Texas	BBB+	Baa2

Based on indicative pricing for both sets of operating companies from JP Morgan, one of ITC's financial advisors in the Transaction, we believe that the interest expense savings will be meaningful – in both the near-term and the long-term for the New ITC Midsouth Operating Companies.

Q26. WHAT ARE THE EXPECTED DEBT COST SAVINGS ASSOCIATED WITH HIGHER CREDIT QUALITY?

A. We estimate debt cost savings in the range of $30 million to $34 million in 2014, in aggregate, for the New ITC Midsouth Operating Companies in their first full year under ITC ownership as a result of enhanced credit quality. These savings estimates are measured in comparison to the forecasted interest expense for the transmission business under Entergy ownership over the same time period and are a direct result of the difference between anticipated interest rates for the New ITC Midsouth Operating Companies and embedded cost of debt for the current Entergy Operating Companies. Over a five-year period, we estimate the debt cost savings for the New ITC Midsouth

Operating Companies to range from approximately $159 million to $197 million (in nominal dollars) or $127 million to $156 million on a NPV[7] basis[8]. The breakdown of these anticipated debt cost savings under ITC ownership are shown in the following table.

($ in Millions)		2014	2014-2018	5 Year NPV
1) Refinanced Debt		$ 29	$ 144	$ 115
2) Future Debt				
a)	**Low End of the Range**	$ 1	$ 15	$ 12
b)	**High End of the Range**	$ 5	$ 53	$ 41
1) + 2) = Total Savings				
a)	**Low End of the Range**	$ 30	$ 159	$ 127
b)	**High End of the Range**	$ 34	$ 197	$ 156

Q27. PLEASE EXPLAIN THE SAVINGS CLASSIFIED AS "REFINANCED DEBT" IN THE TABLE ABOVE AND HOW THESE SAVINGS WERE QUANTIFIED.

A. The anticipated interest expense savings classified as "refinanced debt" in the table above relate to the $1.2 billion of new long-term debt to be issued by the New ITC Midsouth Operating Companies subsequent to the close of the Transaction. As I described earlier, this debt transaction would be part of ITC's plan to refinance the $1.2 billion unsecured bridge facility post-closing. ITC assumes that this long-term debt would be issued at market rates of approximately 3.5%[9] compared to the forecasted weighted average interest rate of approximately 6% for the transmission business under Entergy

[7] Assumes 8% discount rate as utilized in Entergy Transfer of Functional Control Application. *See* note 2, above

[8] A breakdown of the savings by subsidiary is presented in Exhibit CMB-5.

[9] Source: JP Morgan. Note: Indicative spreads as of February 29, 2012. Indicative rates are based on market conditions during the stated period and are subject to change.

Corporation ownership (5.29% for EAI). The estimated rate ascribed to the New ITC Midsouth Operating Companies' debt has been estimated by JPMorgan, one of ITC's financial advisors in the Transaction. Exhibit CMB-5 details these calculations.

Q28. PLEASE EXPLAIN THE SAVINGS CLASSIFIED AS "FUTURE DEBT" IN THE TABLE ABOVE AND HOW THESE SAVINGS WERE QUANTIFIED.

A. In addition to the near-term savings resulting from the EOC debt refinancing, we also anticipate that incremental interest expense savings would be realized over time as the New ITC Midsouth Operating Companies issue incremental debt to fund future capital investments. These interest savings were quantified by multiplying all projected new debt issuances over a five-year period by the estimated difference in debt financing rates between ITC's existing operating subsidiaries that are members of MISO, as a proxy for the New ITC Midsouth Operating Companies, and the Entergy Operating Companies.

Q29. HOW DID YOU ESTIMATE THE DIFFERENCE IN FUNDING RATES BETWEEN ITC'S EXISTING OPERATING SUBSIDIARIES THAT ARE MEMBERS OF MISO AND ENTERGY'S OPERATING COMPANIES OVER THE FORECASTED PERIOD?

A. Given the dynamic nature of the capital markets, it is difficult to precisely predict funding rates for a single issuer over a forecasted period, let alone for multiple operating companies. As such, we established a range for the potential difference in debt financing rates between ITC's existing operating subsidiaries and the Entergy Operating Companies over a five-year period. The low end of the range reflects the difference in debt financing rates between the entities for 10-year bonds based on prevailing market conditions. We believe the current market is a suitable proxy for the low end of the range because debt rates are presently at record lows and investors have been willing to accept lower yields on bonds for higher risk companies, which has consequently compressed the difference in debt financing rates for solid investment grade companies such as ITC's existing operating subsidiaries that are members of MISO and lower investment grade companies such as the Entergy Operating Companies. This methodology yields a debt rate differential of 45 to 65 basis points (or 0.45% to 0.65%)[10], depending on the Entergy Operating Company. For EAI, this rate differential is approximately 50 basis points (or 0.50%).[11] To approximate the high end of the range, we observed the historical difference between the implied debt financing rates (or yields) for high investment grade utilities as a proxy for ITC's existing operating subsidiaries that are members of MISO and lower investment grade utilities as a proxy for the Entergy Operating Companies over a five-year period. Our analysis yielded a debt rate differential of 185 to 205 basis points (1.85% to 2.05%), depending on the Entergy Operating Company, for the high end of the range.[12] For EAI, this rate differential is approximately 190 basis points (or 1.90%).[13] For detail on these assumptions and other supporting details, see Exhibit CMB-5: Overview of Credit Quality Enhancement Benefits.

[10] Source: JP Morgan. Indicative spreads as of February 29, 2012. Indicative rates are based on market conditions during the stated period and are subject to change.

[11] Source: JP Morgan. Indicative spreads as of February 29, 2012. Indicative rates are based on market conditions during the stated period and are subject to change.

[12] Source: Barclays. Barclays' indices comprised of utility bonds above $250M, tenors> 1 year and varying levels of contractual and structural subordination. Data since 4/25/2007.

[13] Source: Barclays. Barclays' indices comprised of utility bonds above $250M, tenors> 1 year and varying levels of contractual and structural subordination. Data since 4/25/2007.

Q30. CAN YOU EXPLAIN THE BASIS FOR ITC'S EXISTING OPERATING SUBSIDIARIES' HIGH CREDIT RATINGS?

A. Yes. The rating agencies' favorable view of the credit quality of the ITC Operating Companies is directly related to our rate construct, as detailed below, and our resulting ability to generate steady and predictable cash flows. The comments of various rating agencies reinforce the points I have made (the full reports are located in Exhibit CMB-6).

- Moody's, April 20, 2012. "[ITC Operating Companies'] supportive regulatory framework provides a robust set of recovery mechanisms and healthy returns resulting in strong credit metrics…:. [ITC Operating Companies'] credit metrics continue to be stronger than other electric utilities with an A3 Issuer Rating."
- S&P, January 10, 2011, upon putting ITC's rating on positive outlook for a ratings upgrade. "The company has been able to improve its cash flow measures. . . benefiting from the FERC's constructive regulation."

Q31. HAS THERE BEEN ANY ADJUSTMENT BY THE RATING AGENCIES TO ITC'S CREDIT RATING IN RESPONSE TO THE TRANSACTION?

A. Yes. On December 5, 2011, subsequent to the announcement of the Transaction, S&P upgraded the credit ratings of ITC and its operating subsidiaries. The following are excerpts from S&P's Research Update (the entire report is located in Exhibit CMB-6):

> "The recently announced Entergy transaction in which Holdings will acquire all of Entergy's transmission assets will double Holdings' size, diversify its cash flow and broaden its customer base. These

> credit-enhancements will improve Holdings' excellent business profile....The excellent business risk profile reflects Holdings lower operating risk, pure electric transmission business and its effective management of regulatory risk."

As evidenced above, ITC's credit rating benefits from its unique independent transmission business model and rate construct. In addition, S&P noted that the Transaction is credit enhancing to ITC due to ITC's increased size and geographic diversity, which also creates revenue diversity, after the Transaction closes. The Transaction was specifically designed to preserve ITC's excellent credit quality at current levels and to afford the same credit benefits to ITC Arkansas.

Q32. DO YOU EXPECT ITC ARKANSAS AND THE OTHER NEW ITC MIDSOUTH OPERATING COMPANIES CREATED BY THE TRANSACTION TO RECEIVE THE SAME CREDIT RATINGS AND ACCESS TO CAPITAL EXPERIENCED BY ITC'S EXISTING OPERATING SUBSIDIARIES?

A. Yes. Though we have not received any confirmation from the credit rating agencies, we are seeking from FERC a rate construct for the New ITC Midsouth Operating Companies, including ITC Arkansas, that is comparable to that of our existing operating subsidiaries. We also plan to implement similar financing strategies. As such, we believe the credit ratings agencies, as well as investors and lenders, will view the credit quality of ITC Arkansas and the other New ITC Midsouth Operating Companies favorably. Our expectations are predicated on the fact that our rate construct has led to A1/A senior secured ratings at Moody's and S&P, respectively, for each of the ITC Operating

Companies that are members of MISO (i.e., ITCT, METC and ITCMW).

2. <u>GREATER ACCESS TO CAPITAL</u>

Q33. PLEASE DISCUSS ITC'S ABILITY TO ACCESS THE CAPITAL MARKETS.

A. ITC has a very strong history of accessing the capital markets to support ongoing capital investments and growth. ITC's historical debt and equity offerings at the holding company and operating companies (debt only) have been well received by the investment community as a result of ITC's strong financial platform that is supported by its rate construct. From a debt financing perspective, prospective lenders and bond investors have consistently provided liquidity in a cost-efficient manner to support the funding of our capital programs, which I expand on later in my testimony.

From an equity financing perspective, ITC has cultivated a broad base of shareholders who are attracted to ITC's value proposition. ITC's investors understand and accept the fact that ITC, unlike most utilities, has a relatively low dividend payout ratio (defined as annual dividends paid as a percentage of annual net income) and preserves most of its earnings and cash flow to efficiently capitalize investments in needed transmission infrastructure. Given ITC's stock performance over the past several years, I am confident that there would be significant demand for an additional offering of ITC stock if it was necessary for us to access the market to support investment.

Q34. PLEASE ELABORATE ON ITC'S EXISTING OPERATING SUBSIDIARIES' ACCESS TO THE CAPITAL MARKETS.

A. While ITC has consistently had a solid track record of accessing the capital markets, this ability was best demonstrated during the credit crisis experienced in late 2008 and early 2009. During this period, two of its operating companies, METC and ITCMW, were successful in completing debt financings at relatively favorable rates. Comparatively, a number of other companies could not access the market during this period or were forced to issue debt at exorbitant rates. In fact, the credit spreads, which denote the difference between treasury rates (the presumed risk-free rate) and the interest rate ascribed to a debt security, for bonds issued during this period for lower investment grade utilities were in some cases roughly 250 basis points (or 2.50%) higher than those of solid investment grade rated utilities like ITC's existing operating subsidiaries. To put this in context, a 250 basis-point differential in a $500 million bond issuance equates to $12.5 million of incremental interest expense per year. As such, given their solid investment grade ratings, ITC's operating companies have been able to issue debt with less pricing volatility, to the benefit of customers. See Exhibit CMB-5: Overview of Credit Quality Enhancement Benefits for supporting details.

In addition, S&P upgraded METC's credit ratings applicable to its Senior Secured Notes to from BBB to A- during the credit crisis, which further illustrates ITC's strong financial platform.

Q35. HAS ITC'S CREDIT QUALITY AND ACCESS TO CAPITAL MARKETS SUPPORTED NEEDED TRANSMISSION INVESTMENT?

A. Yes. ITC's capital investments across all operating companies totaled approximately $3.4 billion from the Company's inception in early 2003 through 2012. To put this number in a more meaningful context, consider that ITC's annual capital investments have averaged nearly 2.0 times its operating cash flow over the past five years, with a peak of 2.7 times. ITC has consistently been able to invest in its systems, in excess of cash flows generated, because of its rate construct.

Q36. WHY IS CASH FROM OPERATIONS AN IMPORTANT METRIC FOR CAPITAL INVESTMENTS?

A. Cash from operations, or cash flow generation, is an important factor in determining the need to access external capital, and is particularly relevant in the context of this Transaction as the capital needs in the New ITC Midsouth Operating Companies' footprint are expected to significantly outpace cash flow generated by the transmission business.

ITC's sole focus on transmission inherently avoids internal capital allocation challenges and competition for capital. Capital challenges are expected to become more difficult for Entergy to manage in light of pending regulations and federal policies. In addition, ITC's efforts have established an investor base that recognizes the ITC's requirement to invest in needed transmission infrastructure for the benefit of customers. This has allowed ITC to attract the capital needed to support these investments in an efficient manner. ITC's historic investment levels attest to its ability to support large transmission capital demands over sustained periods, particularly when that need may not be sufficiently supported by cash from operations.

3. IMPROVED LIQUIDITY

Q37. HOW DOES ITC MANAGE ITS LIQUIDITY TO SUPPORT THE CAPITAL-INTENSIVE NATURE OF THE TRANSMISSION BUSINESS?

A. ITC's existing operating subsidiaries have debt profiles that include a mixture of long-term debt and revolving credit facilities ("***revolvers***"), which are lines of credit that can be repaid and then re-borrowed prior to their maturity. ITC annually establishes near- and long-term financing plans to ensure it has sufficient levels of liquidity in the form of revolvers. These revolvers are regularly refinanced with long-term debt instruments (bonds) once these facilities reach a high level of utilization. The size of the revolvers (the credit limit) depends on a variety of factors, including the capital investment needs of the company to which they relate and the risk and magnitude of potential unexpected capital needs that would be partially funded by these revolvers. In addition, ITC's current operating subsidiaries produce steady and predictable cash flows that are used to reinvest in transmission system improvement and maintenance.

Q38. DO YOU EXPECT THAT ITC WILL BE ABLE TO MAINTAIN SUFFICIENT LIQUIDITY FOR ITC ARKANSAS?

A. Yes. Similar to the capitalization and financing plans employed by each of our existing operating subsidiaries, ITC Arkansas will have a debt profile that includes a mixture of bonds and revolvers. In addition, as I previously noted, we anticipate that ITC Arkansas will also have a rate construct comparable to that of the ITC existing operating subsidiaries that are members of MISO that will produce strong and predicable cash flows. As such, we anticipate that ITC Arkansas will have sufficient liquidity and financial flexibility to fund expected and unexpected transmission investments, including those that may result from storm damage.

Q39. WHY IS LIQUIDITY IMPORTANT FOR REPAIRING STORM DAMAGE?

A. From a financial perspective, the challenge with storm response is that entities must be able to make repairs and investments (in some cases in material amounts) in the systems immediately to support restoration efforts. Proactive liquidity planning and unwavering access to cost-efficient capital are critical to fund these repairs successfully given the unexpected nature of these costs. Our rate construct and financing strategy support these needs in addressing significant levels of unplanned capital investments, whether they are storm related or driven by other factors.

Q40. IS ITC CAPABLE OF FINANCIALLY RESPONDING TO THE UNIQUE CHALLENGES POSED BY THE LEVEL OF STORM ACTIVITY EXPERIENCED IN ENTERGY'S SERVICE TERRITORY?

A. As testified to by ITC witnesses Jon Jipping and Douglas Collins, ITC has experienced storm damage in the past and had no difficulty meeting these challenges financially, thereby building the confidence of our stakeholders in the financial strength of the organization. ITC recognizes that the nature of storms experienced in the region presents challenges. However, ITC's rate construct is structured to maintain sufficient liquidity and cost-effective access to capital to fund needed investments while also providing the ability to meet unforeseen investment needs. ITC's financing strategy specifically incorporates liquidity planning to ensure the Company can finance unexpected restoration activities, and the revolvers established for ITC Arkansas at the time of the Transaction close will also be sized accordingly.

Q41. HOW DOES THE TRANSACTION AFFECT THE PARTIES' ABILITIES TO ADDRESS POTENTIAL STORM DAMAGE?

A. The Transaction places Entergy Operating Companies' transmission assets in a stronger and more resilient ownership model while also mitigating the financial challenges presented by storm activity by dividing restoration responsibilities between separate companies with separate balance sheets to support needed investment. Upon the close of the Transaction, stakeholders can have confidence in ITC's ability to meet its financial commitments and avoid the financial challenges and supply chain issues that can arise during emergency situations.

VI. RATE CONSTRUCT

Q42. PLEASE DESCRIBE THE KEY ATTRIBUTES OF THE ITC RATE CONSTRUCT.

A. The key elements of ITC's rate construct, all of which are regulated by FERC, include: a formula rate tariff contained in Attachment O within the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Attachment O"), which ITC applies on a forward looking basis with an annual true-up mechanism; and FERC-approved ROE levels and capital structures.

This rate construct promotes and facilitates significant needed investment in transmission infrastructure. The construct is predicated on providing a predictable and transparent cost recovery mechanism with sufficient investment returns to attract capital to support transmission investment through stable cash flow generation and consistent access to cost-efficient capital. As a result, our rate construct is ideally suited for transmission systems that require significant capital investment but which are not expected to provide sufficient cash flows to support these investments, such as the situation presented by the Mid South Operating Companies. ITC is seeking this same rate construct for the New ITC Midsouth Operating Companies, including ITC Arkansas and, assuming all of the elements of the proposed rate construct are approved by FERC, the New ITC Midsouth Operating Companies will be well positioned to make the necessary capital investments for the benefit of their customers.

Q43. IS ATTACHMENT O SPECIFIC TO ITC OR IS IT AVAILABLE TO OTHER TRANSMISSION OWNERS WITHIN MISO?

A. Attachment O is a formula rate tariff mechanism available to all Transmission Owner Members ("***TO***") of MISO, including certain of ITC's existing operating subsidiaries. Attachment O was originally implemented by MISO TOs on an historic test year basis (with no annual true-up mechanism), but over time some TOs have obtained FERC approval to use a projected test year period (with an annual true-up mechanism) under Attachment O.

ITC's existing operating subsidiaries have elected to utilize a forward looking test period which has an annual true-up mechanism incorporated to ensure there is no over-or under-collection of the actual revenue requirements from customers. The true-up process and implementation details of Attachment O are discussed in ITC witness Thomas Wrenbeck's testimony.

This cost recovery mechanism is a traditional cost of service model and has been determined to be just and reasonable by FERC. It provides for a simple and transparent rate implementation process through its formulaic nature and facilitates predictable recovery of capital investments. Customers and stakeholders have access to information about the formula inputs under tariff protocols and have the right to file a complaint with FERC if they feel a rate is unjust or unreasonable. The ability to implement this Attachment O on a forward looking basis with an annual true-up provides timely recovery of investments while also protecting customers from any over-recovery via the annual true-up mechanism. Once again, the testimony of Mr. Wrenbeck further describes the details of this Attachment O formula rate template.

Q44. IS ITC PROPOSING TO USE A FORWARD LOOKING TEST PERIOD ATTACHMENT O WITH A TRUE-UP FOR ITC ARKANSAS?

A. Yes. ITC is seeking FERC approval to use a forward looking Attachment O rate with an annual true-up for ITC Arkansas, similar to ITC's other operating subsidiaries within MISO, which is also discussed by ITC witness Thomas Wrenbeck.

Q45. IN ADDITION TO THE USE OF ATTACHMENT O ON A FORWARD LOOKING BASIS WITH A TRUE-UP, WHAT ARE THE OTHER KEY ELEMENTS OF THE ITC RATE CONSTRUCT?

A. The other key components of the ITC rate construct are the use of a FERC-approved return on equity ("***ROE***") and capital structure. The FERC-approved ROEs in effect at ITC's existing operating subsidiaries provide levels of returns sufficient to support our capital investments and credit quality. The FERC-approved ROEs for ITC operating companies vary, but the FERC-approved capital structures for all of ITC's subsidiaries are sixty percent equity and forty percent debt. The combination of these rate elements in the cost of service model employed by ITC's operating companies supports significant investment in needed transmission infrastructure by maintaining cash flows necessary to support those investments while also providing efficient access to the capital markets.

Q46. WHAT ROE AND CAPITAL STRUCTURE IS ITC SEEKING AT FERC FOR ITC ARKANSAS?

A. ITC is seeking the standard MISO regional ROE of 12.38% that is available to all TOs belonging to MISO and comparable to that of the ITC operating subsidiaries that are members of MISO. ITC also is seeking approval for ITC Arkansas to use an actual capital structure targeting 60 percent equity and 40 percent debt, which is consistent with both ITC's existing operating subsidiaries and with capital structure levels approved by FERC for other transmission entities.[14]

Q47. PLEASE DISCUSS THE RELEVANCE OF CREDIT QUALITY, COST OF DEBT AND ACCESS TO CAPITAL IN THE CONTEXT OF THE RATE CONSTRUCT.

A. Credit quality, lower cost of debt and access to capital are important benefits of the ITC rate construct. Credit quality heavily influences the cost of debt for regulated entities and this cost is typically passed on to customers through the overall recoverable cost of capital. As a result, the higher the credit quality of an entity, the lower the cost of debt, which translates into lower debt financing costs for customers. Additionally, maintaining

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[14] FERC has approved a 60% equity and 40% capital structure for the AWC Companies (*Atlantic Grid Operations A LLC, et al.*, 135 FERC ¶ 61,144 (2011)), for Prairie Wind Transmission, LLC (*Tallgrass Transmission, LLC, et al.*, 132 FERC ¶ 61,114 (2010)), and for *Startrans IO, L.L.C.*, 122 FERC ¶ 61,306 (2008). In addition, within MISO, based on the Attachment O tariffs on file with MISO as of June 2012 (https://www.midwestiso.org/Library/Pages/ManagedFileSet.aspx?SetId=259), Northern Indiana Public Service Company and Ameren Illinois Company use capital structures comprised of 60% equity and 58% equity, respectively.

access to capital in a cost-efficient manner is critical since it enables ITC to implement large-scale capital investments under any market condition or emergency situations, such as storms. In fact, ITC's capital investments grew by 48% on a consolidated basis during the fourth quarter of 2008 in comparison to the same period in the prior year. This time period is significant because it overlaps with the credit crisis, a period in which the capital markets were effectively closed for many companies. ITC's existing operating subsidiaries not only continued to invest significantly but also managed to fund their respective capital plans with multiple bond issuances during challenging market conditions as I discussed earlier.

Q48. HOW HAS ITC'S RATE CONSTRUCT SUPPORTED ITS ABILITY TO MAKE SIGNIFICANT CAPITAL INVESTMENTS WHILE ALSO MAINTAINING STRONG CREDIT QUALITY?

A. ITC's rate construct enables its operating companies to sustain significant levels of needed capital investments over long durations. This rate construct reduces regulatory lag, on account of the forward looking formula rates, which more closely align cost incurrence with cost recovery. The rate construct also features ROEs and capital structures that facilitate ITC's ability to attract cost effective capital to enable long-term investment in the grid. The rate construct optimizes liquidity and reduces cash flow volatility, thereby enhancing the credit quality of ITC's operating subsidiaries. As a result, prospective lenders and investors have consistently viewed ITC's credit quality favorably irrespective of broader market conditions and have been willing to supply capital at reasonable rates to support investment in and maintenance of ITC's transmission systems.

Q49. GIVEN THE FERC REGULATORY MODEL, WHAT ACCOUNTING POLICIES AND PROCEDURES WILL ITC ARKANSAS USE FOR ITS TRANSMISSION ASSETS?

A. As a FERC-jurisdictional electric transmission company, ITC Arkansas will maintain its books and records in accordance with the FERC promulgated version of the Uniform System of Accounts ("***USOA***"), as published in the Code of Federal Regulations ("***CFR***"). 18 C.F.R. Part 101, et. seq. Accounting policies and procedures will also be maintained in compliance with the regulations and USOA set forth in the CFR. In addition, as a consolidated subsidiary of a publicly traded entity, ITC Arkansas will comply with Generally Accepted Accounting Principles and other regulations and reporting requirements established by the Securities and Exchange Commission.

Q50. BASED ON YOUR ANALYSIS AND FINANCIAL BACKGROUND, DO YOU BELIEVE THIS TRANSACTION WILL BENEFIT CUSTOMERS?

A. Yes. Looking ahead, there is little doubt that significant investment will need to be made to the regional transmission system. As previously noted, these capital demands are anticipated to be multiples of the cash flow generated by the existing transmission assets under EAI's ownership. Recognizing this reality, one must ask if the needed capital to support these investments can be attracted and at what cost to customers.

The Transaction establishes a new owner of EAI's transmission assets whose sole focus is to plan and execute to meet transmission system needs. As explained earlier in my testimony, ITC's rate construct and business model facilitate a high credit quality among our operating companies which has enabled regular access to the capital markets at reasonable rates. While ITC's revenue requirement analysis shows a modest increase in rates, those effects are expected to be more than offset by the benefits of the Transaction.

In addition, the Parties have gone to great lengths to structure a transaction that will allow customers to realize the benefits of the rate construct to the fullest possible extent. As previously discussed, the RMT structure results in a tax free transaction, which eliminates the potential rate increases that would otherwise exist in a taxable transaction resulting from the re-measurement of ADIT. Importantly, the timing of this Transaction is opportune as the relative equity values of ITC and the Entergy transmission business are similar enough to be able to utilize the RMT structure. This may not be the case in the future, which makes it important to proceed with this Transaction now.

The Transaction as structured serves to protect EAI's financial health; better positioning EAI to face the capital challenges ahead and focus its efforts on its generation fleet and distribution system. In addition, it will increase the scale of ITC which will further enhance its financial strength and ability to continue to efficiently and effectively capitalize the needed investment in transmission infrastructure in the region. I am confident that by approving this Transaction the Commission will allow for the benefits I have described to be realized by customers.

Q51. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

STATE OF Michigan)
COUNTY OF Wayne) 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 for Approval of Transfer of Assets and Certificate of Convenience and Necessity, and Merger and, in connection therewith, Certain Other Related Transactions	)	File No. EO-2013-0396

AFFIDAVIT OF CAMERON M. BREADY

COMES NOW Cameron M. Bready, of lawful age, sound of mind and being first duly sworn, deposes and states:

1. My name is Cameron M. Bready; I am Executive Vice President and Chief Financial Officer ("CFO") of ITC Holdings Corp. ("ITC or the Company") the corporate parent of ITC Midsouth, LLC.

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.

Cameron M. Bready

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

Notary Public

My Commission Expires:
(SEAL)

SANDRA K. BIGGA
NOTARY PUBLIC, STATE OF
COUNTY OF WAYNE
MY COMMISSION EXPIRES
ACTING IN COUNTY OF Oakland

Laura Roso

From: Carl Lumley
Sent: Thursday, April 25, 2013 8:47 AM
To: Laura Roso
Subject: FW: MPSC Witness Affidavit - Cameron M. Bready

Add and rescan

THIS IS A CONFIDENTIAL COMMUNICATION FROM THE LAW FIRM OF:

CURTIS, HEINZ, GARRETT & O'KEEFE, P.C.
130 S. BEMISTON, SUITE 200
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From: Stevens, Sandi [mailto:sstevens@Itctransco.com]
Sent: Thursday, April 25, 2013 8:46 AM
To: Carl Lumley
Subject: RE: MPSC Witness Affidavit - Cameron M. Bready

The state is Michigan and county is Wayne.

Thank you and best regards,

Sandi Stevens
Executive Assistant to
Cameron M. Bready, Executive Vice President
& Chief Financial Officer
ITC Holdings Corp
27175 Energy Way
Novi, MI 48377-2414
Phone: (248) 946-3741
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From: Carl Lumley [mailto:CLumley@lawfirmemail.com]
Sent: Thursday, April 25, 2013 9:45 AM
To: Stevens, Sandi
Subject: RE: MPSC Witness Affidavit - Cameron M. Bready

Please let me know the state and county to put at the top (where he signed)

THIS IS A CONFIDENTIAL COMMUNICATION FROM THE LAW FIRM OF:

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From: Stevens, Sandi [mailto:sstevens@Itctransco.com]
Sent: Wednesday, April 24, 2013 3:34 PM
To: Carl Lumley
Cc: Soneral, Christine; Bready, Cameron M.; Whitelocke, Simon; Leopold, Brett; Crowell, Linda; Stevens, Sandi
Subject: MPSC Witness Affidavit - Cameron M. Bready

Dear Mr. Lumley:

Attached as requested, is a scanned copy of Cameron M. Bready's MPSC Witness Affidavit. The original page will be sent to Christine Soneral.

Please do not hesitate to contact me if you have any questions.

Thank you and best regards,

Sandi Stevens
Executive Assistant to
Cameron M. Bready, Executive Vice President
& Chief Financial Officer
ITC Holdings Corp
27175 Energy Way
Novi, MI 48377-2414
Phone: (248) 946-3741
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From: Soneral, Christine
Sent: Wednesday, April 24, 2013 6:14 AM
To: Beal, Maria; Jipping, Jon E.; Bready, Cameron M.; Stevens, Sandi; Vitez, Thomas W.; Roberts, Virginia L.; Collins, Doug; Ernst, Julie; Wrenbeck, Thomas H.; Day, Cathy
Cc: Crowell, Linda; Sweeney, Linda; Whitelocke, Simon; Leopold, Brett; Alain, Cynthia; 'CLumley@lawfirmemail.com'; Videto, Steve
Subject: Fw: witness affidavit pages

Good morning Cameron, Tom, Tom, Doug, Jon and Joe: we will need to submit the testimony for the Missouri case. Can you please sign your affidavit and scan it directly back to outside counsel Carl Lumley (copied here). Please copy Simon and Brett (also copied here) on the scan to Carl so they know the affidavit is in.

If you need any assistance, including logistics, Linda Crowell and Linda Sweeney are available to assist.
Thank you.

From: Leopold, Brett
Sent: Wednesday, April 24, 2013 12:38 AM
To: Soneral, Christine; Videto, Steve; Whitelocke, Simon
Cc: Crowell, Linda; Alain, Cynthia
Subject: FW: witness affidavit pages

Can you help get these signed and notarized

From: Carl Lumley [mailto:CLumley@lawfirmemail.com]
Sent: Friday, April 19, 2013 12:51 PM
To: Leopold, Brett
Subject: witness affidavit pages

Here are the affidavits that need to be signed, notarized, scanned and emailed back to me

THIS IS A CONFIDENTIAL COMMUNICATION FROM THE LAW FIRM OF:

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