An Introduction to International Transmission Company

Linda Blair, VP Business Strategy

Presentation for NARUC Electricity Committee
Palm Springs, CA
November 14, 2005

Agenda

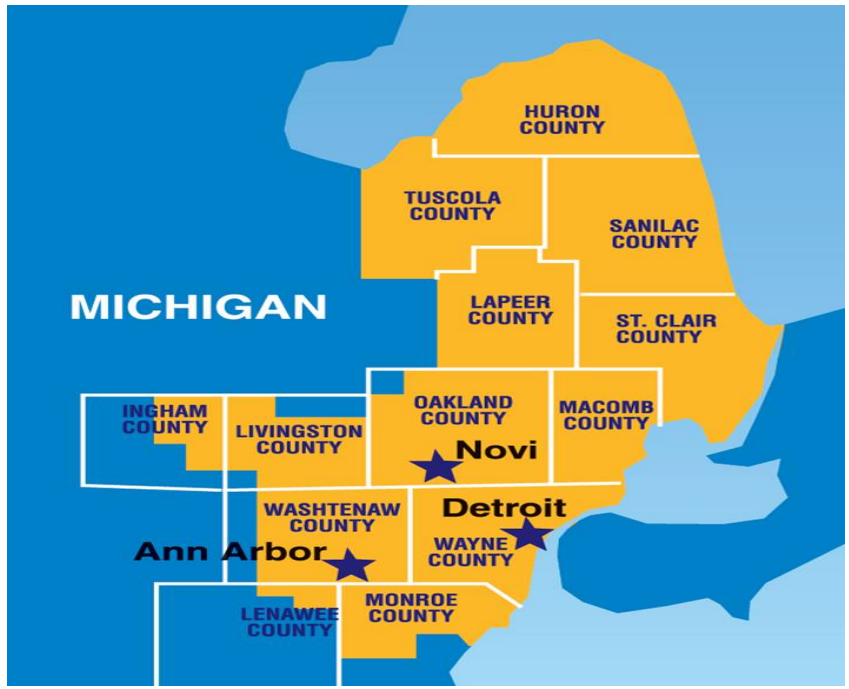
- Who We Are
- How ITC is Improving the Transmission System
- The Value of Independence

Who We Are

Company Overview

- International Transmission Company is the first independently owned and operated U.S. electricity transmission company
  - In June 2001, ITC was split from Detroit Edison and became a separate legal entity under DTE Energy
  - In February 2003, ITC became independent through acquisition by KKR & Trimaran
  - On July 26, 2005, ITC's parent company became a publicly traded company – "ITC" on the NYSE

- 7,600 square mile area
- 2,700 circuit miles of transmission
- 16,000 transmission towers and poles
- 30 stations



Transmission is Our Only Business

- **ITC focuses on ownership, operation, maintenance, and construction of transmission facilities as a single line of business.**
  - There is no internal competition for capital – it is dedicated for prudent transmission investment.
- **Because of our singular business focus, we are aligned with customers.**
  - Customers benefit from transmission investment by:
    - Improved reliability
    - Reduced congestion
    - Increased access to generation.

Regulatory Achievements – A Series of Firsts

- First company to gain conditional FERC approval for innovative rate structure.
- First company to gain conditional FERC approval for a capital gains tax recovery mechanism.
- First company to gain FERC approval for operation of an independent transmission company under an RTO.
- First truly independent transmission company.
- First independent transmission company to go public.

How ITC is Improving the Transmission System

Industry Background

Transmission investment has lagged while the transmission system continues to be put under increasing stress

Underinvestment	Demand Growth	Outage Costs
Decline in transmission investment	**Growth in electricity consumption**	■ Costs from August 2003 blackout: *$4 - $10Bn*
From 1975-2000, transmission investment has fallen by $2.5 billion per year	Annual demand has doubled since 1980	■ Annual lost production costs to U.S. businesses: *$46Bn in power outages* *$6.7Bn in power quality issues*

Estimated investment required to modernize the grid:

$50 - $100Bn

ITC INTERNATIONAL TRANSMISSION COMPANY

ITC Strengths

- **Follow a stringent planning process to identify and implement projects that provide the maximum value to our customers.**
- **Invest in preventative maintenance.**
- **Strategic contracting agreements with construction and maintenance contractors and equipment providers.**
- **Forward thinking union relationships.**
  - New rules to promote efficiency
  - Full support of apprentice program

Improved Maintenance

- **ITC's maintenance methodology is simple: invest in prevention.**
  - ITC has realized approximately 30% increased efficiency improvements in maintenance costs.
  - In 2004, ITC spent $21.4 million on maintenance, effectively saving $6.4 million due to increased efficiency.
  - Based on 2004 benchmarking data, ITC achieved best-in-class status for "Ratio of Preventative Maintenance vs. Corrective Maintenance".

Activity	Prior Ownership 1998-2002	2003	2004
Breaker Inspections	**40**	**28**	**82**
Bus Inspections	**22**	**6**	**51**
Relay Complete Periodic Maintenance	**35**	**10**	**176**
Tower Inspections	**952**	**857**	**1,441**
Tower Painting	**134**	**147**	**1,095**
Infrared Inspections	**55**	**153**	**153**
Transformer DGA	**43**	**43**	**71**
Line Clearance / Corridor Mowing	**95%**	**95%**	**105%**
Field O&M Expense	**$15.5 M**	**$22.1 M**	**$21.4 M**

Maintenance Activities

Helicopter Inspections Conducted in Spring & Fall – 1,620 miles of transmission lines inspected in 2004

Physical Inspections
1,441 towers inspected vs. prior 5-year annual average of 952

ITC INTERNATIONAL TRANSMISSION COMPANY

Maintenance Activities

Vegetation Management

510 miles of transmission line corridors were cleared
Activities included cutting, trimming, hydro-axing and herbicide

Before

After

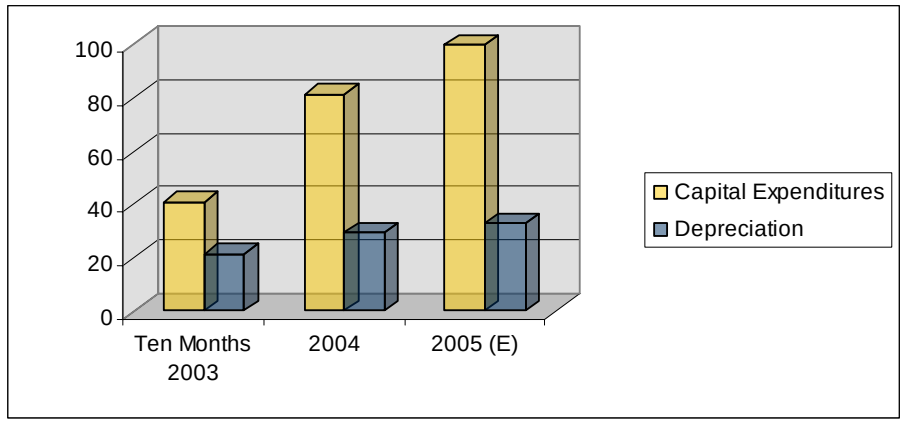
Maintenance Activities

- **High resolution fly-over photography identifies minute details:**
  - Worn conductor material;
  - Loose, missing bolts or pins; and
  - Cracked insulators.
- **Using thermography, ITC can identify "hot spots" on our system that may cause potential problems or failures.**

ITC INTERNATIONAL TRANSMISSION COMPANY

Reinvestment in the Grid

- **ITC has reinvested to improve the transmission system.**
  - 2003 – $41 million
  - 2004 – $81.5 million
  - Expected 2005 – $100 million
  - Projected 2006 – $100 million

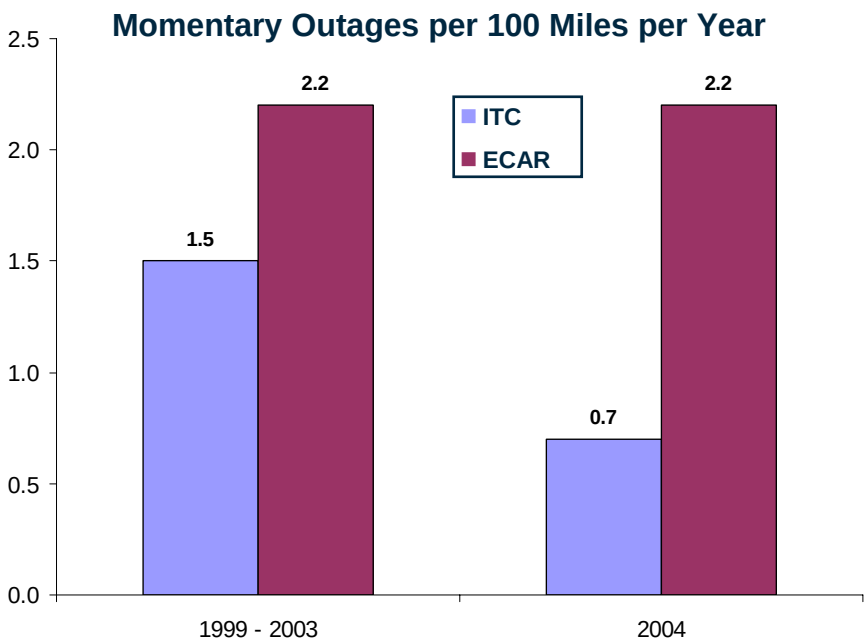


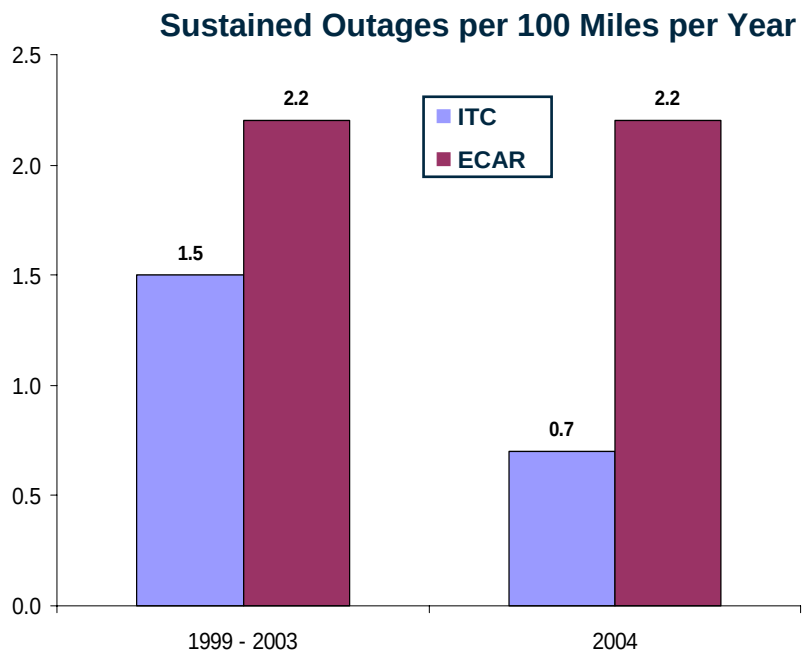
- **These 2004 – 2005 capital improvements provide economic savings of approximately $100 million to customers which is in excess of the annual carrying cost of these projects.**

- **Jewell Spokane Example**
  - One time $8 million investment produces energy savings in excess of $60 million annually in Southeast Michigan.

Focus and Reinvestment Has Resulted in Reduced Outages.

- **Sustained outages decreased from 41 in 2003 to 33 in 2004.**
  - This reduction was accomplished while operating the system for only 8 months in 2004.





•Unscheduled outages only
•2003 Data includes the blackout
•Includes 345 kV lines only

The Value of Independence

Benefits of Independence

Benefits of Independence

- Increased customer focus
  - Increased reliability
  - Reduce congestion
  - Lower overall cost of delivered energy.
- Enhances non-discriminatory access
  - ITC operates without favoring one market participant over another and has no incentive to do so and is not influenced to do so.
- Share no interest in the generation and distribution services
  - Singular focus on transmission
- Better positioned to make needed transmission investment
- Employees prohibited from having any financial interest in a market participant.

Summary

- **The independent transmission company business model is perhaps the only model that will bring grid reinvestment and superior benefits to customers.**
- **Proven, successful business model**
  - First publicly traded
  - Significant reinvestment in grid
  - Increased reliability