ITC Holdings Corp.
Form 10-K
February 15, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-32576
ITC HOLDINGS CORP.
(Exact Name of Registrant as Specified in Its Charter)

Michigan	32-0058047
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

27175 Energy Way
Novi, Michigan 48377
(Address Of Principal Executive Offices, Including Zip Code)
(248) 946-3000
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, without par value	None

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes þ No o
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No þ
*(Note: The registrant filed a registration statement on Form S-4 that was declared effective by the Securities and Exchange Commission on May 18, 2018 and between that date and December 31, 2018, the registrant was subject to the filing requirements under Section 15(d) of the Securities Exchange Act of 1934. At January 1, 2019 there were less than 300 holders of the securities registered pursuant to the Form S-4 and at that time the registrant was no longer subject to the filing requirements under Section 15(d) of the Securities Exchange Act of 1934. Between the period beginning 12 months ago and May 18, 2018 and after January 1, 2019, the registrant was a voluntary filer and was not subject to the filing requirements under Section 13 or 15(d) of the Securities Exchange Act of 1934.)
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information, statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller Reporting Company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

The aggregate market value of the registrant’s common stock held by non-affiliates on June 30, 2018 was $0.

All shares of outstanding common stock of ITC Holdings Corp. are held by its parent company, ITC Investment Holdings Inc., which is an indirect subsidiary of Fortis Inc. There were 224,203,112 shares of common stock, no par value, outstanding as of February 14, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

None

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Unless otherwise noted or the context requires, all references in this report to:

ITC Holdings Corp. and its subsidiaries

- “ITC Great Plains” are references to ITC Great Plains, LLC, a wholly-owned subsidiary of ITC Holdings;
- “ITC Holdings” are references to ITC Holdings Corp. and not any of its subsidiaries;
- “ITC Interconnection” are references to ITC Interconnection LLC, a wholly-owned subsidiary of ITC Holdings;
- “ITC Midwest” are references to ITC Midwest LLC, a wholly-owned subsidiary of ITC Holdings;
- “ITCTransmission” are references to International Transmission Company, a wholly-owned subsidiary of ITC Holdings;
- “METC” are references to Michigan Electric Transmission Company, LLC, a wholly-owned subsidiary of MTH;
- “MISO Regulated Operating Subsidiaries” are references to ITCTransmission, METC and ITC Midwest together;
- “MTH” are references to Michigan Transco Holdings, LLC, the sole member of METC and a wholly-owned subsidiary of ITC Holdings;
- “Regulated Operating Subsidiaries” are references to ITCTransmission, METC, ITC Midwest, ITC Great Plains and ITC Interconnection together; and
- “Company”, “we,” “our” and “us” are references to ITC Holdings together with all of its subsidiaries.

Other definitions

- “2017 Omnibus Plan” are references to the Company’s February 27, 2017 long-term equity incentive plan as amended July 10, 2017;
- “ACPB” are references to an award under the annual corporate performance bonus plan;
- “ADIT” are references to accumulated deferred income tax;
- “AFUDC” are references to an allowance for funds used during construction;
- “ALJ” are references to an administrative law judge;
- “Ancillary Services Agreement” are references to the Amended and Restated Purchase and Sale Agreement for Ancillary Services entered into by METC and Consumers Energy dated as of April 29, 2002;
- “AOCI” are references to accumulated other comprehensive income or (loss);
- “ARAM” are references to the average rate assumption method of amortization;
- “CIA” are references to the Coordination and Interconnection Agreement entered into by ITCTransmission and DTE Electric dated as of February 28, 2003;
- “Consumers Energy” are references to Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation;
- “D.C. Circuit Court” are references to the U.S. Court of Appeals for the District of Columbia Circuit;
- “DCF” are references to discounted cash flow;
- “DOE” are references to the Department of Energy;
- “DTIA” are references to the Distribution-Transmission Interconnection Agreement entered into by ITC Midwest and IP&L dated as of December 17, 2007 and amended and restated effective as of December 1, 2016;
- “DTE Electric” are references to DTE Electric Company, a wholly-owned subsidiary of DTE Energy;
- “DTE Energy” are references to DTE Energy Company;

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- “DT Interconnection Agreement” are references to the Amended and Restated Distribution-Transmission Interconnection Agreement entered into by METC and Consumers Energy dated April 1, 2001 and most recently amended and restated effective as of January 1, 2015;
- “Easement Agreement” are references to the Amended and Restated Easement Agreement entered into by METC and Consumers Energy dated April 29, 2002 and as further supplemented;
- “Eiffel” are references to Eiffel Investment Pte Ltd, a private limited company duly organized and validly existing under the laws of Singapore that is the GIC subsidiary that is a minority investor in Investment Holdings and successor to Finn Investment Pte Ltd;
- “ESPP” are references to the Fortis Amended and Restated 2012 Employee Share Purchase Plan;
- “Exchange Act” are references to the Securities Exchange Act of 1934, as amended;
- “FASB” are references to the Financial Accounting Standards Board;
- “FERC” are references to the Federal Energy Regulatory Commission;
- “Fortis” are references to Fortis Inc.;
- “FortisUS” are references to FortisUS Inc., an indirect subsidiary of Fortis;
- “Formula Rate” are references to a FERC-approved formula template used to calculate an annual revenue requirement;
- “FPA” are references to the Federal Power Act;
- “GAAP” are references to accounting principles generally accepted in the United States of America;
- “Generator Interconnection Agreement” are references to the Amended and Restated Generator Interconnection Agreement entered into by Consumers Energy and METC dated as of April 29, 2002 and most recently amended effective as of November 1, 2018;
- “GIC” are references to GIC Private Limited;
- “GIAs” are references to generator interconnection agreements;
- “GIOA” are references to the Generator Interconnection and Operation Agreement entered into by DTE Electric and ITCTransmission dated as of February 28, 2003;
- “Initial Complaint” are references to a November 2013 complaint to the FERC under Section 206 of the FPA regarding ROE;
- “Investment Holdings” are references to ITC Investment Holdings Inc., a majority owned indirect subsidiary of Fortis in which GIC has an indirect minority ownership interest;
- “IP&L” are references to Interstate Power and Light Company, an Alliant Energy Corporation subsidiary;
- “IRS” are references to the Internal Revenue Service;
- “ISO” are references to Independent System Operators;
- “KCC” are references to the Kansas Corporation Commission;
- “kV” are references to kilovolts (one kilovolt equaling 1,000 volts);
- “kW” are references to kilowatts (one kilowatt equaling 1,000 watts);
- “LBA” are references to a Local Balancing Authority;
- “LGIA” are references to the Large Generator Interconnection Agreement entered into by ITC Midwest, IP&L, and MISO dated as of December 20, 2007 and amended as of August 2, 2017;
- “MECS” are references to the Michigan Electric Coordinated Systems;
- “Merger” are references to the merger with Fortis, whereby ITC Holdings merged with Merger Sub and subsequently became a majority owned indirect subsidiary of Fortis;
- “Merger Agreement” are references to the agreement and plan of merger between Fortis, FortisUS, Merger Sub and ITC Holdings for the Merger;

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- “Merger Sub” are references to Element Acquisition Sub, Inc., an indirect subsidiary of Fortis that merged into ITC Holdings in the Merger;
- “Mid-Kansas” are references to Mid-Kansas Electric Company LLC;
- “Mid-Kansas Agreement” are references to an Amended and Restated Maintenance Agreement entered into by Mid-Kansas and ITC Great Plains dated as of August 24, 2010, and most recently amended effective as of March 6, 2017;
- “MISO” are references to the Midcontinent Independent System Operator, Inc., a FERC-approved RTO which oversees the operation of the bulk power transmission system for a substantial portion of the Midwestern United States and Manitoba, Canada, and of which ITCTransmission, METC and ITC Midwest are members;
- “MOA” are references to the Master Operating Agreement entered into by ITCTransmission and DTE Electric dated as of February 28, 2003;
- “Moody’s” are references Moody’s Investor Service, Inc.;
- “MVPs” are references to multi-value projects, which have been determined by MISO to have regional value while meeting near-term system needs;
- “MW” are references to megawatts (one megawatt equaling 1,000,000 watts);
- “NERC” are references to the North American Electric Reliability Corporation;
- “NOLs” are references to net operating loss carryforwards for income taxes;
- “November 2018 Order” are references to an order issued by the FERC on November 15, 2018 regarding MISO base ROE complaints;
- “NYSE” are references to the New York Stock Exchange;
- “Operating Agreement” are references to the Amended and Restated Operating Agreement entered into by Consumers Energy and METC dated as of April 29, 2002;
- “OSA” are references to the Operations Services Agreement for 34.5 kV Transmission Facilities entered into by ITC Midwest and IP&L effective as of January 1, 2011;
- “PBU” are references to a performance-based unit;
- “PCBs” are references to polychlorinated biphenyls;
- “ROE” are references to return on equity;
- “RSGM” are references to the Reverse South Georgia Method of amortization;
- “RTO” are references to Regional Transmission Organizations;
- “SBU” are references to a service-based unit;
- “SEC” are references to the Securities and Exchange Commission;
- “Second Complaint” are references to an additional complaint filed on February 12, 2015 with the FERC under Section 206 of the FPA regarding ROE;
- “September 2016 Order” are references to an order issued by the FERC on September 28, 2016 regarding ROE complaints;
- “Shareholders Agreement” are references to the Shareholders’ Agreement, dated as of October 14, 2016 by and among the Company, Investment Holdings, FortisUS, Eiffel (as successor to Finn Investment Pte Ltd), and any other person that becomes a shareholder of Investment Holdings pursuant to such agreement;
- “SPP” are references to Southwest Power Pool, Inc., a FERC-approved RTO which oversees the operation of the bulk power transmission system for a substantial portion of the South Central United States, and of which ITC Great Plains is a member;
- “S&P” are references to S&P Global Ratings;

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- “TCJA” are references to the Tax Cuts and Jobs Act of 2017, a comprehensive tax reform bill enacted on December 22, 2017;
- “TO” are references to transmission owners; and
- “ULCS” are references to Utility Lines Construction Services, LLC

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PART I

ITEM 1. BUSINESS.

Overview

Our business consists primarily of the electric transmission operations of our Regulated Operating Subsidiaries. ITC Holdings was incorporated in the State of Michigan in 2002. Through our Regulated Operating Subsidiaries, we own and operate high-voltage systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Kansas and Oklahoma that transmit electricity from generating stations to local distribution facilities connected to our systems. Our business strategy is to own, operate, maintain and invest in transmission infrastructure in order to enhance system integrity and reliability, reduce transmission constraints and support new generating resources to interconnect to our transmission systems. We also are pursuing development projects outside our existing systems.

As electric transmission utilities with rates regulated by the FERC, our Regulated Operating Subsidiaries earn revenues for the use of their electric transmission systems by our customers, which include investor-owned utilities, municipalities, cooperatives, power marketers and alternative energy suppliers. As independent transmission companies, our Regulated Operating Subsidiaries are subject to rate regulation only by the FERC, and our cost-based rates are discussed in "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism."

The Merger

On February 9, 2016, ITC Holdings entered into the Merger Agreement with Fortis, FortisUS and Merger Sub. On April 20, 2016, Fortis reached a definitive agreement with GIC for GIC to acquire an indirect 19.9% equity interest in ITC Holdings upon completion of the Merger. On October 14, 2016, ITC Holdings and Fortis completed the Merger contemplated by the Merger Agreement. On the same date, the common shares of ITC Holdings were delisted from the NYSE. Due to the delisting of ITC Holdings common shares, there is limited share data, and no per share data, presented in this Form 10-K. Refer to Note 1 to the consolidated financial statements for further details on the Merger.

Development of Business

We are actively identifying and investing in transmission infrastructure required to meet reliability needs and energy policy objectives. Our long-term growth plan includes ongoing investments in our current regulated transmission systems and the identification of incremental development projects throughout North America. Refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Investment and Operating Results Trends" for additional details about our long-term capital investments. Refer to the discussion of risks associated with our strategic development opportunities in "Item 1A Risk Factors."

We expect to invest approximately $3.5 billion from 2019 through 2023 at our Regulated Operating Subsidiaries. Included in this amount are capital expenditures to: (1) maintain and replace the current transmission infrastructure; (2) enhance system integrity and reliability and accommodate load growth; (3) upgrade physical and technological grid security and (4) develop and build regional transmission infrastructure, including additional transmission facilities that will provide interconnection opportunities for generating facilities.

Through our development activities, we pursue projects in North America that are in line with our business strategy, enhance competitive wholesale electricity markets and facilitate interconnections of new generating resources, including wind generation and other renewable resources necessary to achieve state and federal policy goals. We are also actively pursuing energy storage and contracted transmission projects.

Operations

As transmission-only companies, our Regulated Operating Subsidiaries function as conduits, allowing for power from generators to be transmitted to local distribution systems either entirely through their own systems or in conjunction with neighboring transmission systems. Third parties then transmit power through these local distribution systems to end-use consumers. The transmission of electricity by our Regulated Operating Subsidiaries is a central function to the provision of electricity to residential, commercial and industrial end-use consumers. The operations performed by our Regulated Operating Subsidiaries fall into the following categories:

- asset planning;

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- engineering, design and construction;
- asset protection and performance
- maintenance; and
- real time operations.

Asset Planning

The Asset Planning group uses detailed system models and load forecasts to develop our system expansion capital plans. Expansion capital plans identify projects that would address potential future reliability issues and/or produce economic savings for customers by eliminating constraints.

The Asset Planning group works closely with MISO and SPP in the development of our system expansion capital plans by performing technical evaluations and detailed studies. As the regional planning authorities, MISO and SPP approve regional system improvement plans, which include projects to be constructed by their members, including our MISO Regulated Operating Subsidiaries and ITC Great Plains.

Engineering, Design and Construction

The Engineering, Design and Construction group is responsible for design, equipment specifications, maintenance plans and project engineering for capital, operation and maintenance work. We work with outside contractors to perform various aspects of our engineering, design and construction, but retain internal technical experts who have experience with respect to the key elements of the transmission system such as substations, lines, equipment and protective relaying systems.

Asset Protection and Performance

The Asset Protection and Performance group is responsible for safety, human performance, security, and emergency preparedness and response. Given the inherent hazardous nature of the utilities industry, we proactively work to ensure that all personnel are free to perform in a safe and secure environment. Our focus is not to compromise the safety of our employees, contractors or the public in the course of providing the most reliable electricity transmission services.

Due to the growing trend in the theft of data, the security of hard assets including laptops, mechanical keys, badges, etc. is critical. We have established guidelines to help maintain the security of company assets and regularly monitor potential security threats. Separate from the Asset Protection and Performance group, we have a Cyber Security group that develops, refines and monitors a comprehensive and complex cyber security system to protect our infrastructure.

Maintenance

We develop and track preventive maintenance plans to promote safe and reliable systems. By performing preventive maintenance on our assets, we can minimize the need for reactive maintenance, resulting in improved reliability. Our Regulated Operating Subsidiaries contract with ULCS, which is a division of Asplundh Tree Expert Co., to perform the majority of their maintenance. The agreement with ULCS provides us with access to an experienced and scalable workforce with knowledge of our system at an established rate.

Real Time Operations

System Operations — From our operations facility in Novi, Michigan, transmission system operators continuously monitor the performance of the transmission systems of our Regulated Operating Subsidiaries, using software and communication systems to perform analysis to plan for contingencies and maintain security and reliability following any unplanned events on the system. Transmission system operators are also responsible for the switching and protective tagging function, taking equipment in and out of service to ensure capital construction projects and maintenance programs can be completed safely and reliably.

Local Balancing Authority Operator — Under the functional control of MISO, ITCTransmission and METC operate their electric transmission systems as a combined LBA area, known as MECS. From our operations facility in Novi, Michigan, our employees perform the LBA functions as outlined in MISO’s Balancing Authority Agreement. These functions include actual interchange data administration and verification as well as MECS LBA area emergency procedure implementation and coordination. Besides ITCTransmission and METC, our other Regulated Operating Subsidiaries are not responsible for LBA functions for their respective assets.

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Operating Contracts
Our Regulated Operating Subsidiaries have various operating contracts, including numerous interconnection agreements with generation and transmission providers that address terms and conditions of interconnection. The following significant agreements exist at our Regulated Operating Subsidiaries:
ITCTransmission
DTE Electric operates the electric distribution system to which ITCTransmission's transmission system connects. A set of three operating contracts sets forth the terms and conditions related to DTE Electric's and ITCTransmission's ongoing working relationship. These contracts include the following:
Master Operating Agreement. The MOA governs the primary day-to-day operational responsibilities of ITCTransmission and DTE Electric. The MOA identifies the control area coordination services that ITCTransmission is obligated to provide to DTE Electric and certain generation-based support services that DTE Electric is required to provide to ITCTransmission.
Generator Interconnection and Operation Agreement. The GIOA established, re-established and maintains the direct electricity interconnection of DTE Electric's electricity generating assets with ITCTransmission's transmission system for the purposes of transmitting electric power from and to the electricity generating facilities.
Coordination and Interconnection Agreement. The CIA governs the rights, obligations and responsibilities of ITCTransmission and DTE Electric regarding, among other things, the operation and interconnection of DTE Electric's distribution system and ITCTransmission's transmission system, and the construction of new facilities or modification of existing facilities. Additionally, the CIA allocates costs for operation of supervisory, communications and metering equipment.
METC
Consumers Energy operates the electric distribution system to which METC's transmission system connects. METC is a party to a number of operating contracts with Consumers Energy that govern the operations and maintenance of its transmission system. These contracts include the following:
Amended and Restated Easement Agreement. Under the Easement Agreement, Consumers Energy provides METC with an easement to the land on which a majority of METC's transmission towers, poles, lines and other transmission facilities used to transmit electricity for Consumers Energy and others are located. METC pays Consumers Energy an annual rent for the easement and also pays for any rentals, property taxes and other fees related to the property covered by the Easement Agreement.
Amended and Restated Operating Agreement. Under the Operating Agreement, METC is responsible for maintaining and operating its transmission system, providing Consumers Energy with information and access to its transmission system and related books and records, administering and performing the duties of control area operator (that is, the entity exercising operational control over the transmission system) and, if requested by Consumers Energy, building connection facilities necessary to permit interaction with new distribution facilities built by Consumers Energy.
Amended and Restated Purchase and Sale Agreement for Ancillary Services. Since METC does not own any generating facilities, it must procure ancillary services from third party suppliers, such as Consumers Energy. Currently, under the Ancillary Services Agreement, METC pays Consumers Energy for providing certain generation-based services necessary to support the reliable operation of the bulk power grid, such as voltage support and generation capability and capacity to balance loads and generation.
Amended and Restated Distribution-Transmission Interconnection Agreement. The DT Interconnection Agreement, provides for the interconnection of Consumers Energy's distribution system with METC's transmission system and defines the continuing rights, responsibilities and obligations of the parties with respect to the use of certain of their own and the other party's properties, assets and facilities.
Amended and Restated Generator Interconnection Agreement. The Generator Interconnection Agreement specifies the terms and conditions under which Consumers Energy and METC maintain the interconnection of Consumers Energy's generation resources and METC's transmission assets.

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ITC Midwest

IP&L operates the electric distribution system to which ITC Midwest's transmission system connects. ITC Midwest is a party to a number of operating contracts with IP&L that govern the operations and maintenance of its transmission system. These contracts include the following:

Distribution-Transmission Interconnection Agreement. The DTIA governs the rights, responsibilities and obligations of ITC Midwest and IP&L, with respect to the use of certain of their own and the other parties' property, assets and facilities and the construction of new facilities or modification of existing facilities.

Large Generator Interconnection Agreement. ITC Midwest, IP&L and MISO entered into the LGIA in order to establish, re-establish and maintain the direct electricity interconnection of IP&L's electricity generating assets with ITC Midwest's transmission system for the purposes of transmitting electric power from and to the electricity generating facilities.

Operations Services Agreement For 34.5 kV Transmission Facilities. ITC Midwest and IP&L entered into the OSA under which IP&L performs certain operations functions for ITC Midwest's 34.5 kV transmission system on behalf of ITC Midwest. The OSA provides that when ITC Midwest upgrades 34.5 kV facilities to higher operating voltages it may notify IP&L of the change and the OSA is no longer applicable to those facilities.

ITC Great Plains

Amended and Restated Maintenance Agreement. Mid-Kansas and ITC Great Plains have entered into the Mid-Kansas Agreement pursuant to which Mid-Kansas has agreed to perform various field operations and maintenance services related to certain ITC Great Plains assets.

ITC Interconnection

ITC Interconnection pursues transmission investment opportunities and acquired certain transmission assets from a merchant generating company and placed a 345kV transmission line in service. As a result, ITC Interconnection is a transmission owner in PJM Interconnection, a FERC-approved RTO, and is subject to rate regulation by the FERC. The revenues earned by ITC Interconnection are based on its facilities reimbursement agreement with the merchant generating company.

Regulatory Environment

Many regulators and public policy makers support the need for further investment in the transmission grid. The growth and changing mix of electricity generation, wholesale power sales and consumption combined with historically inadequate transmission investment have resulted in significant transmission constraints across the United States and increased stress on aging equipment. These problems will continue without increased investment in transmission infrastructure. Transmission system investments can also increase system reliability and reduce the frequency of power outages. Such investments can reduce transmission constraints and improve access to lower cost generation resources, resulting in a lower overall cost of delivered electricity for end-use consumers. The DOE has established the Office of Electricity that focuses on working with reliability experts from the power industry, state governments and their Canadian counterparts to improve grid reliability and increase investment in the country's electric infrastructure. In addition, the FERC has signaled its desire for substantial new investment in the transmission sector by implementing various financial and other incentives.

The FERC has also issued orders to promote non-discriminatory transmission access for all transmission customers. In the United States, electric transmission assets are predominantly owned, operated and maintained by utilities that also own electricity generation and distribution assets, known as vertically integrated utilities. The FERC has recognized that the vertically-integrated utility model inhibits the provision of non-discriminatory transmission access and, in order to alleviate this potential discrimination, the FERC has mandated that all transmission systems over which it has jurisdiction must be operated in a comparable, non-discriminatory manner such that any seller of electricity affiliated with a TO or transmission operator is not provided with preferential treatment. The FERC has also indicated that independent transmission companies can play a prominent role in furthering its policy goals and has encouraged the legal and functional separation of transmission operations from generation and distribution operations.

The FERC requires compliance with certain reliability standards by TOs and may take enforcement actions for violations, including the imposition of substantial fines. NERC is responsible for developing and enforcing these mandatory reliability standards. We continually assess our transmission systems against standards established

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by NERC, as well as the standards of applicable regional entities under NERC that have been delegated certain authority for the purpose of proposing and enforcing reliability standards. Finally, utility holding companies are subject to FERC regulations related to access to books and records in addition to the requirement of the FERC to review and approve mergers and consolidations involving utility assets and holding companies in certain circumstances.

Federal Regulation

As electric transmission companies, our Regulated Operating Subsidiaries charge rates that are regulated by the FERC. The FERC is an independent regulatory commission within the DOE that regulates the interstate transmission and certain wholesale sales of natural gas, the transmission of oil and oil products by pipeline and the transmission and wholesale sales of electricity in interstate commerce. The FERC also administers accounting and financial reporting regulations and standards of conduct for the companies it regulates. In 1996, in order to facilitate open access transmission for participants in wholesale power markets, the FERC issued Order No. 888. Order No. 888 encouraged investor owned utilities to cede operational control over their transmission systems to ISOs, which are not-for-profit entities.

As an alternative to ceding operating control of their transmission assets to ISOs, certain investor owned utilities began to promote the formation of for-profit transmission companies, which would assume control of the operation of the grid. In 1999, the FERC issued Order No. 2000, which strongly encouraged utilities to voluntarily transfer operational control of their transmission systems to RTOs. RTOs, as envisioned in Order No. 2000, would assume many of the functions of an ISO, but the FERC permitted greater flexibility with regard to the organization and structure of RTOs than it had for ISOs. RTOs could accommodate the inclusion of independently owned, for-profit companies that own transmission assets within their operating structure. Independent ownership would facilitate not only the independent operation of the transmission systems, but also the formation of companies with a greater financial interest in maintaining and augmenting the capacity and reliability of those systems. RTOs, such as MISO and SPP, monitor electric reliability and are responsible for coordinating the operation of the wholesale electric transmission system and ensuring fair, non-discriminatory access to the transmission grid.

In 2011, the FERC issued Order No. 1000, which amends certain existing transmission planning and cost allocation requirements to ensure that FERC-jurisdictional services are provided at just and reasonable rates and on a basis that is just and reasonable and not unduly discriminatory or preferential. Order No. 1000 can create competition for certain future transmission projects, including within our current operating areas. As a part of our identification of incremental development opportunities as it relates to our plans, we are exploring opportunities resulting from Order No. 1000 within MISO and SPP as well as other RTOs.

Revenue Requirement Calculations and Cost Sharing for Projects with Regional Benefits

The cost-based Formula Rates used by our Regulated Operating Subsidiaries include revenue requirement calculations for various types of projects. Network revenues continue to be the largest component of revenues recovered through our Formula Rates. However, regional cost sharing revenues have experienced long-term growth as a result of projects that have been identified as having regional benefits and are therefore eligible for regional cost recovery. Separate calculations of revenue requirement are performed for projects that have been approved for regional cost sharing. We have projects that are eligible for regional cost sharing under the MISO tariff, such as certain network upgrade projects, and the MVPs, including our portions of the four MVPs and the Thumb Loop Project in Michigan. Additionally, certain projects at ITC Great Plains are eligible for recovery through a region-wide charge in the SPP tariff, including three regional cost sharing projects in Kansas.

State Regulation

The regulatory agencies in the states where our Regulated Operating Subsidiaries' assets are located do not have jurisdiction over our rates or terms and conditions of service. However, they typically have jurisdiction over siting of transmission facilities and related matters as described below. Additionally, we are subject to the regulatory oversight of various state environmental quality departments for compliance with any state environmental standards and regulations.

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ITCTransmission, METC and ITC Interconnection

Michigan

The Michigan Public Service Commission has jurisdiction over the siting of certain transmission facilities. Additionally, ITCTransmission, METC and ITC Interconnection have the right as independent transmission companies to condemn property in the state of Michigan for the purposes of building or maintaining transmission facilities.

ITCTransmission, METC and ITC Interconnection are also subject to the regulatory oversight of the Michigan Department of Environmental Quality, the Michigan Department of Natural Resources and certain local authorities for compliance with all environmental standards and regulations.

ITC Midwest

Iowa

The Iowa Utilities Board has the power of supervision over the construction, operation and maintenance of transmission facilities in Iowa by any entity, which includes the power to issue franchises. Iowa law further provides that any entity granted a franchise by the Iowa Utilities Board is vested with the power of condemnation in Iowa to the extent the Iowa Utilities Board approves and deems necessary for public use. A city has the power, pursuant to Iowa law, to grant a franchise to erect, maintain and operate transmission facilities within the city, which franchise may regulate the conditions required and manner of use of the streets and public grounds of the city and may confer the power to appropriate and condemn private property.

ITC Midwest also is subject to the regulatory oversight of certain state agencies (including the Iowa Department of Natural Resources) and certain local authorities with respect to the issuance of environmental, highway, railroad and similar permits.

Minnesota

The Minnesota Public Utilities Commission has jurisdiction over the construction, siting and routing of new transmission lines or upgrades of existing lines through Minnesota’s Certificate of Need and Route Permit Processes. Transmission companies are also required to participate in the State’s Biennial Transmission Planning Process and are subject to the state’s preventative maintenance requirements. Pursuant to Minnesota law, ITC Midwest has the right as an independent transmission company to condemn property in the state of Minnesota for the purpose of building new transmission facilities.

ITC Midwest is also subject to the regulatory oversight of the Minnesota Pollution Control Agency, the Minnesota Department of Natural Resources, the Minnesota Public Utilities Commission in conjunction with the Department of Commerce and certain local authorities for compliance with applicable environmental standards and regulations.

Illinois

The Illinois Commerce Commission exercises jurisdiction over siting of new transmission lines through its requirements for Certificates of Public Convenience and Necessity and Right-Of-Way acquisition that apply to construction of new or upgraded facilities.

ITC Midwest is also subject to the regulatory oversight of the Illinois Environmental Protection Agency, the Illinois Department of Natural Resources, the Illinois Pollution Control Board and certain local authorities for compliance with all environmental standards and regulations.

Missouri

Because ITC Midwest is a “public utility” and an “electrical corporation” under Missouri law, the Missouri Public Service Commission has jurisdiction to determine whether ITC Midwest may operate in such capacity. The Missouri Public Service Commission also exercises jurisdiction with regard to other non-rate matters affecting this Missouri asset such as transmission substation construction, general safety and the transfer of the franchise or property.

ITC Midwest is also subject to the regulatory oversight of the Missouri Department of Natural Resources for compliance with all environmental standards and regulations relating to this transmission line.

Wisconsin

ITC Midwest is a “public utility” and independent transmission owner in Wisconsin. The Public Service Commission of Wisconsin granted ITC Midwest a certificate of authority to transact public utility business in the state. The Public Service Commission of Wisconsin also recognized ITC Holdings as a public utility holding company under Wisconsin statutes.

The Public Service Commission of Wisconsin exercises jurisdiction over the siting of new transmission lines through the issuance of certificates of authority and certificates of public convenience and necessity. Upon receipt of such certificates for a transmission project, ITC Midwest has condemnation authority as a foreign transmission provider under Wisconsin law. ITC Midwest is also subject to the jurisdiction of certain local and state agencies, including the Wisconsin Department of Natural Resources, relating to environmental and road permits.

ITC Great Plains

Kansas

ITC Great Plains is a “public utility” in Kansas and an “electric utility” pursuant to state statutes. The KCC issued an order approving the issuance of a limited certificate of convenience to ITC Great Plains for the purposes of building, owning and operating SPP transmission projects in Kansas. In addition to its certificate of authority, the KCC has jurisdiction over the siting of electric transmission lines.

ITC Great Plains is also subject to the regulatory oversight of the Kansas Department of Health and Environment for compliance with all environmental standards and regulations relating to the construction phase of any transmission line.

Oklahoma

ITC Great Plains has approval from the Oklahoma Corporation Commission to operate in Oklahoma, pursuant to Oklahoma statutes as an electric public utility providing only transmission services. The Oklahoma Corporation Commission does not exercise jurisdiction over the siting of any transmission lines.

ITC Great Plains may be subject to the regulatory oversight of Oklahoma Department of Environmental Quality for compliance with environmental standards and regulations relating to construction of proposed transmission lines.

Sources of Revenue

See “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Significant Components of Results of Operations — Revenues” for a discussion of our principal sources of revenue.

Seasonality

The cost-based Formula Rates in effect for our Regulated Operating Subsidiaries, as discussed in “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism,” mitigate the seasonality of net income for our Regulated Operating Subsidiaries. Our Regulated Operating Subsidiaries accrue or defer revenues to the extent that the actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. For example, to the extent that amounts billed are less than our revenue requirement for a reporting period, a revenue accrual is recorded for the difference and the difference results in no net income impact.

Operating cash flows are seasonal at our MISO Regulated Operating Subsidiaries, in that cash received for revenues is typically higher in the summer months when peak load is higher.

Principal Customers

Our principal transmission service customers are DTE Electric, Consumers Energy and IP&L, which accounted for approximately 21.4%, 23.1% and 26.6%, respectively, of our consolidated billed revenues for the year ended December 31, 2018. One or more of these customers together have consistently represented a significant percentage of our operating revenue. These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2016 revenue accruals and deferrals and exclude any amounts for the 2018 revenue accruals and deferrals that were included in our 2018 operating revenues, but will not be billed to our customers until 2020. Refer to “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism” for a discussion on the difference

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between billed revenues and operating revenues. Our remaining revenues were generated from providing service to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations. Nearly all of our revenues are from transmission customers in the United States. Although we may recognize allocated revenues from time to time from Canadian entities reserving transmission over the Ontario or Manitoba interface, these revenues have not been and are not expected to be material to us.

Billing

MISO and SPP are responsible for billing and collecting the majority of our transmission service revenues as well as independently administering the transmission tariff in their respective service territory. As the billing agents for our MISO Regulated Operating Subsidiaries and ITC Great Plains, MISO and SPP independently bill DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis and collect fees for the use of our transmission systems.

See “Item 7A Quantitative and Qualitative Disclosures about Market Risk — Credit Risk” for discussion of our credit policies.

Competition

Each of our MISO Regulated Operating Subsidiaries operates the primary transmission system in its respective service area and has limited competition for certain projects. However, the competitive environment is evolving due to the implementation of the FERC Order No. 1000. See further discussion of Order No. 1000 above under “Regulatory Environment — Federal Regulation.” For our subsidiaries focused on development opportunities for transmission investment in other service areas, the incumbent utilities or other entities with transmission development initiatives may compete with us by seeking approval to be named the party authorized to build new capital projects that we are also pursuing.

Employees

As of December 31, 2018, we had 692 employees. We consider our relations with our employees to be good.

Environmental Matters

See “Environmental Matters” in Note 18 to the consolidated financial statements.

Available Information Under the Securities Exchange Act of 1934

Our Internet address is http://www.itc-holdings.com. Visit our website to learn more about us. Financial and other material information regarding us is routinely posted on our website and is readily accessible. All of our reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, can be accessed free of charge through our website. These reports are available as soon as practicable after they are electronically filed with the SEC. The information on our website is not incorporated by reference into this report.

ITEM 1A. RISK FACTORS.

Risks Related to Our Business

Certain elements of our Regulated Operating Subsidiaries’ Formula Rates have been and can be challenged, which could result in lowered rates and/or refunds of amounts previously collected and thus may have an adverse effect on our business, financial condition, results of operations and cash flows.

Our Regulated Operating Subsidiaries provide transmission service under rates regulated by the FERC. The FERC has approved the cost-based Formula Rates used by our Regulated Operating Subsidiaries to calculate their respective annual revenue requirements, but it has not expressly approved the amount of actual capital and operating expenditures to be used in the Formula Rates. All aspects of our Regulated Operating Subsidiaries’ rates approved by the FERC, including the Formula Rate templates, the rates of return on the actual equity portion of their respective capital structures and the approved capital structures, are subject to challenge by interested parties at the FERC, or by the FERC on its own initiative in a proceeding under Section 206 of the FPA. In addition, interested parties may challenge the annual implementation and calculation by our Regulated Operating Subsidiaries of their projected rates and Formula Rate true up pursuant to their approved Formula Rates under the Regulated Operating Subsidiaries’ Formula Rate implementation protocols. End-use consumers and entities

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supplying electricity to end-use consumers may also attempt to influence government and/or regulators to change the rate setting methodologies that apply to our Regulated Operating Subsidiaries, particularly if rates for delivered electricity increase substantially. If a challenger can establish that any of these aspects are unjust, unreasonable, unduly discriminatory or preferential, then the FERC will make adjustments to them and/or disallow any of our Regulated Operating Subsidiaries' inclusion of those aspects in the rate setting formula. This could result in lowered rates and/or refunds of amounts collected, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Complaints have been filed against our MISO Regulated Operating Companies and we have adjusted revenues downward to accrue for anticipated refund liabilities based on our estimate of the outcome of various complaints, which had a negative effect on our results of operations for those periods. Upon final resolution of matters currently before the FERC, there may be a reduction of our future revenues and net income and a further adverse effect on our future results of operations, cash flows and financial condition.

Our actual capital investment may be lower than planned, which would cause a lower than anticipated rate base and would therefore result in lower revenues, earnings and associated cash flows compared to our current expectations. In addition, we expect to incur expenses related to the pursuit of development opportunities, which may be higher than forecasted.

Each of our Regulated Operating Subsidiaries' rate base, revenues, earnings and associated cash flows are determined in part by additions to property, plant and equipment and when those additions are placed in service. If our operating subsidiaries' capital investment and the resulting in-service property, plant and equipment are lower than anticipated for any reason, our operating subsidiaries will have a lower than anticipated rate base, thus causing their revenue requirements and future earnings and cash flows to be lower than anticipated.

Any capital investment at our Regulated Operating Subsidiaries may be lower than our published estimates due to, among other factors, the impact of actual loads, forecasted loads, regional economic conditions, weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our system or transmission systems owned by others at any one time, regulatory requirements relating to our rate construct, environmental issues, siting, regional planning, cost recovery or other issues, or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded and the potential for greater competition. Our ability to engage in construction projects resulting from pursuing these initiatives is subject to significant uncertainties, including the factors discussed above, and will depend on obtaining any necessary regulatory and other approvals for the project and for us to initiate construction, our achieving status as the builder of the project in some circumstances and other factors. In addition, projects may be canceled, the scope of planned projects may change, or projects may not be completed on time, any of which may adversely affect our level of investment or cause our projected investments to be inaccurate.

In addition, we expect to incur expenses to pursue strategic development investment opportunities. If these payments or expenses are higher than anticipated, our future results of operations, cash flows and financial condition could be materially and adversely affected.

The regulations to which we are subject may limit our ability to raise capital and/or pursue acquisitions, development opportunities or other transactions or may subject us to liabilities.

Each of our Regulated Operating Subsidiaries is a "public utility" under the FPA and, accordingly, is subject to regulation by the FERC. Approval of the FERC is required under Section 203 of the FPA for a disposition or acquisition of regulated public utility facilities, either directly or indirectly through a holding company. Such approval is also required to acquire a significant interest in securities of a public utility. Section 203 of the FPA also provides the FERC with explicit authority over utility holding companies' purchases or acquisitions of, and mergers or consolidations with, a public utility. Finally, each of our Regulated Operating Subsidiaries must also seek approval by the FERC under Section 204 of the FPA for issuances of its securities (including debt securities). If we are unable to obtain the necessary FERC approvals for potential acquisitions, dispositions or merger activities, or to raise capital, our strategic and growth opportunities may be limited. This could have an adverse impact on our consolidated results of operations, cash flows and financial condition.

We are also pursuing development projects for construction of transmission facilities and interconnections with generating resources. These projects may require regulatory approval by Federal agencies, including the FERC, applicable RTOs and state and local regulatory agencies. Failure to secure such regulatory approval for new

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strategic development projects could adversely affect our ability to grow our business and increase our revenues. If we fail to obtain these approvals when necessary, we may incur liabilities for such failure.

The TCJA and any future changes in tax laws or regulations may negatively affect our results of operations, net income, financial condition, cash flows and credit metrics.

We are subject to taxation by various taxing authorities at the federal, state and local levels. The TCJA enacted significant changes to the Internal Revenue Code including reducing the U.S. federal corporate income tax rate and providing modifications to bonus depreciation rules and limitations on the deductibility of interest expense, both of which include carve-outs for regulated utilities. These modifications and other aspects of the TCJA are still subject to interpretation and clarification. We cannot predict the timing or impacts of any future TCJA modifications or changes in tax laws, including the impacts of any subsequent technical corrections or clarifications. Increases in federal, state or local tax rates or modifications and changes in tax laws, including the TCJA, could materially and adversely affect our results of operations, net income, financial condition, cash flows, and credit metrics.

Changes in energy laws, regulations or policies could impact our business, financial condition, results of operations and cash flows.

Each of our Regulated Operating Subsidiaries is regulated by the FERC as a “public utility” under the FPA and is a transmission owner in MISO, SPP or PJM. We cannot predict whether the approved rate methodologies for any of our Regulated Operating Subsidiaries will be changed. In addition, the U.S. Congress periodically considers enacting energy legislation that could assign new responsibilities to the FERC, modify provisions of the FPA or provide the FERC or another entity with increased authority to regulate transmission matters. Our Regulated Operating Subsidiaries may be affected by any such changes in federal energy laws, regulations or policies in the future. While our Regulated Operating Subsidiaries are subject to the FERC’s exclusive jurisdiction for purposes of rate regulation, changes in state laws affecting other matters, such as transmission siting and construction, could limit investment opportunities available to us.

Each of our MISO Regulated Operating Subsidiaries depends on its primary customer for a substantial portion of its revenues, and any material failure by those primary customers to make payments for transmission services could have a material adverse effect on our business, financial condition, results of operations and cash flows.

ITCTransmission derives a substantial portion of its revenues from the transmission of electricity to DTE Electric’s local distribution facilities. DTE Electric accounted for approximately 62.9% of ITCTransmission’s total billed revenues for the year ended December 31, 2018 and is expected to constitute the majority of ITCTransmission’s revenues for the foreseeable future. DTE Electric is rated BBB+/stable and A2/stable by S&P and Moody’s, respectively. Similarly, Consumers Energy accounted for approximately 83.5% of METC’s total billed revenues for the year ended December 31, 2018 and is expected to constitute the majority of METC’s revenues for the foreseeable future. Consumers Energy is rated BBB+/stable and A2/stable by S&P and Moody’s, respectively. Further, IP&L accounted for approximately 69.7% of ITC Midwest’s total billed revenues for the year ended December 31, 2018 and is expected to constitute the majority of ITC Midwest’s revenues for the foreseeable future. IP&L is rated A-/negative and Baa1/negative by S&P and Moody’s, respectively. These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2016 revenue accruals and deferrals and exclude any amounts for the 2018 revenue accruals and deferrals that were included in our 2018 operating revenues, but will not be billed to our customers until 2020.

Any material failure by DTE Electric, Consumers Energy or IP&L to make payments for transmission services could have an adverse effect on our business, financial condition, results of operations and cash flows.

A significant amount of the land on which our assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, we must comply with the provisions of various easements, mineral rights and other similar encumbrances, which may adversely impact our ability to complete construction projects in a timely manner.

METC does not own the majority of the land on which its electric transmission assets are located. Instead, under the provisions of the Easement Agreement, METC pays an annual rent to Consumers Energy in exchange for rights-of-way, leases, fee interests and licenses which allow METC to use the land on which its transmission lines are located. Under the terms of the Easement Agreement, METC’s easement rights could be eliminated if METC fails to meet certain requirements, such as paying contractual rent to Consumers Energy in a timely manner.

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Additionally, a significant amount of the land on which our other subsidiaries' assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, they must comply with the provisions of various easements, mineral rights and other similar encumbrances, which may adversely impact their ability to complete their construction projects in a timely manner.

We contract with third parties to provide services for certain aspects of our business. If any of these agreements are terminated, we may face a shortage of labor or replacement contractors to provide the services formerly provided by these third parties.

We enter into various agreements and arrangements with third parties to provide services for construction, maintenance and operations of certain aspects of our business, which, if terminated, could result in a shortage of a readily available workforce to provide these services. If any of these agreements or arrangements is terminated for any reason, we may face difficulty finding a qualified replacement work force to provide such services, which could have an adverse effect on our ability to carry on our business and on our results of operations.

Hazards associated with high-voltage electricity transmission may result in suspension of our operations, costly litigation or the imposition of civil or criminal penalties.

Our operations are subject to the usual hazards associated with high-voltage electricity transmission, including explosions, fires, mechanical failure, unscheduled downtime, equipment interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other environmental risks. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage, and may result in suspension of operations, litigation by aggrieved parties and the imposition of civil or criminal penalties which may have a material adverse effect on our business, financial condition and results of operations. We maintain property and casualty insurance, but we are not fully insured against all potential hazards incident to our business, such as damage to poles, towers and lines or losses caused by outages.

We are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination.

We are subject to federal, state and local environmental laws and regulations, which impose limitations on the discharge of pollutants into the environment, establish standards for the management, treatment, storage, transportation and disposal of solid and hazardous wastes and hazardous materials, and impose obligations to investigate and remediate contamination in certain circumstances. Liabilities relating to investigation and remediation of contamination, as well as other liabilities concerning hazardous materials or contamination such as claims for personal injury or property damage, may arise at many locations, including formerly owned or operated properties and sites where wastes have been treated or disposed of, as well as properties we currently own or operate. Such liabilities may arise even where the contamination does not result from noncompliance with applicable environmental laws. Under a number of environmental laws, such liabilities may also be joint and several, meaning that a party can be held responsible for more than its share of the liability involved, or even the entire share. Environmental requirements generally have become more stringent in recent years, and compliance with those requirements more expensive.

We have incurred expenses in connection with environmental compliance, and we anticipate that we will continue to do so in the future. Failure to comply with the extensive environmental laws and regulations applicable to us could result in significant civil or criminal penalties and remediation costs. Our assets and operations also involve the use of materials classified as hazardous, toxic or otherwise dangerous. Some of our facilities and properties are located near environmentally sensitive areas such as wetlands and habitats of endangered or threatened species. In addition, certain properties in which we operate are, or are suspected of being, affected by environmental contamination. Compliance with these laws and regulations, and liabilities concerning contamination or hazardous materials, may adversely affect our costs and, therefore, our business, financial condition and results of operations.

If amounts billed for transmission service for our Regulated Operating Subsidiaries' transmission systems are lower than expected, or our actual revenue requirements are higher than expected, the timing of actual collection of our total revenues would be delayed.

If amounts billed for transmission service are lower than expected, the timing of actual collections of our Regulated Operating Subsidiaries' total revenue requirement would likely be delayed until such circumstances are adjusted through the true-up mechanism, which would be settled within a two-year period, in our Regulated Operating

Subsidiaries’ Formula Rates. Lower than expected amounts collected could result from lower network

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load or point-to-point transmission service on our Regulated Operating Subsidiaries’ transmission systems due to a weak economy, changes in the nature or composition of the transmission assets of our Regulated Operating Subsidiaries and surrounding areas, poor transmission quality of neighboring transmission systems, or for any other reason. In addition, if the revenue requirements of our Regulated Operating Subsidiaries are higher than expected, the timing of actual collection of our Regulated Operating Subsidiaries' total revenue requirements would likely be delayed until such circumstances are reflected through the true-up mechanism, which would be settled within a two-year period, in our Regulated Operating Subsidiaries' Formula Rates. This could be due to higher actual expenditures compared to the forecasted expenditures used to develop their billing rates or for any other reason. The effect of such under-collection would be to reduce the amount of our available cash resources from what we had expected, until such under-collection is corrected through the true-up mechanism in the Formula Rate template, which may require us to increase our outstanding indebtedness, thereby reducing our available borrowing capacity, and may require us to pay interest at a rate that exceeds the interest to which we are entitled in connection with the operation of the true-up mechanism.

We are subject to various regulatory requirements, including reliability standards; contract filing requirements; reporting, recordkeeping and accounting requirements; and transaction approval requirements. Violations of these requirements, whether intentional or unintentional, may result in penalties that, under some circumstances, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The various regulatory requirements to which we are subject include reliability standards established by the NERC, which acts as the nation’s Electric Reliability Organization approved by the FERC in accordance with Section 215 of the FPA. These standards address operation, planning and security of the bulk power system, including requirements with respect to real-time transmission operations, emergency operations, vegetation management, critical infrastructure protection and personnel training. Failure to comply with these requirements can result in monetary penalties as well as non-monetary sanctions. Monetary penalties vary based on an assigned risk factor for each potential violation, the severity of the violation and various other circumstances, such as whether the violation was intentional or concealed, whether there are repeated violations, the degree of the violator’s cooperation in investigating and remediating the violation and the presence of a compliance program, and such penalties can be substantial. Non-monetary sanctions include potential limitations on the violator’s activities or operation and placing the violator on a watchlist for major violators. If any of our subsidiaries were to violate the NERC reliability standards, even unintentionally, in any material way, any penalties or sanctions imposed against us could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Certain of our subsidiaries are also subject to requirements under Sections 203 and 205 of the FPA for approval of transactions; reporting, recordkeeping and accounting requirements; and for filing contracts related to the provision of jurisdictional services. Under the FERC policy, failure to file jurisdictional agreements on a timely basis may result in foregoing the time value of revenues collected under the agreement, but not to the point where a loss would be incurred. The failure to obtain timely approval of transactions subject to FPA Section 203, or to comply with applicable reporting, recordkeeping or accounting requirements under FPA Section 205, could subject us to penalties that could have a material adverse effect on our financial condition, results of operations and cash flows.

Acts of war, terrorist attacks, natural disasters, severe weather and other catastrophic events may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Acts of war, terrorist attacks, natural disasters, severe weather and other catastrophic events may negatively affect our business, financial condition and cash flows in unpredictable ways, such as increased security measures and disruptions of markets. Energy related assets, including, for example, our transmission facilities and DTE Electric’s, Consumers Energy’s and IP&L’s generation and distribution facilities that we interconnect with, may be at risk of acts of war and terrorist attacks, as well as natural disasters, severe weather and other catastrophic events. Such events or threats may have a material effect on the economy in general and could result in a decline in energy consumption, which may have a material adverse effect on our business, financial condition, results of operations and cash flows.

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A cyber attack or incident could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Various U.S. Government agencies have noted that external threat sources continue to seek to exploit, through cyber attacks, potential vulnerabilities in the U.S. energy infrastructure including electric transmission assets. These cyber threats and attacks are becoming more sophisticated and dynamic. Cyber security incidents could harm our business by limiting our transmission capabilities, delay our development and construction of new facilities or capital improvement projects on existing facilities or expose us to liability. Cyber attacks targeting our information systems could also impair our records, networks, systems and programs, or transmit viruses to other systems. Such events or the threat of such events may increase costs associated with heightened security requirements. In addition, if our major customers or suppliers experience a cyber attack it may reduce their ability to use our transmission facilities or service our transmission assets. If our business or those of our customers and suppliers are subject to a cyber attack, it may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Relating to Our Corporate and Financial Structure

ITC Holdings is a holding company with no operations, and unless we receive dividends or other payments from our subsidiaries, we may be unable to fulfill our cash obligations.

As a holding company with no business operations, ITC Holdings' material assets consist primarily of the stock and membership interests in our subsidiaries. Our only sources of cash to meet our obligations are dividends and other payments received by us from time to time from our subsidiaries, the proceeds raised from the sale of our securities and borrowings under our various credit agreements. Each of our subsidiaries, however, is legally distinct from us and has no obligation, contingent or otherwise, to make funds available to us. The ability of each of our Regulated Operating Subsidiaries and our other subsidiaries to pay dividends and make other payments to us is subject to, among other things, the availability of funds, after taking into account capital expenditure requirements, the terms of its indebtedness, applicable state laws and regulations of the FERC and the FPA. Our Regulated Operating Subsidiaries target a FERC-approved capital structure of 60% equity and 40% debt that may limit the ability of our Regulated Operating Subsidiaries to use net assets for the payment of dividends to ITC Holdings. In addition, ITC Holdings' right to receive any assets of any subsidiary, and therefore the right of its creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors. If ITC Holdings does not receive cash or other assets from our subsidiaries, it may be unable to pay principal and interest on its indebtedness.

We have a considerable amount of debt and our reliance on debt financing may limit our ability to fulfill our debt obligations and/or to obtain additional financing.

We have a considerable amount of debt and our consolidated indebtedness includes various debt securities and borrowings, which utilize indentures, revolving and term loan credit agreements and commercial paper that we rely on as sources of capital and liquidity. Our capital structure can have several important consequences, including, but not limited to, the following:

- If future cash flows are insufficient, we may not be able to make principal or interest payments on our debt obligations, which could result in the occurrence of an event of default under one or more of those debt instruments.
- We may need to increase our indebtedness in order to make the capital expenditures and other expenses or investments planned by us.
- Our indebtedness has the general effect of reducing our flexibility to react to changing business and economic conditions insofar as they affect our financial condition. A substantial portion of the dividends and payments in lieu of taxes we receive from our subsidiaries will be dedicated to the payment of interest on our indebtedness, thereby, reducing our available cash.
- In the event that we are liquidated, the creditors of our subsidiaries will be entitled to payment in full of the subsidiaries' indebtedness prior to making any payments to ITC Holdings for the payment of its indebtedness.
- We currently have debt instruments outstanding with short-term maturities or relatively short remaining maturities. Our ability to secure additional financing prior to or after these facilities mature, if needed, may be substantially restricted by the existing level of our indebtedness and the restrictions contained in our debt

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instruments. Additionally, the interest rates at which we might secure additional financings may be higher than our currently outstanding debt instruments or higher than forecasted at any point in time, which could adversely affect our business, financial condition, results of operations and cash flows.

- Market conditions could affect our access to capital markets, restrict our ability to secure financing to make the capital expenditures and investments and pay other expenses planned by us which could adversely affect our business, financial condition, cash flows and results of operations.

We may incur substantial additional indebtedness in the future. The incurrence of additional indebtedness would increase the leverage-related risks described above.

Adverse changes in our credit ratings may negatively affect us.

Our ability to access capital markets is important to our ability to operate our business. Increased scrutiny of the energy industry and the impact of the TCJA and other statutory or regulatory changes, as well as changes in our financial performance and unfavorable conditions in the capital markets could result in credit agencies reexamining and downgrading our credit ratings. In addition, because we are a subsidiary of Fortis, a downgrade in Fortis' credit rating could cause our credit rating to be downgraded as well, even if our creditworthiness has not otherwise deteriorated. A downgrade in our credit ratings could restrict or discontinue our ability to access capital markets at attractive rates and increase our borrowing costs. A rating downgrade could also increase the interest we pay on commercial paper and under our revolving and term loan credit agreements.

Certain provisions in our debt instruments limit our financial and operating flexibility.

Our debt instruments on a consolidated basis, including senior notes, secured notes, first mortgage bonds, revolving and term loan credit agreements and commercial paper, contain numerous financial and operating covenants that place significant restrictions on, among other things, our ability to:

- incur additional indebtedness;
- engage in sale and lease-back transactions;
- create liens or other encumbrances;
- enter into mergers, consolidations, liquidations or dissolutions, or sell or otherwise dispose of all or substantially all of our assets;
- create and acquire subsidiaries; and
- pay dividends or make distributions on our stock or on the stock or member capital of our subsidiaries.

In addition, the covenants require us to meet certain financial ratios, such as maintaining certain net debt to capitalization ratios and certain funds from operations to net debt levels. Our ability to comply with these and other requirements and restrictions may be affected by changes in economic or business conditions, results of operations or other events beyond our control. A failure to comply with the obligations contained in any of our debt instruments could result in acceleration of related debt and the acceleration of debt under other instruments evidencing indebtedness that may contain cross-acceleration or cross-default provisions.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our Regulated Operating Subsidiaries' transmission facilities are located in Michigan and portions of Iowa, Minnesota, Illinois, Missouri, Kansas and Oklahoma. Our MISO Regulated Operating Subsidiaries and ITC Great Plains have agreements with other utilities for the joint ownership of specific substations, transmission lines and other transmission assets. See Note 16 to the consolidated financial statements for more information on the jointly owned assets.

ITCTransmission owns the assets of a transmission system and related assets, including:

- approximately 3,100 circuit miles of overhead and underground transmission lines rated at voltages of 120 kV to 345 kV;

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- approximately 18,800 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 196 stations and substations which either interconnect ITCTransmission's transmission facilities or connect ITCTransmission's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment);
- warehouses and related equipment;
- associated land held in fee, rights-of-way and easements;
- an approximately 198,000 square-foot corporate headquarters facility and operations control room in Novi, Michigan, including furniture, fixtures and office equipment; and
- an approximately 40,000 square-foot facility in Ann Arbor, Michigan that includes a back-up operations control room.

ITCTransmission's First Mortgage Bonds are issued under ITCTransmission's first mortgage and deed of trust. As a result, the bondholders have the benefit of a first mortgage lien on substantially all of ITCTransmission's property.

METC owns the assets of a transmission system and related assets, including:

- approximately 5,600 circuit miles of overhead transmission lines rated at voltages of 120 kV to 345 kV;
- approximately 37,100 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 106 stations and substations which either interconnect METC's transmission facilities or connect METC's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment); and
- warehouses and related equipment.

METC's Senior Secured Notes are issued under METC's first mortgage indenture. As a result, the noteholders have the benefit of a first mortgage lien on substantially all of METC's property.

METC does not own the majority of the land on which its assets are located, but under the provisions of the Easement Agreement, METC has an easement to use the land, rights-of-way, leases and licenses in the land on which its transmission lines are located that are held or controlled by Consumers Energy. See "Item 1 Business — Operating Contracts — METC — Amended and Restated Easement Agreement."

ITC Midwest owns the assets of a transmission system and related assets, including:

- approximately 6,600 circuit miles of transmission lines rated at voltages of 34.5 kV to 345 kV;
- transmission towers and poles;
- station assets, such as transformers and circuit breakers, at approximately 284 stations and substations which either interconnect ITC Midwest's transmission facilities or connect ITC Midwest's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment);
- warehouses and related equipment; and
- associated land held in fee, rights-of-way and easements.

ITC Midwest's First Mortgage Bonds are issued under ITC Midwest's first mortgage and deed of trust. As a result, the bondholders have the benefit of a first mortgage lien on substantially all of ITC Midwest's property.

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ITC Great Plains owns transmission and related assets, including:

- approximately 470 circuit miles of transmission lines rated at a voltage of 345 kV;
- approximately 2,120 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 9 stations and substations which either interconnect ITC Great Plains' transmission facilities or connect ITC Great Plains' facilities with transmission, generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment); and
- associated land held in fee, rights-of-way and easements.

ITC Great Plains' First Mortgage Bonds are issued under ITC Great Plains' first mortgage and deed of trust. As a result, the bondholders have the benefit of a first mortgage lien on substantially all of ITC Great Plains' property.

ITC Interconnection owns certain substation assets and less than a mile of a transmission line rated at a voltage of 345 kV in Michigan. As of December 31, 2018, there were no liens or encumbrances on the assets of ITC Interconnection.

The assets of our Regulated Operating Subsidiaries are suitable for electric transmission and adequate for the electricity demand in our service territory. We prioritize capital spending based in part on meeting reliability standards within the industry. This includes replacing and upgrading existing assets as needed.

ITEM 3. LEGAL PROCEEDINGS.

We are involved in certain legal proceedings before various courts, governmental agencies and mediation panels concerning matters arising in the ordinary course of business. These proceedings include certain contract disputes, regulatory matters and pending judicial matters. We cannot predict the final disposition of such proceedings. We regularly review legal matters and record provisions for claims that are considered probable of loss.

Refer to Notes 6 and 18 to the consolidated financial statements for a description of certain pending legal proceedings, which description is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

With the consummation of the Merger on October 14, 2016, ITC Holdings became a wholly-owned subsidiary of Investment Holdings and ITC Holdings' common stock was delisted from NYSE. Consequently, there is no longer any public trading market for the common stock of ITC Holdings.

Additionally, ITC Holdings paid dividends of $200 million and $300 million to our parent, Investment Holdings, during the years ended December 31, 2018 and 2017, respectively. ITC Holdings also paid dividends of $73 million to Investment Holdings in January 2019. The timing and amount of future dividends is subject to an approved dividend declaration from our Board of Directors, and is dependent upon cash flows, capital requirements, legislative and regulatory developments, and financial condition of ITC Holdings, among other factors deemed relevant.

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ITEM 6. SELECTED FINANCIAL DATA.

The selected historical financial data presented below should be read together with our consolidated financial statements and the notes to those statements and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Form 10-K.

	ITC Holdings and Subsidiaries				
	Year Ended December 31,				
(In millions)	2018	2017	2016	2015	2014
OPERATING REVENUES (a) (b)					
Transmission and other services	$1,192	$1,226	$1,142	$1,025	$1,044
Formula Rate true-up	(36)	(15)	(17)	20	(21)
Total operating revenue	1,156	1,211	1,125	1,045	1,023
OPERATING EXPENSES					
Operation and maintenance	109	110	114	113	112
General and administrative (c) (d) (e)	127	121	234	140	113
Depreciation and amortization	180	169	158	145	128
Taxes other than income taxes	109	103	93	82	76
Other operating (income) and expense, net	(4)	(2)	(1)	(1)	(1)
Total operating expenses (e)	521	501	598	479	428
OPERATING INCOME (e)	635	710	527	566	595
OTHER EXPENSES (INCOME)					
Interest expense, net (f)	224	224	211	204	216
Allowance for equity funds used during construction	(33)	(33)	(35)	(28)	(21)
Other (income) and expenses, net (e)	3	4	8	6	6
Total other expenses (income) (e)	194	195	184	182	201
INCOME BEFORE INCOME TAXES	441	515	343	384	394
INCOME TAX PROVISION (g)	111	196	97	142	150
NET INCOME	$330	$319	$246	$242	$244

(a) The decrease in operating revenues in 2018 was due to a reduction in taxes collected through our Regulated Operating Subsidiaries' Formula Rates as a result of the reduction in the U.S. federal corporate income tax rate from 35% to 21% effective for tax years beginning after 2017.

(b) We recognized a reduction in operating revenues of $80 million, $115 million and $47 million in 2016, 2015 and 2014, respectively relating to the rate of return on equity complaints as described in Note 18 to the consolidated financial statements.

(c) During 2016, we expensed external legal, advisory and financial services fees of $55 million related to the Merger and approximately $41 million due to the accelerated vesting of the share-based awards that occurred at the completion of the Merger. See Note 1 to the consolidated financial statements for further details on the impact of the Merger. The external and internal costs related to the Merger were recorded at ITC Holdings and have not been included as components of revenue requirement at our Regulated Operating Subsidiaries.

(d) The increase in general and administrative expenses in 2015 was due primarily to higher compensation related expenses, including the development bonuses for the successful completion of certain milestones relating to projects at ITC Great Plains and higher legal and advisory professional service fees for various development initiatives which were not included as components of revenue requirement at our Regulated Operating Subsidiaries.

(e) All amounts presented reflect the change in the authoritative guidance issued by the FASB regarding net periodic pension and postretirement benefit non-service costs which are now included in the line "Other (income) and expenses, net". This change was adopted retrospectively by us in 2018.

(f) During 2014, we recorded loss on extinguishment of debt of $29 million related to a cash tender offer for the retirement of debt at ITC Holdings.

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(g) The decrease in income tax provision in 2018 was due to the reduction in the U.S. federal corporate income tax rate from 35% to 21% effective for tax years beginning after 2017. During 2016, we recognized an income tax benefit of $27 million for excess tax deductions as a result of adopting the accounting guidance associated with share-based payments.

	ITC Holdings and Subsidiaries				
	As of December 31,				
(In millions)	2018	2017	2016	2015	2014
BALANCE SHEET DATA:					
Cash and cash equivalents	$6	$66	$8	$14	$28
Working capital (deficit) (a)	(308)	(302)	(400)	(550)	(291)
Property, plant and equipment, net	7,910	7,309	6,698	6,110	5,497
Goodwill	950	950	950	950	950
Total assets (a) (b)	9,329	8,823	8,223	7,555	6,932
Debt:					
ITC Holdings (b)	2,767	2,728	2,387	2,304	2,123
Regulated Operating Subsidiaries (b)	2,571	2,373	2,203	2,125	1,954
Total debt (b)	5,338	5,101	4,590	4,429	4,077
Total stockholder’s equity	$2,051	$1,920	$1,901	$1,709	$1,670

(a) All amounts presented reflect the change in the authoritative guidance issued by the FASB to net all deferred income tax assets and liabilities and present as a single line item within non-current assets or liabilities on the balance sheet. This change was adopted retrospectively by us in 2015.

(b) All amounts presented reflect the change in authoritative guidance on the presentation of debt issuance costs on the balance sheet. This change was adopted retrospectively by us in 2015.

	ITC Holdings and Subsidiaries				
	Year Ended December 31,				
(In millions)	2018	2017	2016	2015	2014
CASH FLOWS DATA:					
Expenditures for property, plant and equipment	$769	$755	$750	$701	$753

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Safe Harbor Statement Under The Private Securities Litigation Reform Act of 1995

Our reports, filings and other public announcements contain certain statements that describe our management’s beliefs concerning future business conditions, plans and prospects, growth opportunities, the outlook for our business and the electric transmission industry, and expectations with respect to various legal and regulatory proceedings based upon information currently available. Such statements are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Wherever possible, we have identified these forward-looking statements by words such as “will,” “may,” “anticipates,” “believes,” “intends,” “estimates,” “expects,” “forecasted,” “projects,” “likely” and phrases. These forward-looking statements are based upon assumptions our management believes are reasonable. Such forward-looking statements are based on estimates and assumptions and subject to significant risks and uncertainties which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among others, the risks and uncertainties listed in this report under “Item 1A Risk Factors” and in our other reports filed with the SEC from time to time.

Forward-looking statements speak only as of the date made and can be affected by assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this report will be important in determining future results. Consequently, we cannot assure you that our expectations or forecasts expressed in such forward-looking statements will be achieved. Except as required by law, we undertake no

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obligation to publicly update any of our forward-looking or other statements, whether as a result of new information, future events or otherwise.

Overview

ITC Holdings and its subsidiaries are engaged in the transmission of electricity in the United States. ITC Holdings is a wholly-owned subsidiary of Investment Holdings. Through our Regulated Operating Subsidiaries, we own and operate high-voltage systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Kansas and Oklahoma that transmit electricity from generating stations to local distribution facilities connected to our systems. Our business strategy is to own, operate, maintain and invest in transmission infrastructure in order to enhance system integrity and reliability, reduce transmission constraints and support new generating resources to interconnect to our transmission systems. We also are pursuing development projects outside our existing systems.

As electric transmission utilities with rates regulated by the FERC, our Regulated Operating Subsidiaries earn revenues for the use of their electric transmission systems by our customers, which include investor-owned utilities, municipalities, cooperatives, power marketers and alternative energy suppliers. As independent transmission companies, our Regulated Operating Subsidiaries are subject to rate regulation only by the FERC, and our cost-based rates are discussed below under "— Cost-Based Formula Rates with True-Up Mechanism" as well as in Note 6 to the consolidated financial statements.

Our Regulated Operating Subsidiaries' primary operating responsibilities include maintaining, improving and expanding their transmission systems to meet their customers' ongoing needs, scheduling outages on system elements to allow for maintenance and construction, maintaining appropriate system voltages and monitoring flows over transmission lines and other facilities to ensure physical limits are not exceeded.

Significant recent matters that influenced our financial position, results of operations and cash flows for the year ended December 31, 2018 or that may affect future results include:

- The change in federal tax rate arising from the enactment of the TCJA, which resulted in reductions to revenue requirements and payments of the 2018 resettlement obligation in connection with the reposting of the 2018 rates, as described below under "— Recent Developments;"
- Our capital expenditures of $769 million at our Regulated Operating Subsidiaries during the year ended December 31, 2018, as described below under "— Capital Investment and Operating Results Trends," resulting primarily from our focus on improving system reliability, increasing system capacity and upgrading the transmission network to support new generating resources;
- Debt issuances and repayments as described in Note 10 to the consolidated financial statements, including the issuance of First Mortgage bonds by ITCTransmission and ITC Midwest and borrowings under our revolving credit agreements to fund capital investment at our Regulated Operating Subsidiaries as well as for general corporate purposes;
- Our MISO Regulated Operating Subsidiaries had an estimated current regulatory liability of $151 million as of December 31, 2018 for the potential refund relating to the Second Complaint as described in Note 18 to the consolidated financial statements.

These items are discussed in more detail throughout "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations."

Cost-Based Formula Rates with True-Up Mechanism

Our Regulated Operating Subsidiaries calculate their revenue requirements using cost-based Formula Rates that are effective without the need to file rate cases with the FERC, although the rates are subject to legal challenge at the FERC. Under their cost-based formula, each of our Regulated Operating Subsidiaries separately calculates a revenue requirement based on financial information specific to each company. The calculation of projected revenue requirement for a future period is used to establish the transmission rate used for billing purposes. The calculation of actual revenue requirements for a historic period is used to calculate the amount of revenues recognized in that period and determine the over- or under-collection for that period.

Under these Formula Rates, our Regulated Operating Subsidiaries recover expenses and earn a return on and recover investments in property, plant and equipment on a current basis. The Formula Rates for a given year reflect

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forecasted expenses, property, plant and equipment, point-to-point revenues, network load at our MISO Regulated Operating Subsidiaries and other items for the upcoming calendar year to establish projected revenue requirements for each of our Regulated Operating Subsidiaries that are used as the basis for billing for service on their systems from January 1 to December 31 of that year. Our Formula Rates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue. The over- or under-collection typically results from differences between the projected revenue requirement used as the basis for billing and actual revenue requirement at each of our Regulated Operating Subsidiaries, or from differences between actual and projected monthly peak loads at our MISO Regulated Operating Subsidiaries. In the event billed revenues in a given year are more or less than actual revenue requirements, which are calculated primarily using information from that year's FERC Form No. 1, our Regulated Operating Subsidiaries will refund or collect additional revenues, with interest, within a two-year period such that customers pay only the amounts that correspond to actual revenue requirements for that given period. This annual true-up ensures that our Regulated Operating Subsidiaries recover their allowed costs and earn their allowed returns.
See "Cost-Based Formula Rates with True-Up Mechanism" in Note 6 to the consolidated financial statements for further discussion of our Formula Rates and see "Rate of Return on Equity Complaints" in Note 18 to the consolidated financial statements for detail on ROE matters.

Illustrative Example of Formula Rate Setting

The Formula Rate setting example shown below is for illustrative purposes and is not based on our actual financial data.

Line	Item	Instructions	Amount
1	Rate base (a)		$ 1,000,000
2	Multiply by 13-month weighted average cost of capital (b)		8.64 %
3	Allowed return on rate base	(Line 1 x Line 2)	$ 86,400
4	Recoverable operating expenses (including depreciation and amortization)		$ 150,000
5	Income taxes (c)		37,500
6	Gross revenue requirement	(Line 3 + Line 4 + Line 5)	$ 273,900

(a) Consists primarily of in-service property, plant and equipment, net of accumulated depreciation.

(b) The weighted average cost of capital for purposes of this illustration is calculated below. The cost of capital for debt is included at a flat interest rate for purposes of this illustration and is not based on our actual cost of capital. The cost of capital rate for equity represents the current maximum allowed MISO ROE per the September 2016 order on the Initial Complaint. See Note 18 to the consolidated financial statements for detail on ROE matters, including pending ROE complaints.

	Percentage of Total Capitalization	Cost of Capital	Weighted Average Cost of Capital
Debt	40.00%	5.00% =	2.00 %
Equity	60.00%	11.07% =	6.64 %
	100.00%		8.64 %

(c) Represents an approximation of the federal and state income tax expense for purposes of this illustration and is not based on our actual tax expense.

Revenue Accruals and Deferrals — Effects of Monthly Peak Loads

For our MISO Regulated Operating Subsidiaries, monthly peak loads are used for billing network revenues, which currently is the largest component of our operating revenues. One of the primary factors that impacts the revenue accruals and deferrals at our MISO Regulated Operating Subsidiaries is actual monthly peak loads experienced as compared to those forecasted in establishing the annual network transmission rate. Under their cost-based Formula Rates that contain a true-up mechanism, our MISO Regulated Operating Subsidiaries accrue

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or defer revenues to the extent that their actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. Although monthly peak loads do not impact operating revenues recognized, network load affects the timing of our cash flows from transmission service. The monthly peak load of our MISO Regulated Operating Subsidiaries is generally impacted by weather and economic conditions and seasonally shaped with higher load in the summer months when cooling demand is higher.

ITC Great Plains does not receive revenue based on a peak load or a dollar amount per kW each month therefore, peak load does not have a seasonal effect on operating cash flows. The SPP tariff applicable to ITC Great Plains is billed ratably each month based on its annual projected revenue requirement posted annually by SPP.

Capital Investment and Operating Results Trends

We expect a long-term upward trend in revenues and earnings, subject to the impact of:

- any rate changes and required refunds resulting from the resolution of the ROE complaints as described in Note 18 and Note 6 to the consolidated financial statements;
- lower revenue from customers due to a lower tax gross up on our authorized return on equity at our Regulated Operating Subsidiaries resulting from the change in U.S. federal corporate income tax rate from 35% to 21% under the TCJA; and
- lower net income due to lower interest expense deductibility as a result of a lower federal tax rate at ITC Holdings under the TCJA.

The primary factor that is expected to continue to increase our revenues and earnings in future years is increased rate base that would result from our anticipated capital investment, in excess of depreciation, from our Regulated Operating Subsidiaries' long-term capital investment programs to improve reliability, increase system capacity and upgrade the transmission network to support new generating resources. Investments in property, plant and equipment, when placed in-service upon completion of a capital project, are added to the rate base of our Regulated Operating Subsidiaries.

Our Regulated Operating Subsidiaries strive for high reliability of their systems and improvement in system accessibility for all generation resources. The FERC requires compliance with certain reliability standards and may take enforcement actions against violators, including the imposition of substantial fines. NERC is responsible for developing and enforcing these mandatory reliability standards. We continually assess our transmission systems against standards established by NERC, as well as the standards of applicable regional entities under NERC that have been delegated certain authority for the purpose of proposing and enforcing reliability standards. We believe that we meet the applicable standards in all material respects, although further investment in our transmission systems and an increase in maintenance activities will likely be needed to maintain compliance, improve reliability and address any new standards that may be promulgated.

We also assess our transmission systems against our own planning criteria that are filed annually with the FERC. Based on our planning studies, we see needs to make capital investments to: (1) maintain and replace the current transmission infrastructure; (2) enhance system integrity and reliability and accommodate load growth; (3) upgrade physical and technological grid security; and (4) develop and build regional transmission infrastructure, including additional transmission facilities that will provide interconnection opportunities for generating facilities. The following table shows our actual and expected capital expenditures at our Regulated Operating Subsidiaries:

(In millions)	Actual Capital Expenditures for the year ended December 31, 2018	Forecasted Capital Expenditures 2019 — 2023
Expenditures for property, plant and equipment (a)	$ 769	$ 3,515

(a) Amounts represent the cash payments to acquire or construct property, plant and equipment, as presented in the consolidated statements of cash flows. These amounts exclude non-cash additions to property, plant and equipment for the AFUDC equity as well as accrued liabilities for construction, labor and materials that have not yet been paid.

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We are pursuing development projects that could result in a significant amount of capital investment, but we are not able to estimate the amounts we ultimately expect to invest or the timing of such investments. Our capital investment efforts relating to development initiatives are based on establishing an ongoing pipeline of projects that would position us for long-term growth. Refer to “Item 1 Business — Development of Business” for discussion of our development activities.

Investments in property, plant and equipment could vary due to, among other things, the impact of actual loads, forecasted loads, regional economic conditions, weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain any necessary financing for such expenditures, limitations on the amount of construction that can be undertaken on our systems at any one time, regulatory approvals for reasons relating to rate construct, environmental, siting, regional planning, cost recovery or other issues or as a result of legal proceedings, variances between estimated and actual costs of construction contracts awarded and the potential for greater competition for new development projects. In addition, investments in transmission network upgrades for generator interconnection projects could change from prior estimates significantly due to changes in the MISO queue for generation projects and other factors beyond our control.

Recent Developments

Impacts of the TCJA

In December 2017, the President of the United States of America signed into law the TCJA, which enacted significant changes to the Internal Revenue Code including a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective for tax years beginning after 2017. The lower federal tax rate resulted in a reduction to the revenue requirement of $105 million at our Regulated Operating Subsidiaries for 2018. This reduction was reflected in 2018 projected Formula Rates that were reposted for our MISO Regulated Operating Subsidiaries and ITC Great Plains during 2018.

In December 2017, we revalued our deferred tax assets and liabilities at the lower U.S. federal corporate income tax rate implemented through enactment of the TCJA. The revaluation of the net deferred taxes resulted in a net regulatory liability and a reduction in regulatory assets at our Regulated Operating Subsidiaries that will be returned to or received from customers over future periods. During 2018, we began to amortize the net regulatory liability related to the excess deferred taxes. We recorded less than $1 million of amortization during 2018, as the net regulatory liability is primarily associated with public utility property with long estimated remaining lives and the amortization is recorded ratably over the estimated book lives of those assets. We do not expect to record significant amounts of amortization over the next several years.

On March 15, 2018, the FERC granted a waiver which allowed us to adjust the rates effective back to January 1, 2018 for our MISO Regulated Operating Subsidiaries and allowed MISO to return to customers excess amounts previously collected in 2018. Our rates included in MISO invoices for services provided starting in March 2018 and going forward reflected the lower corporate tax rate. Resettlement of invoices for services provided in January and February 2018 occurred in April 2018 when the March 2018 services were billed. We recorded a reduction of revenue of $16 million in the first quarter of 2018, which was offset through a lower income tax provision for our MISO Regulated Operating Subsidiaries and as such did not impact net income.

On May 25, 2018, the FERC granted a waiver which allowed us to adjust the rate effective back to January 1, 2018 for ITC Great Plains and allowed SPP to return to customers excess amounts previously collected in 2018. Our rates included in SPP invoices for services provided starting in June and going forward reflected the lower corporate tax rate. During the second quarter of 2018, we recorded a reduction of revenue of $4 million related to the resettlement of invoices for services provided in January through May 2018. Resettlement of these invoices occurred during the fourth quarter of 2018. This reduction of revenue was offset through a lower income tax provision for ITC Great Plains and as such did not impact net income.

For additional information on the impacts of tax reform, see below under “— Results of Operations”, as well as Note 7 and Note 11 to the consolidated financial statements.

Rate of Return on Equity Complaints

Two complaints have been filed with the FERC by combinations of consumer advocates, consumer groups, municipal parties and other parties challenging the base ROEs in MISO. See Note 18 to the consolidated financial statements for a summary of the complaints and related proceedings.

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In 2017, $118 million, including interest, was refunded to customers of our MISO Regulated Operating Subsidiaries for the Initial Complaint based on the refund liability associated with the September 2016 Order. As of December 31, 2018, we had recorded an aggregate estimated current regulatory liability in the consolidated statements of financial position of $151 million for the Second Complaint. The recognition of the obligations associated with the complaints resulted in the following impacts:

	Year Ended December 31,		
(In millions)	2018	2017	2016
Revenue reduction	$(1)	$ —	$ 80
Interest expense increase	7	6	10
Estimated net income reduction (a)	4	3	55

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(a) Includes an effect on net income of $27 million for the year ended December 31, 2016 for revenue initially recognized in 2015, 2014 and 2013.

Prior to the filing of the MISO ROE complaints, complaints were filed with the FERC regarding the regional base ROE rate for ISO New England TOs. In resolving these complaints, the FERC adopted a methodology for establishing base ROE rates based on a two-step DCF analysis. This methodology provided the precedent for the FERC ruling on the Initial Complaint and the ALJ initial decision on the Second Complaint for our MISO Regulated Operating Subsidiaries. In April 2017, the D.C. Circuit Court vacated the precedent-setting FERC orders that established and applied the two-step DCF methodology for the determination of base ROE. The court remanded the orders to the FERC for further justification of its establishment of the new base ROE for the ISO New England TOs. On October 16, 2018, in the New England matters, the FERC issued an order on remand which proposes a new methodology for 1) determining when an existing ROE is no longer just and reasonable; and 2) setting a new just and reasonable ROE if an existing ROE has been found not to be just and reasonable. The FERC established a paper hearing on how the proposed new methodology should apply to the ISO New England TOs ROE complaint proceedings. The FERC issued a similar order, the November 2018 Order, in the MISO TO base ROE complaint proceedings establishing a paper hearing on the application of the proposed new methodology to the proceedings pending before the FERC involving the MISO TOs' ROE, including our MISO Regulated Operating Subsidiaries. Briefs in the New England proceedings were filed on January 11, 2019 and briefs in the MISO proceedings were filed on February 13, 2019. Reply briefs for both the MISO and New England matters are due to be filed during the first half of 2019.

The November 2018 Order included illustrative calculations for the ROE that may be established for the Initial Complaint, using the FERC's proposed methodology with financial data from the proceedings related to that complaint. If the results of these illustrative calculations are confirmed in a final FERC order, then the application of the base ROE and the maximum ROE would not have a significant adverse impact on our financial condition, results of operations and cash flows.

Although the November 2018 Order provided illustrative calculations, the FERC stated that these calculations are merely preliminary. The FERC's preliminary calculations are not binding and could change, as significant changes to the methodology by the FERC are possible as a result of the paper hearing process. Until there is more certainty around the ultimate resolution of these matters, we cannot reasonably update an estimated range of gain or loss for any of the complaint proceedings or estimate a range of gain or loss for the period subsequent to the end of the Second Complaint refund period. The November 2018 Order and our response to the order through briefs filed on February 13, 2019 do not provide a reasonable basis for a change to the reserve or recognized ROEs for any of the complaint refund periods nor all subsequent periods, and we believe that the risk of additional material loss beyond amounts already accrued is remote.

Our MISO Regulated Operating Subsidiaries currently record revenues at the base ROE of 10.32% established in the September 2016 Order on the Initial Complaint plus applicable incentive adders. See Note 6 to the consolidated financial statements for a summary of incentive adders for transmission rates.

As of December 31, 2018, our MISO Regulated Operating Subsidiaries had a total of approximately $4 billion of equity in their collective capital structures for ratemaking purposes. Based on this level of aggregate equity, we estimate that each 10 basis point change in the authorized ROE would impact annual consolidated net income by approximately $4 million.

Challenges to Incentive Adders for Transmission Rates

See Note 6 to the consolidated financial statements for a summary of incentive adders for transmission rates.

MISO Regulated Operating Subsidiaries

On April 20, 2018, Consumers Energy, IP&L, Midwest Municipal Transmission Group, Missouri River Energy Services, Southern Minnesota Municipal Power Agency and WPPI Energy filed a complaint with the FERC under section 206 of the FPA, challenging the adders for independent transmission ownership that are included in transmission rates charged by the MISO Regulated Operating Subsidiaries. The adders for independent transmission ownership allowed up to 50 basis points or 100 basis points to be added to the MISO Regulated Operating Subsidiaries' authorized ROE, subject to any ROE cap established by the FERC. On October 18, 2018, the FERC issued an order granting the complaint in part, setting revised adders for independent transmission ownership for each of the MISO Regulated Operating Subsidiaries to 25 basis points, and requiring the MISO Regulated Operating Subsidiaries to include the revised adders, effective April 20, 2018, in their Formula Rates. In addition, the order directed the MISO Regulated Operating Subsidiaries to provide refunds, with interest, for the period from April 20, 2018 through October 18, 2018. The MISO Regulated Operating Subsidiaries have sought rehearing of the FERC's October 18, 2018 order. The MISO Regulated Operating Subsidiaries began reflecting the 25 basis point adder for independent transmission ownership in transmission rates in November 2018. Refunds of $7 million were primarily made in the fourth quarter of 2018 and were completed in the first quarter of 2019. We do not expect the resolution of this proceeding to have a material adverse impact on our consolidated results of operations, cash flows or financial condition.

ITC Great Plains

On December 19, 2018, the KCC filed a Motion to Show Cause with the FERC to reduce the ITC Great Plains adder for independent transmission ownership. The motion argues that because ITC Great Plains is similarly situated to our MISO Regulated Operating Subsidiaries with respect to ownership by Fortis and GIC, the same rationale by which the FERC lowered the MISO Regulated Operating Subsidiaries adders for independent transmission ownership, as discussed above, applies with equal force to ITC Great Plains. The adder for independent transmission ownership allows up to 100 basis points to be added to the ITC Great Plains authorized ROE, subject to any ROE cap established by the FERC. On January 16, 2019, ITC Great Plains filed a motion to strike the KCC motion. We do not expect the resolution of this motion to have a material adverse impact on our consolidated results of operation, cash flows or financial condition.

Significant Components of Results of Operations

Revenues

We derive nearly all of our revenues from providing transmission, scheduling, control and dispatch services and other related services over our Regulated Operating Subsidiaries' transmission systems to DTE Electric, Consumers Energy, IP&L and other entities, such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers, as well as from transaction-based capacity reservations on our transmission systems. MISO and SPP are responsible for billing and collecting the majority of transmission service revenues. As the billing agent for our MISO Regulated Operating Subsidiaries and ITC Great Plains, MISO and SPP collect fees for the use of our transmission systems, invoicing DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis.

Network Revenues are generated from network customers for their use of our electric transmission systems and are based on the actual revenue requirements as a result of our accounting under our cost-based Formula Rates that contain a true-up mechanism. Refer below under "— Critical Accounting Policies and Estimates — Revenue Recognition under Cost-Based Formula Rates with True-Up Mechanism" for a discussion of revenue recognition relating to network revenues.

Network revenues from ITC Great Plains include the annual revenue requirements specific to projects that are charged exclusively within one pricing zone within SPP or are classified as direct assigned network upgrades under the SPP tariff and contain a true-up mechanism.

Regional Cost Sharing Revenues are generated from transmission customers throughout RTO regions for their use of our MISO Regulated Operating Subsidiaries' network upgrade projects that are eligible for regional cost sharing under provisions of the MISO tariff, including MVP projects such as our portion of four MVPs and the

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Thumb Loop Project in Michigan. Additionally, certain projects at ITC Great Plains are eligible for recovery through a region-wide charge under provisions of the SPP tariff. Regional cost sharing revenues is treated as a reduction to the net network revenue requirement under our cost-based Formula Rates.

Point-to-Point Revenues consist of revenues generated from a type of transmission service for which the customer pays for transmission capacity reserved along a specified path between two points on an hourly, daily, weekly or monthly basis. Point-to-point revenues also include other components pursuant to schedules under the MISO and SPP transmission tariffs. Point-to-point revenues are treated as a revenue credit to network or regional customers and are a reduction to gross revenue requirement when calculating net revenue requirement under our cost-based Formula Rates.

Scheduling, Control and Dispatch Revenues are allocated to our MISO Regulated Operating Subsidiaries by MISO as compensation for the services performed in operating the transmission system. Such services include monitoring of reliability data, current and next day analysis, implementation of emergency procedures and outage coordination and switching.

Other Revenues consist of rental revenues, easement revenues, revenues relating to utilization of jointly owned assets under our transmission ownership and operating agreements and amounts from providing ancillary services to customers. The majority of other revenues are treated as a revenue credit and taken as a reduction to gross revenue requirement when calculating net revenue requirement under our cost-based Formula Rates.

Operating Expenses

Operation and Maintenance Expenses consist primarily of the costs for contractors that operate and maintain our transmission systems as well as our personnel involved in operation and maintenance activities.

Operation expenses include activities related to control area operations, which involve balancing loads and generation and transmission system operations activities, including monitoring the status of our transmission lines and stations. Rental expenses relating to land easements, including METC’s Easement Agreement, are also recorded within operation expenses.

Maintenance expenses include preventive or planned maintenance, such as vegetation management, tower painting and equipment inspections, as well as reactive maintenance for equipment failures.

General and Administrative Expenses consist primarily of costs for personnel in our legal, information technology, finance, regulatory, human resources and business development organizations, general office expenses and fees for professional services. Professional services are principally composed of outside legal, consulting, audit and information technology services.

Depreciation and Amortization Expenses consist primarily of depreciation of property, plant and equipment using the straight-line method of accounting. Additionally, this consists of amortization of various regulatory and intangible assets.

Taxes Other than Income Taxes consist primarily of property taxes and payroll taxes.

Other Items of Income or Expense

Interest Expense consists primarily of interest on debt at ITC Holdings and our Regulated Operating Subsidiaries. Additionally, the amortization of debt financing expenses and loss on extinguishment of debt are recorded to interest expense. An allowance for borrowed funds used during construction is included in property, plant and equipment accounts and treated as a reduction to interest expense. The amortization of gains and losses on settled and terminated derivative financial instruments is recorded to interest expense. The interest portion of the refund and estimated refund relating to the ROE complaints is also recorded to interest expense.

Allowance for Equity Funds Used During Construction (“AFUDC equity”) is recorded as an item of other income and is included in property, plant and equipment accounts. The allowance represents a return on equity at our Regulated Operating Subsidiaries used for construction purposes in accordance with the FERC regulations. The capitalization rate applied to the construction work in progress balance is based on the proportion of equity to total capital (which currently includes equity and long-term debt) and the allowed return on equity for our Regulated Operating Subsidiaries.

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Income Tax Provision
Income tax provision consists of current and deferred federal and state income taxes.
Results of Operations
The following table summarizes historical operating results for the periods indicated:

	Year Ended			Percentage	Year Ended		Percentage
	December 31,		Increase	Increase	December 31,	Increase	Increase
(In millions)	2018	2017	(Decrease)	(Decrease)	2016	(Decrease)	(Decrease)
OPERATING REVENUES							
Transmission and other services	$1,192	$1,226	$ (34)	(3)%	$ 1,142	$ 84	7%
Formula Rate true-up	(36)	(15)	(21)	140%	(17)	2	(12)%
Total operating revenue	1,156	1,211	(55)	(5)%	1,125	86	8%
OPERATING EXPENSES							
Operation and maintenance	109	110	(1)	(1)%	114	(4)	(4)%
General and administrative	127	121	6	5%	234	(113)	(48)%
Depreciation and amortization	180	169	11	7%	158	11	7%
Taxes other than income taxes	109	103	6	6%	93	10	11%
Other operating (income) and expenses, net	(4)	(2)	(2)	100%	(1)	(1)	100%
Total operating expenses	521	501	20	4%	598	(97)	(16)%
OPERATING INCOME	635	710	(75)	(11)%	527	183	35%
OTHER EXPENSES (INCOME)							
Interest expense, net	224	224	—	—%	211	13	6%
Allowance for equity funds used during construction	(33)	(33)	—	—%	(35)	2	(6)%
Other (income) and expenses, net	3	4	(1)	(25)%	8	(4)	(50)%
Total other expenses (income)	194	195	(1)	(1)%	184	11	6%
INCOME BEFORE INCOME TAXES	441	515	(74)	(14)%	343	172	50%
INCOME TAX PROVISION	111	196	(85)	(43)%	97	99	102%
NET INCOME	$330	$319	$ 11	3%	$ 246	$ 73	30%

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Operating Revenues

Year ended December 31, 2018 compared to year ended December 31, 2017

The following table sets forth the components of and changes in operating revenues:

(In millions)	2018 Amount	2018 Percentage	2017 Amount	2017 Percentage	Increase (Decrease)	Percentage Increase (Decrease)
Network revenues (a)	$771	67 %	$816	67 %	$ (45)	(6)%
Regional cost sharing revenues (a)	334	29 %	340	28 %	(6)	(2)%
Point-to-point	14	1 %	18	2 %	(4)	(22)%
Scheduling, control and dispatch (a)	15	1 %	14	1 %	1	7 %
Other	22	2 %	23	2 %	(1)	(4)%
Total	$1,156	100 %	$1,211	100 %	$ (55)	(5)%

(a) Includes a portion of the Formula Rate true-up of $(36) million and $(15) million for the year ended December 31, 2018 and 2017, respectively.

Network revenues decreased primarily due to lower network revenue requirements at our Regulated Operating Subsidiaries. The main driver was the TCJA, which lowered the U.S. federal corporate income tax rate from 35% to 21%, reducing network revenues by $78 million. The reduction to the MISO adder for independent transmission ownership further reduced network revenues by $7 million. These decreases were partially offset by higher rate bases associated with higher balances of property, plant and equipment in-service in 2018.

Regional cost sharing revenues decreased primarily due to lower regional revenue requirements at our Regulated Operating Subsidiaries. The main driver was the TCJA, which lowered the U.S. federal income tax rate from 35% to 21%, reducing regional cost sharing revenues by $27 million. The reduction to the MISO adder for independent transmission ownership further reduced regional cost sharing revenues by $2 million. These decreases were partially offset by an increase in capital projects placed in service that were eligible for regional cost sharing as well as higher accumulated investment for existing regional cost sharing projects in northern Michigan and Kansas for the year ended December 31, 2018 as compared to the same period in 2017.

Year ended December 31, 2017 compared to year ended December 31, 2016

The following table sets forth the components of and changes in operating revenues:

(In millions)	2017 Amount	2017 Percentage	2016 Amount	2016 Percentage	Increase (Decrease)	Percentage Increase (Decrease)
Network revenues (a)	$816	67 %	$814	72 %	$ 2	— %
Regional cost sharing revenues (a)	340	28 %	337	30 %	3	1 %
Point-to-point	18	2 %	20	2 %	(2)	(10)%
Scheduling, control and dispatch (a)	14	1 %	14	1 %	—	— %
Other	24	2 %	20	2 %	4	20 %
Recognition of refund liabilities	(1)	— %	(80)	(7)%	79	(99)%
Total	$1,211	100 %	$1,125	100 %	$ 86	8 %

(a) Includes a portion of the Formula Rate true-up of $(15) million and $(17) million for the year ended December 31, 2017 and 2016, respectively.

Although network and regional cost sharing revenues were consistent with the respective prior period, there was a decrease in revenue requirement due to lower ROEs, which was offset by a higher rate base mainly due to higher property, plant and equipment.

The recognition of the liability for the refund and estimated refund relating to the ROE complaints, described in Note 18 to the consolidated financial statements, resulted in a reduction of operating revenues during the year

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ended December 31, 2016. We are not able to estimate whether any required refunds would be applied to all components of revenue listed in the table above or only certain components.

Operating revenues for the years ended December 31, 2017 and 2016 include revenue accruals and deferrals as described in Note 6 to the consolidated financial statements.

Operating Expenses

General and administrative expenses

Year ended December 31, 2018 compared to year ended December 31, 2017

General and administrative expenses increased due primarily to higher professional services such as legal and advisory services fees, which were related primarily to various development initiatives that were expenses at certain subsidiaries other than our Regulated Operating Subsidiaries and have not been included as components of revenue requirement at our Regulated Operating Subsidiaries.

Year ended December 31, 2017 compared to year ended December 31, 2016

General and administrative expenses decreased due to a reduction in professional services related to the Merger and a reduction in compensation-related expenses primarily due to lower bonuses and stock compensation expense, including the accelerated vesting of the share-based awards that occurred at the completion of the Merger in 2016 as described in Note 15 to the consolidated financial statements. The costs related to the Merger were recorded at ITC Holdings and have not been included as components of revenue requirement at our Regulated Operating Subsidiaries.

Depreciation and amortization expenses

Year ended December 31, 2018 compared to the respective period in 2017 and the year ended December 31, 2017 compared to the respective period in 2016

Depreciation and amortization expenses increased in the respective period due primarily to a higher depreciable base resulting from property, plant and equipment in-service additions.

Taxes other than income taxes

Year ended December 31, 2018 compared to the respective period in 2017 and the year ended December 31, 2017 compared to the respective period in 2016

Taxes other than income taxes increased due to higher property tax expenses primarily due to our Regulated Operating Subsidiaries’ 2017 and 2016 capital additions, which are included in the assessments for 2018 and 2017 property taxes, respectively.

Other Expenses (Income)

Interest Expense, Net

Year ended December 31, 2018 compared to year ended December 31, 2017

Interest expense, net remained consistent due to higher fixed debt balances and higher interest rates on revolving credit facility borrowings, offset by lower interest expense on short-term commercial paper borrowings, term loans and refinanced debt.

Year ended December 31, 2017 compared to year ended December 31, 2016

Interest expense, net increased due primarily to long-term debt issuances subsequent to December 31, 2016 which resulted in overall higher carrying balances of long-term debt. These issuances were used for refinancing of current debt maturities as well as general corporate purposes.

Income Tax Provision

Year ended December 31, 2018 compared to year ended December 31, 2017

Our effective tax rates for the years ended December 31, 2018 and 2017 are 25.2% and 38.1%, respectively. Our effective tax rate as of December 31, 2018 exceeded our 21% statutory federal income tax rate due primarily to state income taxes, partially offset by income tax relating to AFUDC equity. Our effective tax rate as of December 31, 2017 exceeded our 35% statutory federal income tax rate due primarily to the enactment of the TCJA and the required revaluation of our deferred tax assets and liabilities from 35% to 21%, partially offset by income taxes related to AFUDC equity. The amount of income tax expense relating to AFUDC equity was recognized as a regulatory asset and not included in the income tax provision. See Note 11 to the consolidated financial statements for further discussion regarding our income tax provision.

Year ended December 31, 2017 compared to year ended December 31, 2016

Our effective tax rates for the years ended December 31, 2017 and 2016 are 38.1% and 28.3%, respectively. Our effective tax rate as of December 31, 2017 exceeded our 35% statutory federal income tax rate due primarily to the enactment of the TCJA and the required revaluation of our deferred tax assets and liabilities from 35% to 21%, partially offset by income tax relating to AFUDC equity. Our effective tax rate as of December 31, 2016 was less than our 35% statutory federal income tax rate due primarily to us recognizing an income tax benefit of $27 million for excess tax deductions for the year ended December 31, 2016 as a result of adopting the new accounting guidance associated with share-based payments. The amount of income tax expense relating to AFUDC equity was recognized as a regulatory asset and not included in the income tax provision.

Liquidity and Capital Resources

We expect to maintain our approach of funding our future capital requirements with cash from operations at our Regulated Operating Subsidiaries, our existing cash and cash equivalents, future issuances under our commercial paper program and amounts available under our revolving credit agreements (the terms of which are described in Note 10 to the consolidated financial statements). In addition, we may from time to time secure debt funding in the capital markets, although we can provide no assurance that we will be able to obtain financing on favorable terms or at all. As market conditions warrant, we may also from time to time repurchase debt securities issued by us, in the open market, in privately negotiated transactions, by tender offer or otherwise. We expect that our capital requirements will arise principally from our need to:

- Fund capital expenditures at our Regulated Operating Subsidiaries. Our plans with regard to property, plant and equipment investments are described in detail above under "— Capital Investment and Operating Results Trends."
- Fund business development expenses and related capital expenditures. We are pursuing development activities for projects that will continue to result in the incurrence of development expenses and could result in significant capital expenditures incremental to our current plan. Refer to Note 18 to the consolidated financial statements for a discussion of contingent payments related to development projects.
- Fund working capital requirements.
- Fund our debt service requirements, including principal repayments and periodic interest payments, which are further described in detail below under "— Contractual Obligations."
- Fund any refund obligation in connection with the Second Complaint.

In addition to the expected capital requirements above, any adverse determinations or settlements relating to the regulatory matters or contingencies described in Notes 6 and 18 to the consolidated financial statements would result in additional capital requirements.

We believe that we have sufficient capital resources to meet our currently anticipated short-term needs. We rely on both internal and external sources of liquidity to provide working capital and fund capital investments. ITC Holdings' sources of cash are dividends and other payments received by us from our Regulated Operating Subsidiaries and any of our other subsidiaries as well as the proceeds raised from the sale of our debt securities. Each of our Regulated Operating Subsidiaries, while wholly owned by ITC Holdings, is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to us.

We expect to continue to utilize our commercial paper program and revolving credit agreements as well as our cash and cash equivalents as needed to meet our short-term cash requirements. As of December 31, 2018, we had consolidated indebtedness under our revolving credit agreements of $208 million, with unused capacity under the revolving credit agreements of $692 million. Additionally, ITC Holdings had no commercial paper issued and outstanding as of December 31, 2018, with the ability to issue $400 million under the commercial paper program. See Note 10 to the consolidated financial statements for a detailed discussion of the commercial paper program

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and our revolving credit agreements as well as the debt activity during the years ended December 31, 2018 and 2017. To address our long-term capital requirements, we expect that we will need to obtain additional debt financing. Certain of our capital projects could be delayed if we experience difficulties in accessing capital. We expect to be able to obtain such additional financing as needed, in amounts and upon terms that will be reasonably satisfactory to us due to our strong credit ratings and our historical ability to obtain financing.

Credit Ratings

Credit ratings by nationally recognized statistical rating agencies are an important component of our liquidity profile. Credit ratings relate to our ability to issue debt securities and the cost to borrow money, and should not be viewed as a recommendation to buy, sell or hold securities. Ratings are subject to revision or withdrawal at any time and each rating should be evaluated independently of any other rating. Our current credit ratings are displayed in the following table. An explanation of these ratings may be obtained from the respective rating agency.

	S&P (a)		Moody's	
	Rating	Outlook	Rating	Outlook
ITC Holdings				
Senior Unsecured Notes	A-	Negative	Baa2	Stable
Commercial Paper	A-2	Negative	Prime-2	Stable
ITCTransmission				
First Mortgage Bonds	A	Negative	A1	Stable
METC				
Senior Secured Notes	A	Negative	A1	Stable
ITC Midwest				
First Mortgage Bonds	A	Negative	A1	Stable
ITC Great Plains				
First Mortgage Bonds	A	Negative	A1	Stable

(a) On March 21, 2018, S&P revised its outlook on all these entities from stable to negative, principally due to the risk of weakening credit metrics resulting from the TCJA as well as pending regulatory matters related to ROE at our MISO Regulated Operating Subsidiaries.

Covenants

Our debt instruments contain numerous financial and operating covenants that place significant restrictions on certain transactions, including the payment of dividends, as well as require us to meet certain financial ratios, which are described in Note 10 to the consolidated financial statements. As of December 31, 2018, we were not in violation of any debt covenant. In the event of a downgrade in our credit ratings, none of the covenants would be directly impacted, although the borrowing costs under our revolving credit agreements may increase.

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Cash Flows

The following table summarizes cash flows for the periods indicated:

	Year Ended December 31,		
(In millions)	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$330	$319	$246
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	180	169	158
Recognition, refund and collection of revenue accruals and deferrals — including accrued interest	17	34	(2)
Deferred income tax expense	107	195	219
Other	19	(110)	68
Net cash provided by operating activities	653	607	689
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(769)	(755)	(750)
Contributions in aid of construction	21	21	11
Other	1	(10)	4
Net cash used in investing activities	(747)	(744)	(735)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net issuance/repayment of debt (including commercial paper and revolving and term loan credit agreements)	238	511	161
Dividends on common and restricted stock	—	—	(90)
Dividends to ITC Investment Holdings Inc.	(200)	(300)	(33)
Refundable deposits from and repayments to generators for transmission network upgrades, net	3	(12)	23
Settlement of share-based awards associated with the Merger — including cost of accelerated share-based awards	—	—	(137)
Contribution from ITC Investment Holdings Inc. for the settlement of share-based awards associated with the Merger	—	—	137
Other	(5)	(5)	(19)
Net cash provided by financing activities	36	194	42
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(58)	57	(4)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	68	11	15
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period	$10	$68	$11

Cash Flows From Operating Activities

Year ended December 31, 2018 compared to year ended December 31, 2017

Net cash provided by operating activities increased in 2018 compared to 2017. The increase in cash provided by operating activities was due primarily to the refund of $118 million, including interest, paid pursuant to the September 2016 Order during the year ended December 31, 2017. The increase was also driven by higher receipts from tax refunds received in 2018 of $12 million compared to the same period in 2017. This increase was partially offset by lower receipts from operating revenues in 2018 of $39 million primarily as a result of the TCJA, higher receipts in 2017 due to collection of $29 million related to the regional cost allocation refund paid in 2016 and higher interest payments of $19 million in 2018.

Year ended December 31, 2017 compared to year ended December 31, 2016

Net cash provided by operating activities decreased in 2017 compared to 2016. The decrease in cash provided by operating activities was due primarily to the refund, including interest, pursuant to the September 2016 Order, and higher interest payments (net of interest capitalized excluding the interest paid as part of the refund noted above) for the year ended December 31, 2017 compared to the same period in 2016. Additionally, the cash provided by operating activities was lower during 2017 due to the receipt of an income tax refund from the IRS in August 2016. The decreases were partially offset by an increase in receipts from operating revenues, an increase in the

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cash receipts for the regional cost allocation refund in 2017 compared to cash payments in 2016, accelerated incentive payouts in 2016 associated with the Merger and lower income taxes paid during the year ended December 31, 2017 compared to the same period in 2016.

Cash Flows From Investing Activities

Year ended December 31, 2018 compared to the respective period in 2017 and the year ended December 31, 2017 compared to the respective period in 2016

Net cash used in investing activities during the years ended December 31, 2018 and December 31, 2017 was comparable to the years ended December 31, 2017 and December 31, 2016, respectively.

Cash Flows From Financing Activities

Year ended December 31, 2018 compared to year ended December 31, 2017

Net cash provided by financing activities decreased in 2018 compared to 2017. The decrease in cash provided by financing activities was due primarily to a decrease in long-term debt issuances and a decrease in borrowings under our term loan credit agreements. These decreases were partially offset by a decrease in retirement of long-term debt, a decrease in repayments under our term loan credit agreements, a decrease in net repayments under our commercial paper program and revolving credit agreements and a decrease in dividends paid to ITC Investment Holdings. See Note 10 to the consolidated financial statements for detail on the issuances and retirements of debt, repayment of our term loan credit agreement and a description of our revolving credit agreements and commercial paper program.

Year ended December 31, 2017 compared to year ended December 31, 2016

Net cash provided by financing activities increased in 2017 compared to 2016. The increase in cash provided by financing activities was due primarily to a net increase in amounts outstanding under our term loan credit agreements compared to net repayments of term loan credit agreements in 2016 and an increase in long-term debt issuances. These increases were partially offset by net repayments of commercial paper under our commercial paper program and borrowing under our revolving credit agreements, an increase in payments to retire long-term debt, an increase in dividend payments and higher net repayments associated with refundable deposits for transmission network upgrades compared to net deposits in 2016. See Note 10 to the consolidated financial statements on the issuances and retirement of long-term debt.

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Contractual Obligations

The following table details our contractual obligations as of December 31, 2018:

(In millions)	Total	Due within 1 Year	Due in Years 2-3	Due in Years 4-5	Due after 5 years
Debt:					
ITC Holdings Senior Notes	$2,750	$ —	$200	$750	$1,800
ITC Holdings revolving credit agreement	37	—	—	37	—
ITCTransmission First Mortgage Bonds	710	—	—		710
ITCTransmission revolving credit agreement	27	—	—	27	—
METC Senior Secured Notes (a)	475	—	—	—	475
METC revolving credit agreement	70	—	—	70	—
ITC Midwest First Mortgage Bonds	1,085	—	35	—	1,050
ITC Midwest revolving credit agreement	34	—	—	34	—
ITC Great Plains First Mortgage Bonds	150	—	—	—	150
ITC Great Plains revolving credit agreement	40	—	—	40	—
Interest payments:					
ITC Holdings Senior Notes	1,051	108	194	173	576
ITCTransmission First Mortgage Bonds	847	33	65	65	684
METC Senior Secured Notes (a)	508	20	40	40	408
ITC Midwest First Mortgage Bonds	1,155	49	95	93	918
ITC Great Plains First Mortgage Bonds	162	6	12	12	132
Operating leases	4	1	2	1	—
Purchase obligations	49	48	1	—	—
Regulatory liabilities — revenue deferrals, including accrued interest	76	27	49	—	—
METC Easement Agreement	319	10	20	20	269
Total obligations	$9,549	$ 302	$713	$1,362	$7,172

(a) On January 15, 2019, METC issued $50 million of 4.55% Senior Secured Notes, due January 15, 2049. METC has an additional $50 million delayed draw of 30-year Senior Secured Notes in July 2019 at 4.65%. Refer to Note 10 to the consolidated financial statements for further details on the issuance. These commitments are not included in the table above.

Interest payments included above relate only to our fixed-rate long-term debt outstanding at December 31, 2018. We also expect to pay interest and commitment fees under our variable-rate revolving credit agreements that have not been included above due to varying amounts of borrowings and interest rates under the facilities. In 2018, we paid $8 million of interest and commitment fees under our revolving credit agreements.

Operating leases include leases for office space, equipment and storage facilities. Purchase obligations represent commitments primarily for materials, services and equipment that had not been received as of December 31, 2018, primarily for construction and maintenance projects for which we have an executed contract. The majority of the items relate to materials and equipment that have long production lead times. See Note 18 to the consolidated financial statements for more information on our operating leases and purchase obligations.

The revenue deferrals, including accrued interest, in the table above represent the over-recovery of revenues resulting from differences between the amounts billed to customers and actual revenue requirement at each of our Regulated Operating Subsidiaries, as described in Note 6 to the consolidated financial statements. These amounts will offset future revenue requirement for purposes of calculating our Formula Rates as part of the true-up mechanism in our rate construct.

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The Easement Agreement provides METC with an easement for transmission purposes and rights-of-way, leasehold interests, fee interests and licenses associated with the land over which the transmission lines cross. The cost for use of the rights-of-way is $10 million per year. The term of the Easement Agreement runs through December 31, 2050 and is subject to 10 automatic 50-year renewals thereafter unless METC gives notice of nonrenewal of at least one year in advance. Payments to Consumers Energy under the Easement Agreement are charged to operation and maintenance expense.

The contractual obligations table above excludes certain items, including the estimated refund related to the Second Complaint, contingent liabilities and other long-term liabilities, due to uncertainty on the final outcome in addition to the timing and amount of future cash flows necessary to settle these obligations. The amount of cash flows to be paid for pension and other postretirement obligations and settle regulatory liabilities related to asset removal costs, income taxes refundable related to implementation of the TCJA and liabilities to refund deposits from generators for transmission network upgrades, which are recorded in other current and long term liabilities, are not known with certainty. As a result, cash obligations for these items are excluded from the contractual obligations table above.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies requires judgments regarding future events.

These estimates and judgments, in and of themselves, could materially impact the consolidated financial statements and disclosures based on varying assumptions, as future events rarely develop exactly as forecasted, and even the best estimates routinely require adjustment.

The following is a list of accounting policies that are most significant to the portrayal of our financial condition and results of operations and/or that require management’s most difficult, subjective or complex judgments.

Regulation

Our Regulated Operating Subsidiaries are subject to rate regulation by the FERC. As a result, we apply accounting principles in accordance with the standards set forth by the FASB for accounting for the effects of certain types of regulation. Use of this accounting guidance results in differences in the application of GAAP between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expense or revenue in non-regulated businesses. As described in Note 7 to the consolidated financial statements, we had regulatory assets and liabilities of $212 million and $818 million, respectively, as of December 31, 2018. Future changes in the regulatory and competitive environments could result in discontinuing the application of the accounting standards for the effects of certain types of regulations. If we were to discontinue the application of this guidance on the operations of our Regulated Operating Subsidiaries, we may be required to record losses relating to certain regulatory assets or gains relating to certain regulatory liabilities. We also may be required to record aggregate losses of $36 million relating to intangible assets at METC and ITC Great Plains at December 31, 2018 that are described in Note 9 to the consolidated financial statements.

We believe that current available facts support the continued applicability of the standards for accounting for the effects of certain types of regulation and that all regulatory assets and liabilities are recoverable or refundable under our current rate environment.

Revenue Recognition under Cost-Based Formula Rates with True-Up Mechanism

Our Regulated Operating Subsidiaries recover expenses and earn a return on and recover investments in property, plant and equipment on a current basis, under their forward-looking cost-based Formula Rates with a true-up mechanism.

Under their Formula Rates, our Regulated Operating Subsidiaries use forecasted expenses, property, plant and equipment, point-to-point revenues and other items for the upcoming calendar year to establish their projected revenue requirement and for the MISO Regulated Operating Subsidiaries, their component of the billed network rates for service on their systems from January 1 to December 31 of that year. The cost-based Formula Rates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year in order to subsequently collect or refund any over-recovery or

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under-recovery of revenues, as appropriate. The over- or under-collection typically results from differences between the projected revenue requirement used as the basis for billing and actual revenue requirement at each of our Regulated Operating Subsidiaries, or from differences between actual and projected monthly peak loads at our MISO Regulated Operating Subsidiaries.

The true-up mechanisms under our Formula Rates meet the GAAP requirements for accounting for rate-regulated utilities and the effects of certain alternative revenue programs. Accordingly, revenue is recognized during each reporting period based on actual revenue requirements calculated using the cost-based Formula Rates. Our Regulated Operating Subsidiaries accrue or defer revenues to the extent that their actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. The true-up amount is automatically reflected in customer bills within two years under the provisions of the Formula Rates. See Note 7 to the consolidated financial statements for the regulatory assets and liabilities recorded at our Regulated Operating Subsidiaries' as a result of the Formula Rate revenue accruals and deferrals.

Valuation of Goodwill

We have goodwill resulting from our acquisitions of ITCTransmission and METC and ITC Midwest's acquisition of the IP&L transmission assets. We perform an impairment test annually at the reporting unit level or whenever events or circumstances indicate that the value of goodwill may be impaired. Our reporting units are ITCTransmission, METC and ITC Midwest as each entity represents an individual operating segment to which goodwill has been assigned. In order to perform an impairment assessment, we have the option of performing a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount. In performing a qualitative assessment, we assess macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, entity-specific considerations, and industry-specific considerations such as our regulatory environment and rate structure. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing a quantitative impairment analysis is unnecessary.

If we determine a quantitative analysis is necessary or we elect to bypass the qualitative assessment, we compare the fair value of each reporting unit with their respective carrying value. We determine fair value using valuation techniques based on discounted future cash flows under various scenarios. We also consider estimates of market-based valuation multiples for companies within the peer group of our reporting units. The market-based multiples involve judgment regarding the appropriate peer group and the appropriate multiple to apply in the valuation and the cash flow estimates involve judgments based on a broad range of assumptions, information and historical results. To the extent estimated market-based valuation multiples and/or discounted cash flows are revised downward, we may be required to write down all or a portion of goodwill, which would adversely impact earnings.

As of December 31, 2018 and 2017, consolidated goodwill totaled $950 million. We completed our annual goodwill impairment test for our reporting units as of October 1, 2018 using a qualitative assessment and determined that no impairment exists. There were no events subsequent to October 1, 2018 that indicated impairment of our goodwill. We do not believe there is a material risk of our goodwill being impaired in the near term for any of our reporting units.

Contingent Obligations

We are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject us to environmental, litigation, income tax and other contingencies. Additionally, we have other contingent obligations that may be required to be paid to developers based on achieving certain milestones relating to development initiatives. We periodically evaluate our exposure to such contingencies and record liabilities for those matters where a loss is considered probable and reasonably estimable. Our liabilities exclude any estimates for legal costs not yet incurred associated with handling these matters, which could be material. The adequacy of liabilities recorded can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect our consolidated financial statements. These events or conditions include, without limitation, the following:

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Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes and other environmental matters.

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- Changes in existing federal income tax laws or IRS regulations.
- Identification and evaluation of lawsuits or complaints in which we may be or have been named as a defendant.
- Resolution or progression of existing matters through the legislative process, the courts, the FERC, the NERC, the IRS or the Environmental Protection Agency.
- Completion of certain milestones relating to development initiatives.

Refer to Note 18 to the consolidated financial statements for discussion on contingencies, including the ROE complaints.

Pension and Postretirement Costs

We sponsor certain retirement benefits for our employees, which include retirement pension plans and certain postretirement health care, dental and life insurance benefits. Our periodic costs and obligations associated with these plans are developed from actuarial valuations derived from a number of assumptions, including rates of return on plan assets, the discount rates, the rate of increase in health care costs, the amount and timing of plan sponsor contributions and demographic factors such as retirements, mortality and turnover, among others. We evaluate these assumptions annually and update them periodically to reflect our actual experience. Three critical assumptions in determining our periodic costs and obligations are discount rate, expected long-term return on plan assets and the rate of increases in health care costs. The discount rate represents the market rate for synthesized AA-rated zero-coupon bonds with durations corresponding to the expected durations of the benefit obligations and is used to calculate the present value of the expected future cash flows for benefit obligations under our plans. In determining our long-term rate of return on plan assets, we consider the current and expected asset allocations, as well as historical and expected long-term rates of return on those types of asset classes. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans as described in Note 12 to the consolidated financial statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a material effect on our financial condition.

Recent Accounting Pronouncements

See Note 2 to the consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Commodity Price Risk

We have commodity price risk at our Regulated Operating Subsidiaries arising from market price fluctuations for materials such as copper, aluminum, steel, oil and gas and other goods used in construction and maintenance activities. Higher costs of these materials are passed on to us by the contractors for these activities. These items affect only cash flows, as the amounts are included as components of net revenue requirement and any higher costs are included in rates under their cost-based Formula Rates.

Interest Rate Risk

Fixed Rate Debt

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of our consolidated long-term debt, excluding revolving credit agreements was $5,186 million at December 31, 2018. The total book value of our consolidated long-term debt, excluding revolving credit agreements was $5,130 million at December 31, 2018. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt, excluding revolving credit agreements, at December 31, 2018. An increase in interest rates of 10% (from 5.0% to 5.5%, for example) at December 31, 2018 would decrease the fair value of debt by $224 million, and a decrease in interest rates of 10% at December 31, 2018 would increase the fair value of debt by $243 million at that date.

Revolving Credit Agreements

At December 31, 2018, we had a consolidated total of $208 million outstanding under our revolving credit agreements, which are variable rate loans and fair value approximates book value. A 10% increase or decrease

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in borrowing rates under the revolving credit agreements compared to the weighted average rates in effect at December 31, 2018 would increase or decrease interest expense by less than $1 million for an annual period with a constant borrowing level of $208 million.

Commercial Paper

ITC Holdings has an ongoing commercial paper program for the issuance and sale of unsecured commercial paper. At December 31, 2018, ITC Holdings did not have any commercial paper issued or outstanding.

Derivative Instruments and Hedging Activities

We use derivative financial instruments, including interest rate swap contracts, to manage our exposure to fluctuations in interest rates. The use of these financial instruments mitigates exposure to these risks and the variability of our operating results. We are not a party to leveraged derivatives and do not enter into derivative financial instruments for trading or speculative purposes.

In November 2017, we terminated $375 million of 10-year interest rate swap contracts and $375 million of 5-year interest rate swap contracts that managed the interest rate risk associated with the unsecured notes issued by ITC Holdings described in Note 10 to the consolidated financial statements. At December 31, 2018, ITC Holdings did not have any interest rate swaps outstanding.

Credit Risk

Our credit risk is primarily with DTE Electric, Consumers Energy and IP&L, which were responsible for approximately 21.4%, 23.1% and 26.6%, respectively, or $248 million, $269 million and $309 million, respectively, of our consolidated billed revenues for the year ended December 31, 2018. These percentages and amounts of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2016 revenue accruals and deferrals and exclude any amounts for the 2018 revenue accruals and deferrals that were included in our 2018 operating revenues but will not be billed to our customers until 2020. Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism” for a discussion on the difference between billed revenues and operating revenues. Under DTE Electric’s and Consumers Energy’s current rate structure, DTE Electric and Consumers Energy include in their retail rates the actual cost of transmission services provided by ITCTransmission and METC, respectively, in their billings to their customers, effectively passing through to end-use consumers the total cost of transmission service. IP&L currently includes in their retail rates an allowance for transmission services provided by ITC Midwest in their billings to their customers. However, any financial difficulties experienced by DTE Electric, Consumers Energy or IP&L may affect their ability to make payments for transmission service to ITCTransmission, METC, and ITC Midwest, which could negatively impact our business. MISO, as our MISO Regulated Operating Subsidiaries’ billing agent, bills DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis and collects fees for the use of the MISO Regulated Operating Subsidiaries’ transmission systems. SPP is the billing agent for ITC Great Plains and bills transmission customers for the use of ITC Great Plains transmission systems. MISO and SPP have implemented strict credit policies for its members’ customers, which include customers using our transmission systems. Specifically, MISO and SPP require a letter of credit or cash deposit equal to the credit exposure, which is determined by a credit scoring model and other factors, from any customer using a member’s transmission system.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The following financial statements and schedules are included herein:

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MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable, not absolute, assurance as to the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Under management’s supervision, an evaluation of the design and effectiveness of our internal control over financial reporting was conducted based on the criteria set forth in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our assessment included extensive documenting, evaluating and testing of the design and operating effectiveness of our internal control over financial reporting. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
ITC Holdings Corp.
Novi, Michigan

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of ITC Holdings Corp. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
Detroit, Michigan
February 14, 2019

We have served as the Company's auditor since 2001.