ITC Holdings Corp.
Form 10-Q
July 31, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 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, MI 48377
(Address Of Principal Executive Offices, Including Zip Code)
(248) 946-3000
(Registrant’s Telephone Number, Including Area Code)

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 since that date, the Registrant has been 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, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or 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 (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicated 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
All shares of outstanding common stock of ITC Holdings Corp. are held by its parent company, ITC Investment Holdings Inc., which is an indirect majority owned subsidiary of Fortis Inc. There were 224,203,112 shares of common stock, no par value, outstanding as of July 30, 2018.

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DEFINITIONS

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 Grid Development, LLC;
- “ITC Grid Development” are references to ITC Grid Development, 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 Grid Development, LLC;
- “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 an indirect wholly-owned subsidiary of ITC Holdings;
- “Regulated Operating Subsidiaries” are references to ITCTransmission, METC, ITC Midwest, ITC Great Plains and ITC Interconnection together; and
- “We,” “our” and “us” are references to ITC Holdings together with all of its subsidiaries.

Other definitions

- “AOCI” are references to accumulated other comprehensive income or (loss);
- “AFUDC” are references to an allowance for the cost of equity and borrowings used during construction;
- “Consumers Energy” are references to Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation;
- “D.C. Circuit Court” are references to U.S. Court of Appeals for the District of Columbia Circuit;
- “DCF” are references to discounted cash flow;
- “DTE Electric” are references to DTE Electric Company, a wholly-owned subsidiary of DTE Energy Company;
- “ESPP” are references to the Fortis Amended and Restated 2012 Employee Share Purchase Plan;
- “FASB” are references to the Financial Accounting Standards Board;
- “FERC” are references to the Federal Energy Regulatory Commission;
- “Fortis” are references to Fortis Inc.;
- “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;
- “GIAs” are references to generator interconnection agreements;
- “GIC” are references to GIC Private Limited;
- “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;
- “kW” are references to kilowatts (one kilowatt equaling 1,000 watts);
- “LIBOR” are references to the London Interbank Offered Rate;
- “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;
- “Moody’s” are references to Moody’s Investor Services, Inc.;
- “NERC” are references to the North American Electric Reliability Corporation;
- “NOLs” are references to net operating loss carryforwards for income taxes;
- “PBU” are references to a performance-based unit;
- “PCBs” are references to polychlorinated biphenyls;
- “ROE” are references to return on equity;
- “RPGI” are references to Resale Power Group of Iowa;
- “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;
- “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;
- “Standard and Poor’s” are references to Standard and Poor’s Ratings Services;
- “TCJA” are references to the Tax Cuts and Jobs Act of 2017, a comprehensive tax reform bill enacted on December 22, 2017; and
- “TO” are references to transmission owners.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in millions, except share data)	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 12	$ 66
Accounts receivable	137	119
Inventory	29	29
Regulatory assets	15	18
Income tax receivable	2	15
Prepaid and other current assets	14	13
Total current assets	209	260
Property, plant and equipment (net of accumulated depreciation and amortization of $1,734 and $1,675, respectively)	7,608	7,309
Other assets		
Goodwill	950	950
Intangible assets (net of accumulated amortization of $37 and $35, respectively)	39	41
Regulatory assets	200	197
Other	70	66
Total other assets	1,259	1,254
TOTAL ASSETS	$ 9,076	$ 8,823
LIABILITIES AND STOCKHOLDER’S EQUITY		
Current liabilities		
Accounts payable	$ 117	$ 97
Accrued compensation	18	28
Accrued interest	36	60
Accrued taxes	60	57
Regulatory liabilities	184	183
Refundable deposits from generators for transmission network upgrades	17	3
Debt maturing within one year	13	100
Other	41	34
Total current liabilities	486	562
Accrued pension and postretirement liabilities	71	74
Deferred income taxes	669	601
Regulatory liabilities	626	619
Refundable deposits from generators for transmission network upgrades	11	29
Other	21	17
Long-term debt	5,210	5,001
Commitments and contingent liabilities (Notes 5 and 14)		
STOCKHOLDER’S EQUITY		
Common stock, without par value, 235,000,000 shares authorized, 224,203,112 shares issued and outstanding at June 30, 2018 and December 31, 2017	892	892
Retained earnings	1,086	1,026
Accumulated other comprehensive income	4	2
Total stockholder’s equity	1,982	1,920
TOTAL LIABILITIES AND STOCKHOLDER’S EQUITY	$ 9,076	$ 8,823

See notes to condensed consolidated interim financial statements (unaudited).

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
OPERATING REVENUES				
Transmission and other services	$311	$309	$582	$585
Formula rate true-up	(21)	(6)	(13)	16
Total operating revenues	290	303	569	601
OPERATING EXPENSES				
Operation and maintenance	28	29	51	58
General and administrative	28	29	59	60
Depreciation and amortization	44	42	88	83
Taxes other than income taxes	28	27	55	51
Other operating (income) and expenses — net	(1)	(1)	(1)	(1)
Total operating expenses	127	126	252	251
OPERATING INCOME	163	177	317	350
OTHER EXPENSES (INCOME)				
Interest expense — net	56	55	111	108
Allowance for equity funds used during construction	(9)	(8)	(18)	(16)
Other (income) and expenses — net	2	1	2	2
Total other expenses (income)	49	48	95	94
INCOME BEFORE INCOME TAXES	114	129	222	256
INCOME TAX PROVISION	35	48	61	95
NET INCOME	$79	$81	$161	$161

See notes to condensed consolidated interim financial statements (unaudited).

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended		Six months ended	
	June 30,		June 30,	
(in millions)	2018	2017	2018	2017
NET INCOME	$79	$81	$161	$161
OTHER COMPREHENSIVE INCOME (LOSS)				
Derivative instruments, net of tax (Note 11)	1	(2)	2	(2)
TOTAL COMPREHENSIVE INCOME	$80	$79	$163	$159

See notes to condensed consolidated interim financial statements (unaudited).

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended June 30,	
(in millions)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$161	$161
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	88	83
Recognition, refund and collection of revenue accruals and deferrals — including accrued interest	3	(7)
Deferred income tax expense	61	94
Allowance for equity funds used during construction	(18)	(16)
Other	4	3
Changes in assets and liabilities, exclusive of changes shown separately:		
Accounts receivable	(19)	(47)
Income tax receivable	13	3
Other current assets	—	12
Accounts payable	1	1
Accrued compensation	(7)	6
Accrued interest	(25)	1
Accrued taxes	3	3
Other current liabilities	5	5
Net estimated refund related to return on equity complaints	2	(116)
Other non-current assets and liabilities, net	2	(6)
Net cash provided by operating activities	274	180
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(365)	(383)
Contributions in aid of construction	17	6
Other	(1)	(11)
Net cash used in investing activities	(349)	(388)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	225	200
Borrowings under revolving credit agreements	368	510
Borrowings under term loan credit agreements	—	250
Net issuance of commercial paper, net of discount	13	14
Retirement of long-term debt	(100)	—
Repayments of revolving credit agreements	(333)	(689)
Repayment of term loan credit agreement	(50)	—
Dividends to ITC Investment Holdings Inc.	(100)	(78)
Other	(2)	—
Net cash provided by financing activities	21	207
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(54)	(1)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	68	11
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period	$14	$10

See notes to condensed consolidated interim financial statements (unaudited).

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

ITC Holdings and its subsidiaries are engaged in the transmission of electricity in the United States. 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. ITC Holdings is a wholly-owned subsidiary of Investment Holdings.

Basis of Presentation

These condensed consolidated interim financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2017 included in ITC Holdings' annual report on Form 10-K for such period.

The accompanying condensed consolidated interim financial statements have been prepared using GAAP and with the instructions to Form 10-Q and Rule 10-01 of SEC Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated interim financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued authoritative guidance requiring entities to apply a new model for recognizing revenue from contracts with customers. Subsequent updates have been issued primarily to provide implementation guidance related to the initial guidance issued in May 2014. The guidance requires entities to evaluate their revenue recognition arrangements using a five-step model to determine when a customer obtains control of a transferred good or service. The guidance may be adopted using either (a) a full retrospective method, whereby comparative periods would be restated to present the impact of the new standard, with the cumulative effect of applying the standard recognized as of the earliest period presented, or (b) a modified retrospective method, under which comparative periods would not be restated and the cumulative effect of applying the standard would be recognized at the date of initial adoption. We adopted the guidance effective January 1, 2018 using the modified retrospective approach; however, we did not identify or record any adjustments to the opening balance of retained earnings on adoption.

Substantially all of our revenue from contracts with customers is generated from providing transmission services to customers based on tariff rates, as approved by the FERC, and is in the scope of the new guidance. The true-up mechanisms under our Formula Rates are considered alternative revenue programs of rate-regulated utilities and are outside the scope of the new guidance, as they are not considered to be contracts with customers. The implementation of the new standard did not have a material impact on the amount and timing of revenue recognition. However, the following summarizes the impacts of the adoption of this new accounting guidance on our financial statements:

- Modification of our condensed consolidated statements of operations to present operating revenues arising from alternative revenue programs (Formula rate true-up) separately from revenues in the scope of the new guidance (Transmission and other services). In connection with this presentation change, we adopted an accounting policy whereby only the initial origination of our alternative revenue program revenue is reported in the Formula rate true-up line on our condensed consolidated statements of operations. When those amounts are subsequently included in the price of utility service and billed or refunded to customers, we account for that event as the recovery or settlement of the associated regulatory asset or regulatory liability, respectively.
- Addition of Note 3 to address the requirement to provide more information regarding the nature, amount, timing, and uncertainty of revenue and cash flows.

- Addition of Note 4 to provide more information about changes in accounts receivable from customers.

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Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued authoritative guidance amending the classification and measurement of financial instruments. The guidance requires entities to carry most investments in equity securities at fair value and recognize changes in fair value in net income, unless the investment results in consolidation or equity method accounting. Additionally, the new guidance amends certain disclosure requirements associated with the fair value of financial instruments. The guidance is required to be adopted using a modified retrospective approach, with limited exceptions. The guidance impacts the accounting for certain of our investments previously accounted for as available-for-sale with changes in fair value recorded in other comprehensive income; upon adoption of the guidance on January 1, 2018, we began accounting for such investments with changes in fair value reported in net income. We recorded an immaterial adjustment to retained earnings in accordance with the modified retrospective adoption requirement.

Presentation of Restricted Cash in the Statement of Cash Flows

In November 2016, the FASB issued authoritative guidance on the presentation of restricted cash and restricted cash equivalents within the statement of cash flows. The new guidance specifies that restricted cash and restricted cash equivalents shall be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance does not, however, provide a definition of restricted cash or restricted cash equivalents. We adopted the guidance effective for interim and annual periods beginning on January 1, 2018, using a retrospective approach as required.

Restricted cash includes cash and cash equivalents that are legally or contractually restricted for use or withdrawal or are formally set aside for a specific purpose. See reconciliation of cash, cash equivalents and restricted cash in Note 15.

The following summarizes the impact of this adoption on our previously reported amounts:

(in millions)	Six months ended June 30, 2017
Restricted cash - Beginning balance	$ 3
Restricted cash - Ending balance	3
Change - Other non-current assets and liabilities, net within condensed consolidated statements of cash flow	$ —

Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued guidance that requires entities to disaggregate the current service cost component of net benefit cost (i.e., net periodic pension cost and net periodic postretirement benefit cost) and present it in the same statement of operations line item as other current compensation costs for employees (i.e., within General and administrative for us). Entities are required to present the other components of net benefit cost ("non-service costs") elsewhere in the statement of operations and outside operating income. The line or lines containing such other components must be appropriately described on the face of the statement of operations; otherwise, disclosure of the location of such other costs in the statement of operations is required. We elected to present the non-service costs within the line "Other (income) and expenses — net" in the condensed consolidated statements of operations and include disclosure within Note 9. In addition, the new guidance allows capitalization of only the service cost component of net benefit cost.

We adopted the guidance effective January 1, 2018. The changes regarding cost capitalization were applied prospectively while the changes to the presentation of net benefit cost in the condensed consolidated statements of operations were adopted retrospectively. We applied the practical expedient that permits entities to use amounts previously disclosed in the pension and postretirement welfare footnotes as the estimation basis for the retrospective adjustments to the condensed consolidated statements of operations. The following summarizes the impact of this adoption on our previously reported amounts:

Three months ended	Six months ended

(in millions)	June 30, 2017	June 30, 2017
General and administrative		
Reported	$ 30	$ 61
Adjustment	(1)	(1)
Adjusted	$ 29	$ 60
Other (income) and expenses — net		
Reported	$ —	$ 1
Adjustment	1	1
Adjusted	$ 1	$ 2

Reclassification of Certain Tax Effects from AOCI

In February 2018, the FASB issued guidance that permits entities to reclassify the stranded tax effects resulting from the TCJA from AOCI to retained earnings. The stranded tax effects were the result of the revaluation of deferred taxes through net income as a result of the tax rate change, with no adjustment to the tax effects recorded in AOCI. The guidance is effective for fiscal years beginning January 1, 2019; however, we have elected to early adopt the guidance as of January 1, 2018. We elected to apply the guidance in the period of adoption, accounted for as a change in accounting principle resulting from the adoption of new accounting guidance. We recorded a $1 million adjustment to AOCI and retained earnings upon adoption. We apply an investment by investment approach to releasing income tax effects from AOCI.

Recently Issued Pronouncements

We have considered all new accounting pronouncements issued by the FASB and concluded the following accounting guidance, which has not yet been adopted by us, may have a material impact on our consolidated financial statements.

Accounting for Leases

In February 2016, the FASB issued authoritative guidance on accounting for leases, which impacts accounting by lessees as well as lessors. In January 2018, additional guidance was issued that provides an optional transition practical expedient to not evaluate under the new guidance existing or expired easements that were not previously accounted for as leases under current guidance. The new guidance creates a dual approach for lessee accounting, with lease classification determined in accordance with principles in existing lease guidance. Statement of operations presentation differs depending on the lease classification; however, both types of leases result in lessees recognizing a right-of-use asset and a lease liability, with limited exceptions. Under existing accounting guidance, operating leases are not recorded on the balance sheet of lessees. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and will be applied using a modified retrospective approach, with possible optional practical expedients.

We expect to elect a package of practical expedients that will allow us to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. We also expect to elect an additional practical expedient that permits entities to not evaluate existing land easements that were not previously accounted for as leases.

We are currently assessing the impact this guidance will have on our consolidated financial statements, including our disclosures, and continue to monitor standard-setting activities that may affect the transition requirements of the new lease standard.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued authoritative guidance to make targeted improvements to hedge accounting to better align with an entity’s risk management objectives and to reduce the complexity of hedge accounting. Among other changes, the new guidance simplifies hedge accounting by (a) allowing more time for entities to complete initial quantitative hedge effectiveness assessments, (b) enabling entities to elect to perform subsequent effectiveness assessments qualitatively, (c) eliminating the concept of recognizing periodic hedge ineffectiveness for cash flow hedges, (d) requiring the change in fair value of a derivative to be recorded in the same statement of operations line item as the earnings effect of the hedged item, and (e) permitting additional hedge strategies to qualify for hedge accounting. In addition, the guidance modifies existing disclosure requirements and adds new disclosure requirements, including tabular disclosures about both (a) the total amounts reported in the statement of operations for each income and expense line item that is affected by hedging and (b) the effects of hedging on those line items. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The guidance is required to be adopted on a modified retrospective basis to existing hedging relationships and on a prospective basis for the presentation and disclosure requirements. We do not expect a significant impact upon adoption, but we would add the required disclosures, as applicable.

3. REVENUE

Our total revenues are comprised of revenues which arise from three classifications including transmission services, other services revenue, and formula rate true-up. As other services revenue is immaterial, it is presented in combination with transmission services on the condensed consolidated statements of operations.

Transmission Services

Through our Regulated Operating Subsidiaries, we generate nearly all our revenue from providing electric transmission services over our transmission systems. As independent transmission companies, our transmission services are provided and

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revenues are received based on our tariffs, as approved by the FERC. The transmission revenue requirements at our Regulated Operating Subsidiaries are set annually using Formula Rates and remain in effect for a one-year period. By updating the inputs to the formula and resulting rates on an annual basis, the revenues at our Regulated Operating Subsidiaries reflect changing operating data and financial performance, including the amount of network load on their transmissions systems (for our MISO Regulated Operating Subsidiaries), operating expenses and additions to property, plant and equipment when placed in service, among other items.

We recognize revenue for transmission services over time as transmission services are provided to customers (generally using an output measure of progress based on transmission load delivered). Customers simultaneously receive and consume the benefits provided by the Regulated Operating Subsidiaries' services. We recognize revenue in the amount to which we have the right to invoice because we have a right to consideration in an amount that corresponds directly with the value to the customer of performance completed to date. As billing agents, MISO and SPP independently bill our customers on a monthly basis and collect fees for the use of our transmission systems. No component of the transaction price is allocated to unsatisfied performance obligations.

Transmission service revenue includes an estimate for unbilled revenues from service that has been provided but not billed by the end of an accounting period. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of transmission network load (for the MISO Regulated Operating Subsidiaries) and preliminary information provided by billing agents. Due to the seasonal fluctuations of actual load, the unbilled revenue amount generally increases during the spring and summer and decreases during the fall and winter. See Note 4 for information on changes in unbilled accounts receivable.

Other Services Revenue

Other services revenue consists of rental revenues, easement revenues, and amounts from providing ancillary services. A portion of other services revenue is treated as a revenue credit and reduces gross revenue requirement when calculating net revenue requirement under our Formula Rates. Total other services revenue for the three months ended June 30, 2018 and 2017 were $2 million and $3 million, respectively, and for the six months ended June 30, 2018 and 2017 were $3 million and $4 million, respectively.

Formula Rate True-Up

The true-up mechanism under our Formula Rates is considered an alternative revenue program of a rate-regulated utility given it permits our Regulated Operating Subsidiaries to adjust future rates in response to past activities or completed events in order to collect our actual revenue requirements under our Formula Rates. In accordance with our accounting policy, only the current year origination of the true-up is reported as a formula rate true-up. See "Cost-based Formula Rates with True-Up Mechanism" in Note 5 for more information on our Formula Rates.

4. ACCOUNTS RECEIVABLE

The following table presents the components of accounts receivable on the balance sheet:

(in millions)	June 30, 2018	December 31, 2017
Trade accounts receivable	$ 2	$ 2
Unbilled accounts receivable	126	108
Other	9	9
Total accounts receivable	$ 137	$ 119

5. REGULATORY MATTERS

Cost-Based Formula Rates with True-Up Mechanism

The transmission revenue requirements at our Regulated Operating Subsidiaries are set annually using Formula Rates and remain in effect for a one year period. By updating the inputs to the formula and resulting rates on an annual basis, the revenues at our Regulated Operating Subsidiaries reflect changing operational data and financial performance, including the amount of network load on their transmission systems (for our MISO Regulated Operating Subsidiaries), operating expenses and additions to property, plant and equipment when placed in service, among other items. The formula used to derive the rates does not require further action or FERC filings each year, although the formula inputs remain subject to legal challenge at the FERC. Our Regulated Operating Subsidiaries will continue to use the formula to calculate their respective annual revenue requirements unless the FERC determines the resulting rates to be unjust and unreasonable and another mechanism is determined by the FERC to be just and reasonable. See “Rate of Return on Equity Complaints” in Note 14 for detail on ROE matters for our MISO Regulated Operating Subsidiaries and “Challenge to Independence Incentive Adders for Transmission Rates” discussed in Note 5 herein.

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Our 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 requirements. Revenue is recognized for services provided during each reporting period based on actual revenue requirements calculated using the formula. 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. The amount of accrued or deferred revenues is reflected in future revenue requirements and thus flows through to customer bills within two years under the provisions of our Formula Rates.
The net changes in regulatory assets and liabilities associated with our Regulated Operating Subsidiaries' Formula Rate revenue accruals and deferrals, including accrued interest, were as follows during the six months ended June 30, 2018:

(in millions)	Total
Net regulatory liability as of December 31, 2017	$(35)
Net refund of 2016 revenue deferrals and accruals, including accrued interest	10
Net revenue deferral for the six months ended June 30, 2018	(13)
Net regulatory liability as of June 30, 2018	$(38)

Regulatory assets and liabilities associated with our Regulated Operating Subsidiaries' Formula Rate revenue accruals and deferrals, including accrued interest, are recorded in the condensed consolidated statements of financial position at June 30, 2018 and December 31, 2017 as follows:

(in millions)	June 30, 2018	December 31, 2017
Current regulatory assets	$ 15	$ 18
Non-current regulatory assets	12	11
Current regulatory liabilities	(33)	(38)
Non-current regulatory liabilities	(32)	(26)
Net regulatory liability	$ (38)	$ (35)

Reposting of Rates for Regulated Operating Subsidiaries
As a result of the reduction in the federal tax rate arising from the enactment of the TCJA, the 2018 projected Formula Rates for our MISO Regulated Operating Subsidiaries have been reposted. On March 15, 2018, the FERC granted a waiver which allows us the ability to adjust the rates effective back to January 1, 2018 for our MISO Regulated Operating Subsidiaries and allows MISO to return to customers excess amounts previously collected in 2018. Our rates included in MISO invoices for services provided in March 2018 reflected the lower corporate tax rate. Resettlement of invoices for services provided in January and February 2018 occurred in April 2018 when the 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.
In addition, the 2018 projected Formula Rates for ITC Great Plains, which are settled by SPP, have been reposted. On May 25, 2018, the FERC granted a waiver which allows us the ability to adjust the rate effective back to January 1, 2018 and allows SPP to return to customers excess amounts previously collected in 2018. As of June 30, 2018, we recorded a current regulatory liability and a reduction of revenue of $4 million related to the resettlement of invoices for services provided in January through May 2018. This reduction of revenue will be offset through a lower income tax provision for ITC Great Plains and as such should not impact net income.
MISO Funding Policy for Generator Interconnections
On June 18, 2015, the FERC issued an order initiating a proceeding, pursuant to Section 206 of the FPA, to examine MISO's funding policy for generator interconnections, which allowed a TO to unilaterally elect to fund network upgrades and recover such costs from the interconnection customer. In this order, the FERC found that the MISO funding policy may be unduly discriminatory, and suggested the MISO funding policy be revised to require mutual agreement between the interconnection customer and TO for the TO funded network upgrades. In the absence of such mutual agreement, the facilities would be funded solely by the interconnection customer. On January 8, 2016, MISO made a compliance filing to revise its funding policy to adopt the FERC suggestion to require mutual agreement between the customer and TO, with an effective date of June 24, 2015. Our MISO Regulated Operating Subsidiaries, along with another MISO TO, appealed the FERC's orders on this issue. On January 26, 2018, the D.C. Circuit Court

issued an opinion which concluded that evidence does not support the FERC's position as applied to TOs without affiliated generation assets. In addition, the opinion noted that the FERC did not adequately respond to the argument that a generator funding entitlement would compel a TO to construct, own, and operate facilities without compensation, which would force the TO to accept additional risk without corresponding return.

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As a result, the court vacated the orders and remanded this case to FERC. On March 24, 2018, our MISO Regulated Operating Subsidiaries and the other MISO TO that participated in the appeal at the D.C. Circuit Court filed a motion at FERC that asks FERC to implement the D.C. Circuit Court's decision and order MISO to amend its tariff to reinstate the self-fund option effective June 24, 2015 and to permit MISO TOs that were unable to elect self-funding in GIAs that were executed since June 24, 2015 to amend those GIAs to include the self-fund option. The motion is pending at FERC. We do not expect the resolution of this proceeding to have a material impact on our consolidated results of operations, cash flows or financial condition.

Rate of Return on Equity Complaints

See "Rate of Return on Equity Complaints" in Note 14 for a discussion of the ROE complaints.

Challenge to Independence Incentive Adders for Transmission Rates

On April 20, 2018, Consumers Energy, IP&L, Midwest Municipal Transmission Group, Missouri River Energy Services, Southern Minnesota Municipal Power Agency & WPPI Energy filed a complaint with the FERC under section 206 of the FPA, challenging the independence incentive adders that are included in transmission rates charged by ITC's operating subsidiaries in the MISO region. The independence incentive adder was established to encourage investment in transmission infrastructure and adders were awarded to the MISO Regulated Operating Subsidiaries in recognition of their status as independent transmission-only companies. The adders allow either 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 FERC. The MISO Regulated Operating Subsidiaries have answered the complaint and we are awaiting an order from FERC. We believe the likelihood of a material adverse result to our consolidated results of operations, cash flows or financial condition is remote.

Calculation of Accumulated Deferred Income Tax Balances in Projected Formula Rates

On June 21, 2018, FERC issued an order initiating a proceeding and paper hearings, pursuant to Section 206 of the FPA, to examine the methodology used by a group of TOs, including ITCTransmission and ITC Midwest, for calculating balances of accumulated deferred income taxes ("ADIT") in forward-looking Formula Rates. The order is based on a previous FERC decision for another group of TOs in which FERC concluded that the two-step averaging methodology for ADIT is no longer necessary to comply with IRS normalization rules in light of IRS guidance issued in 2017. The Regulated Operating Subsidiaries only utilize the two-step averaging methodology for their posted Formula Rate and not for purposes of the true-up. As a result, we do not expect the resolution of this proceeding to have a material impact on our consolidated results of operations, cash flows or financial condition.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

At June 30, 2018 and December 31, 2017, we had goodwill balances recorded at ITCTransmission, METC and ITC Midwest of $173 million, $454 million and $323 million, respectively, which resulted from the ITCTransmission and METC acquisitions and ITC Midwest's acquisition of the IP&L transmission assets, respectively.

Intangible Assets

We have recorded intangible assets as a result of the METC acquisition in 2006. The carrying value of these assets was $24 million and $26 million (net of accumulated amortization of $35 million and $33 million) as of June 30, 2018 and December 31, 2017, respectively.

We have also recorded intangible assets for payments made by and obligations of ITC Great Plains to certain TOs to acquire rights, which are required under the SPP tariff to designate ITC Great Plains to build, own and operate projects within the SPP region, including two regional cost sharing projects in Kansas. The carrying amount of these intangible assets was $14 million (net of accumulated amortization of $2 million) at both June 30, 2018 and December 31, 2017.

We have recorded $1 million of other intangible assets at both June 30, 2018 and December 31, 2017.

We recognized $1 million of amortization expense of our intangible assets during each of the three month periods ended June 30, 2018 and 2017, and recorded $2 million during each of the six month periods ended June 30, 2018 and 2017. For each of the next five years, we expect the annual amortization of our intangible assets that have been recorded as of June 30, 2018 to be $3 million per year.

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7. DEBT

ITC Holdings

Senior Unsecured Notes

On November 14, 2017, ITC Holdings completed the private offering of $500 million aggregate principal amount of unsecured 2.70% Senior Notes, due November 15, 2022, and $500 million aggregate principal amount of unsecured 3.35% Senior Notes, due November 15, 2027, (collectively, the “2017 Senior Notes”). In connection with the offering of the 2017 Senior Notes, ITC Holdings also entered into a registration rights agreement with the representatives of the initial purchasers named therein. Pursuant to this registration rights agreement, ITC Holdings agreed to use its commercially reasonable efforts to file with the SEC and cause to become effective a registration statement with respect to registered exchange offers to exchange each series of 2017 Senior Notes issued in the offering for an issue of notes having terms substantially identical to the applicable series of 2017 Senior Notes (except for provisions relating to the transfer restrictions, registration rights and payment of additional interest) (the “Exchange Offers”). On June 19, 2018, ITC Holdings completed the Exchange Offers, pursuant to an effective registration statement on Form S-4, under which all of the 2017 Senior Notes issued in the offering were exchanged for an issue of notes having terms substantially identical to the applicable series of 2017 Senior Notes (except for provisions in the 2017 Senior Notes relating to transfer restrictions, registration rights and payment of additional interest).

Commercial Paper Program

ITC Holdings has an ongoing commercial paper program for the issuance and sale of unsecured commercial paper in an aggregate amount not to exceed $400 million outstanding at any one time. As of June 30, 2018, ITC Holdings had $13 million of commercial paper issued and outstanding under the program with a weighted-average interest rate of 2.31% and weighted average remaining days to maturity of 5 days. The amount outstanding as of June 30, 2018, was classified as debt maturing within one year in the condensed consolidated statements of financial position.

ITCTransmission

First Mortgage Bonds

On March 29, 2018, ITCTransmission issued $225 million aggregate principal amount of 4.00% First Mortgage Bonds due March 30, 2053. The proceeds were used to refinance $100 million of 5.75% First Mortgage Bonds due April 1, 2018 and repay the existing indebtedness under the revolving credit agreement in March 2018. Proceeds were also used to repay the $50 million of borrowings under the term loan credit agreement due March 23, 2019. Remaining proceeds will be used to partially fund capital expenditures and for general corporate purposes. ITCTransmission’s First Mortgage bonds were issued under its First Mortgage and Deed of Trust and secured by a first mortgage lien on substantially all of its real property and tangible personal property.

Derivative Instruments and Hedging Activities

We may 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. At June 30, 2018, ITC Holdings did not have any interest rate swaps outstanding.

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Revolving Credit Agreements

At June 30, 2018, ITC Holdings and certain of its Regulated Operating Subsidiaries had the following unsecured revolving credit facilities available:

(in millions)	Total Available Capacity	Outstanding Balance (a)	Unused Capacity		Weighted Average Interest Rate on Outstanding Balance		Commitment Fee Rate (b)	
ITC Holdings	$ 400	$ —	$ 400	(c)	—%	(d)	0.175	%
ITCTransmission	100	—	100		—%	(e)	0.10	%
METC	100	58	42		3.0%	(e)	0.10	%
ITC Midwest	225	153	72		3.0%	(e)	0.10	%
ITC Great Plains	75	44	31		3.0%	(e)	0.10	%
Total	$ 900	$ 255	$ 645					

(a) Included within long-term debt.

(b) Calculation based on the average daily unused commitments, subject to adjustment based on the borrower's credit rating.

(c) ITC Holdings' revolving credit agreement may be used for general corporate purposes, including to repay commercial paper issued pursuant to the commercial paper program described above, if necessary. While outstanding commercial paper does not reduce available capacity under ITC Holdings' revolving credit agreement, the unused capacity under this agreement adjusted for the commercial paper outstanding was $387 million as of June 30, 2018.

(d) Loan bears interest at a rate equal to LIBOR plus an applicable margin of 1.25% or at a base rate, which is defined as the higher of the prime rate, 0.50% above the federal funds rate or 1.00% above the one month LIBOR, plus an applicable margin of 0.25%, subject to adjustments based on ITC Holdings' credit rating.

(e) Loans bear interest at a rate equal to LIBOR plus an applicable margin of 1.00% or at a base rate, which is defined as the higher of the prime rate, 0.50% above the federal funds rate or 1.00% above the one month LIBOR, subject to adjustments based on the borrower's credit rating.

Covenants

Our debt instruments contain numerous financial and operating covenants that place significant restrictions on certain transactions, such as incurring additional indebtedness, engaging in sale and lease-back transactions, creating liens or other encumbrances, entering into mergers, consolidations, liquidations or dissolutions, creating or acquiring subsidiaries and selling or otherwise disposing of all or substantially all of our assets. In addition, the covenants require us to meet certain financial ratios, such as maintaining certain debt to capitalization ratios and certain funds from operations to debt levels. As of June 30, 2018, we were not in violation of any debt covenant.

8. INCOME TAXES

In December 2017, the President of the United States 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. During the three months ended June 30, 2018, Iowa enacted a reduction in corporate statutory income tax rates from 12.0% to 9.8%, effective January 1, 2021. Based upon the future change in rate, we have revalued the Iowa NOL at ITC Holdings. As a result, additional income tax expense of $6 million was recorded in the second quarter of 2018. For the three months ended June 30, 2018 and 2017, our effective tax rates were 31% and 37%, respectively, and for the six months ended June 30, 2018 and 2017, our effective tax rates were 27% and 37%, respectively.

We continue to evaluate the bonus depreciation exemption for regulated utilities. We have recorded an estimated provision for bonus depreciation for our fixed assets placed in service after September 27, 2017, which impacts our deferred tax assets and liabilities. We anticipate further clarification on this item from the IRS and the provisional amounts we have recorded under SAB 118 represent our best estimates as a result of the TCJA.

9. RETIREMENT BENEFITS AND ASSETS HELD IN TRUST

Pension Plan Benefits

We have a qualified defined benefit pension plan (“retirement plan”) for eligible employees, comprised of a traditional final average pay plan and a cash balance plan. The traditional final average pay plan is noncontributory, covers select employees, and provides retirement benefits based on years of benefit service, average final compensation and age at retirement.

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The cash balance plan is also noncontributory, covers substantially all employees and provides retirement benefits based on eligible compensation and interest credits. Our funding practice for the retirement plan is to contribute amounts necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts as we determine appropriate. During the second quarter of 2018, we contributed $4 million to the retirement plan. We do not expect to make any additional contributions to this plan in 2018.

We also have two supplemental nonqualified, noncontributory, defined benefit pension plans for selected management employees (the "supplemental benefit plans" and, collectively with the retirement plan, the "pension plans"). The supplemental benefit plans provide for benefits that supplement those provided by the retirement plan. We contributed $3 million to the supplemental benefit plans during the second quarter of 2018. We do not expect to make any additional contributions to these plans in 2018.

Net periodic benefit cost for the pension plans, by component, was as follows for the three and six months ended June 30, 2018 and 2017:

(in millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Service cost	$2	$ 1	$4	$ 3
Interest cost	1	1	2	2
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of unrecognized loss	—	1	—	1
Net pension cost	$2	$ 2	$4	$ 4

The components of net pension cost other than the service cost component are included in the line item "Other (income) and expenses — net" in the condensed consolidated statements of operations.

Other Postretirement Benefits

We provide certain postretirement health care, dental and life insurance benefits for eligible employees. During the second quarter of 2018, we contributed $4 million to the postretirement benefit plan. We expect to make additional contributions of $5 million to the postretirement benefit plan during the second half of 2018.

Net postretirement benefit plan cost, by component, was as follows for the three and six months ended June 30, 2018 and 2017:

(in millions)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Service cost	$3	$ 2	$5	$ 4
Interest cost	1	—	2	1
Expected return on plan assets	(1)	—	(2)	(1)
Net postretirement cost	$3	$ 2	$5	$ 4

The components of net postretirement cost other than the service cost component are included in the line item "Other (income) and expenses — net" in the condensed consolidated statements of operations.

Defined Contribution Plan

We also sponsor a defined contribution retirement savings plan. Participation in this plan is available to substantially all employees. We match employee contributions up to certain predefined limits based upon eligible compensation and the employee's contribution rate. The cost of this plan was $1 million for each of the three month periods ended June 30, 2018 and 2017 and $3 million and $2 million for the six months ended June 30, 2018 and 2017, respectively.

10. FAIR VALUE MEASUREMENTS

The measurement of fair value is based on a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the six months ended June 30, 2018 and the year ended December 31, 2017, there were no transfers between levels.

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Our assets measured at fair value subject to the three-tier hierarchy at June 30, 2018, were as follows:

	Fair Value Measurements at Reporting Date Using		
(in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured on a recurring basis:			
Mutual funds — fixed income securities	$ 53	$ —	$ —
Mutual funds — equity securities	2	—	—
Total	$ 55	$ —	$ —

Our assets measured at fair value subject to the three-tier hierarchy at December 31, 2017, were as follows:

	Fair Value Measurements at Reporting Date Using		
(in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets measured on a recurring basis:			
Cash equivalents	$ 1	$ —	$ —
Mutual funds — fixed income securities	52	—	—
Mutual funds — equity securities	1	—	—
Total	$ 54	$ —	$ —

As of June 30, 2018 and December 31, 2017, we held certain assets that are required to be measured at fair value on a recurring basis. The assets included in the table consist of investments recorded within cash and cash equivalents and other long-term assets, including investments held in a trust associated with our supplemental benefit plans described in Note 9. Our mutual funds are publicly traded and are recorded at fair value based on observable trades for identical securities in an active market. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value. Beginning on January 1, 2018, gains and losses for all mutual fund investments are recorded in earnings. Previously, gains and losses on available-for-sale investments were recorded in AOCI.

We also held non-financial assets that are required to be measured at fair value on a non-recurring basis. These consist of goodwill and intangible assets. We did not record any impairment charges on long-lived assets and no other significant events occurred requiring non-financial assets and liabilities to be measured at fair value (subsequent to initial recognition) during the six months ended June 30, 2018 and 2017. For additional information on our goodwill and intangible assets, please refer to Note 6.

Fair Value of Financial Assets and Liabilities

Fixed Rate Debt

Based on the borrowing rates obtained from third party lending institutions currently available for bank loans with similar terms and average maturities from active markets, the fair value of our consolidated long-term debt and debt maturing within one year, excluding revolving and term loan credit agreements and commercial paper, was $5,029 million and $5,192 million at June 30, 2018 and December 31, 2017, respectively. These fair values represent Level 2 under the three-tier hierarchy described above. The total book value of our consolidated long-term debt and debt maturing within one year, net of discount and deferred financing fees and excluding revolving and term loan credit agreements and commercial paper, was $4,955 million and $4,830 million at June 30, 2018 and December 31, 2017, respectively.

Revolving and Term Loan Credit Agreements

At June 30, 2018 and December 31, 2017, we had a consolidated total of $255 million and $271 million, respectively, outstanding under our revolving and term loan credit agreements, which are variable rate loans. The fair value of these loans approximates book value based on the borrowing rates currently available for variable rate loans obtained from third party lending institutions. These fair values represent Level 2 under the three-tier hierarchy described above.

Other Financial Instruments

The carrying value of other financial instruments included in current assets and current liabilities, including cash and cash equivalents, special deposits and commercial paper, approximates their fair value due to the short-term nature of these instruments.

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11. STOCKHOLDER'S EQUITY

Accumulated Other Comprehensive Income

The following table provides the components of changes in AOCI for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Balance at the beginning of period	$3	$2	$2	$2
Derivative instruments				
Reclassification of net loss relating to interest rate cash flow hedges from AOCI to earnings (net of tax, of less than $1 million for the three and six months ended June 30, 2018) (a)	1	—	1	—
Reclassification of deferred tax effects on interest rate cash flow hedges stranded in AOCI, subject to the TCJA, into retained earnings	—	—	1	—
Loss on interest rate swaps relating to interest rate cash flow hedges (net of tax of $1 and $2 for the three and six months ended June 30, 2017, respectively)	—	(2)	—	(2)
Derivative instruments, net of tax	1	(2)	2	(2)
Total other comprehensive income (loss), net of tax	1	(2)	2	(2)
Balance at the end of period	$4	$—	$4	$—

(a) The reclassification of the net loss relating to interest rate cash flow hedges is reported in interest expense on a pre-tax basis.

The amount of net loss relating to interest rate cash flow hedges to be reclassified from AOCI to earnings for the 12-month period ending June 30, 2019 is expected to be approximately $1 million (net of tax of less than $1 million). The reclassification is reported in interest expense on a pre-tax basis.

12. SHARE-BASED COMPENSATION AND EMPLOYEE SHARE PURCHASE PLAN

2017 Omnibus Plan

On March 7, 2018, pursuant to the 2017 Omnibus Plan, we granted 296,559 PBUs and 230,645 SBUs. Each PBU and SBU granted will be valued based on one share of Fortis common stock traded on the Toronto Stock Exchange, converted to U.S. dollars and settled only in cash. The awards vest on the date specified in a particular grant agreement, provided the service and performance criteria, as applicable, are satisfied. The PBUs and SBUs earn dividend equivalents which are also re-measured consistent with the target award and settled in cash at the end of the vesting period. The granted awards and related dividend equivalents have no shareholder rights.

The aggregate fair value of all tranches of PBUs and SBUs as of June 30, 2018 was $14 million and $16 million, respectively. At June 30, 2018, the total unrecognized compensation cost related to the PBUs and SBUs is $11 million and $11 million, respectively.

Employee Share Purchase Plan

We have an ESPP plan which enables ITC employees to purchase shares of Fortis common stock. Our cost of the plan is based on the value of our contribution, as additional compensation to a participating employee, equal to 10% of an employee’s contribution up to a maximum annual contribution of 1% of an employee’s base pay and an amount equal to 10% of all dividends payable to Fortis on the Fortis shares allocated to an employee’s ESPP account. ITC Holdings implemented the ESPP during the second quarter of 2017. The cost of ITC Holdings’ contribution for the three and six months ended June 30, 2018 and 2017 were less than $1 million.

13. RELATED PARTY TRANSACTIONS

Intercompany Receivables and Payables

ITC Holdings may incur charges from Fortis and other subsidiaries of Fortis that are not subsidiaries of ITC Holdings for general corporate expenses incurred. In addition, ITC Holdings may perform additional services for, or receive additional services from, Fortis and such subsidiaries. These transactions are in the normal course of business and payments for these services are settled through accounts receivable and accounts payable, as necessary. We had intercompany receivables from

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Fortis and such subsidiaries of less than $1 million at June 30, 2018 and December 31, 2017. We did not have any intercompany payables to Fortis and such subsidiaries at June 30, 2018 and had less than $1 million at December 31, 2017.

Related party charges for corporate expenses from Fortis and such subsidiaries are recorded in general and administrative expense. Such expense for each of the three months ended June 30, 2018 and 2017 for ITC Holdings was $2 million. For each of the six months ended June 30, 2018 and 2017 such expense for ITC Holdings was $4 million. Related party billings for services to Fortis and other subsidiaries recorded as an offset to general and administrative expenses for ITC Holdings were less than $1 million for each of the three and six months ended June 30, 2018 and 2017.

Dividends

During the six months ended June 30, 2018, we paid dividends of $100 million to Investment Holdings. ITC Holdings also paid dividends of $50 million to Investment Holdings in July 2018.

14. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

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 currently owned or operated by us. Such liabilities may arise even where the contamination does not result from noncompliance with applicable environmental laws. Under some 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. Although environmental requirements generally have become more stringent and compliance with those requirements more expensive, we are not aware of any specific developments that would increase our costs for such compliance in a manner that would be expected to have a material adverse effect on our results of operations, financial position or liquidity.

Our assets and operations also involve the use of materials classified as hazardous, toxic or otherwise dangerous. Many of the properties that we own or operate have been used for many years, and include older facilities and equipment that may be more likely than newer ones to contain or be made from such materials. Some of these properties include aboveground or underground storage tanks and associated piping. Some of them also include large electrical equipment filled with mineral oil, which may contain or previously have contained PCBs. Our facilities and equipment are often situated on or near property owned by others so that, if they are the source of contamination, others' property may be affected. For example, aboveground and underground transmission lines sometimes traverse properties that we do not own and transmission assets that we own or operate are sometimes commingled at our transmission stations with distribution assets owned or operated by our transmission customers.

Some properties in which we have an ownership interest or at which we operate are, or are suspected of being, affected by environmental contamination. We are not aware of any pending or threatened claims against us with respect to environmental contamination relating to these properties, or of any investigation or remediation of contamination at these properties, that entail costs likely to materially affect us. Some facilities and properties are located near environmentally sensitive areas such as wetlands.

Litigation

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, eminent domain and vegetation management activities, 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.

Rate of Return on Equity Complaints

On November 12, 2013, the Association of Businesses Advocating Tariff Equity, Coalition of MISO Transmission Customers, Illinois Industrial Energy Consumers, Indiana Industrial Energy Consumers, Inc., Minnesota Large Industrial Group and Wisconsin Industrial Energy Group (collectively, the "complainants") filed the Initial Complaint with the FERC under Section 206 of the FPA requesting that the FERC find the then current 12.38% MISO regional base ROE rate (the "base ROE") for all MISO TOs, including ITCTransmission, METC and ITC Midwest, to no longer be just and reasonable. The complainants sought a FERC order reducing the base ROE used in the formula transmission rates for our MISO Regulated

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Operating Subsidiaries to 9.15%, reducing the equity component of our capital structure and terminating the ROE adders approved for certain Regulated Operating Subsidiaries. The FERC set the base ROE for hearing and settlement procedures, while denying all other aspects of the Initial Complaint. The FERC set the refund effective date for the Initial Complaint as November 12, 2013.

On June 19, 2014, in a separate Section 206 complaint against the regional base ROE rate for ISO New England TOs, the FERC adopted a new methodology for establishing base ROE rates for electric transmission utilities. The new methodology is based on a two-step DCF analysis that uses both short-term and long-term growth projections in calculating ROE rates for a proxy group of electric utilities. The FERC also reiterated that it can apply discretion in determining how ROE rates are established within a zone of reasonableness and reiterated its policy for limiting the overall ROE rate for any company, including the base and all applicable adders, at the high end of the zone of reasonableness set by the two-step DCF methodology. The new method presented in the ISO New England ROE case, including any revisions made in response to the decision of the D.C. Circuit Court in Emera Maine v. FERC, discussed below, will be used in resolving the MISO ROE cases.

On December 22, 2015, the presiding administrative law judge issued an initial decision on the Initial Complaint, consistent with the new methodology adopted in the ISO New England decision in June 2014. On September 28, 2016, the FERC issued the September 2016 Order affirming the presiding administrative law judge's initial decision and setting the base ROE at 10.32%, with a maximum ROE of 11.35%, effective for the period from November 12, 2013 through February 11, 2015 (the "Initial Refund Period"). Additionally, the rates established by the September 2016 Order will be used prospectively from the date of that order until a new approved rate is established by the FERC in ruling on the Second Complaint described below. The September 2016 Order resulted in an ROE used currently by ITCTransmission, METC and ITC Midwest of 11.35%, 11.35% and 11.32%, respectively.

The September 2016 Order required all MISO TOs, including our MISO Regulated Operating Subsidiaries, to provide refunds for the Initial Refund Period. The total refund for the Initial Complaint resulting from this FERC order, including interest, was $118 million for our MISO Regulated Operating Subsidiaries and refunds were completed during the first six months of 2017.

On October 28, 2016, the MISO TOs, including our MISO Regulated Operating Subsidiaries, filed a request with the FERC for rehearing of the September 2016 Order regarding the short-term growth projections in the two-step DCF analysis used by FERC to determine the cost of equity of public utilities. The complainants also filed a request for rehearing, citing that FERC erred in several material respects in the September 2016 Order. The FERC issued a tolling order on November 28, 2016 to allow for additional time to address the rehearing requests.

On February 12, 2015, the Second Complaint was filed with the FERC under Section 206 of the FPA by Arkansas Electric Cooperative Corporation, Mississippi Delta Energy Agency, Clarksdale Public Utilities Commission, Public Service Commission of Yazoo City and Hoosier Energy Rural Electric Cooperative, Inc., seeking a FERC order to reduce the base ROE used in the formula transmission rates of our MISO Regulated Operating Subsidiaries to 8.67%, with an effective date of February 12, 2015. The FERC set the Second Complaint for hearing and settlement procedures and set the refund effective date for the Second Complaint as February 12, 2015.

On June 30, 2016, the presiding administrative law judge issued an initial decision on the Second Complaint, which recommended a base ROE of 9.70% for February 12, 2015 through May 11, 2016 (the "Second Refund Period"), with a maximum ROE of 10.68%. The initial decision is a non-binding recommendation to the FERC on the Second Complaint, and all parties have filed briefs contesting various parts of the proposed findings and recommendations. FERC has not yet issued an order on the initial decision on the Second Complaint.

On April 14, 2017, in Emera Maine v. FERC, the D.C. Circuit Court vacated the precedent-setting FERC orders that revised the regional base ROE rate for the ISO New England TOs and established and applied the two-step DCF methodology for the determination of ROE. The court remanded the orders to the FERC for further justification of its establishment of the new base ROE for the New England TOs.

On September 29, 2017, certain MISO transmission owners, including our MISO Regulated Operating Subsidiaries, filed a motion for the FERC to dismiss the Second Complaint, on the grounds that the Second Complaint fails as a matter of law to make the showings required by the D.C. Circuit Court's decision in Emera Maine v. FERC to demonstrate that the currently effective base ROE of 10.32% is unjust and unreasonable. Pending a determination by

FERC on the merits of the motion, the estimated current regulatory liability that has been recorded in the condensed consolidated statements of financial position for the Second Complaint has not been modified.

If the Second Complaint is not dismissed, we expect the FERC to establish a new base ROE and zone of reasonableness that will be used, along with any ROE adders, to calculate the refund liability for the Second Refund Period and future ROEs

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for our MISO Regulated Operating Subsidiaries. As of June 30, 2018, the estimated range of refunds for the related refund period is from $108 million to $147 million on a pre-tax basis. Our MISO Regulated Operating Subsidiaries had an estimated current regulatory liability for the Second Complaint of $147 million and $145 million as of June 30, 2018 and December 31, 2017, respectively. The recognition of the obligations associated with the complaints resulted in a reduction of net income and additional revenue and interest expense as set forth in the table below for the periods indicated.

	Three months ended		Six months ended	
	June 30,		June 30,	
(in millions)	2018	2017	2018	2017
Revenue increase	$ (1)	$ —	$ (1)	$ —
Interest expense increase	1	2	3	3
Estimated net income reduction	1	1	2	2

It is possible that the outcome of these matters could differ from the estimated range of losses and materially affect our consolidated results of operations due to the uncertainty of the calculation of an authorized base ROE along with the zone of reasonableness, which is subject to significant discretion by the FERC. Further uncertainty regarding the outcome of the Initial Complaint and the Second Complaint and the timing of completion of these matters has been introduced due to the Emera Maine v. FERC decision.

As of June 30, 2018, our MISO Regulated Operating Subsidiaries had a total of approximately $3 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 reduction in the authorized ROE would reduce annual consolidated net income by approximately $3 million.

In a separate but related matter, in November 2014, METC, ITC Midwest and other MISO TOs filed a request with the FERC, under FPA Section 205, for authority to include a 50 basis point incentive adder for RTO participation in each of the TOs' Formula Rates. On January 5, 2015, the FERC approved the use of this incentive adder, effective January 6, 2015. Additionally, ITC Midwest filed a request with the FERC, under FPA Section 205, in January 2015 for authority to include a 100 basis point incentive adder for independent transmission ownership, which is currently authorized for ITCTransmission and METC. On March 31, 2015, the FERC approved the use of a 50 basis point incentive adder for independence, effective April 1, 2015. On April 30, 2015, ITC Midwest and an intervenor, RPGI, filed separate requests with the FERC for rehearing on the approved incentive adder for independence, and both requests were subsequently denied by the FERC on January 6, 2016. RPGI has filed an appeal of the FERC's decisions, which remains pending. Beginning September 28, 2016, these incentive adders have been applied to METC's and ITC Midwest's base ROEs in establishing their total authorized ROE rates, subject to the maximum ROE limitation in the September 2016 Order of 11.35%.

Development Projects

We are pursuing strategic development projects that may result in payments to developers that are contingent on the projects reaching certain milestones indicating that the projects are financially viable. We believe it is reasonably possible that we will be required to make these contingent development payments up to a maximum amount of $125 million for the period from 2018 through 2022. In the event it becomes probable that we will make these payments, we would recognize the liability and the corresponding intangible asset or expense as appropriate.

15. SUPPLEMENTAL FINANCIAL INFORMATION

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported on the condensed consolidated statements of financial position that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows:

	June 30,		December 31,	
(in millions)	2018	2017	2017	2016
Cash and cash equivalents	$ 12	$ 7	$ 66	$ 8

Restricted cash included in:				
Other non-current assets	2	3	2	3
Total cash, cash equivalents and restricted cash	$14	$ 10	$ 68	$ 11

Restricted cash included in other non-current assets primarily represents cash on deposit to pay for vegetation management, land easements and land purchases for the purpose of transmission line construction.

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Supplementary Cash Flows Information

(in millions)	Six months ended June 30, 2018	2017
Supplementary cash flows information:		
Interest paid (net of interest capitalized) (a)	$130	$110
Income tax refunds received	13	1
Supplementary non-cash investing and financing activities:		
Additions to property, plant and equipment and other long-lived assets (b)	101	93
Allowance for equity funds used during construction	18	16

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(a) Amount for the six months ended June 30, 2017 includes $9 million of interest paid associated with the ROE complaints. See Note 14 for information on the ROE complaints.

(b) Amounts consist of current and accrued liabilities for construction, labor, materials and other costs that have not been included in investing activities. These amounts have not been paid for as of June 30, 2018 or 2017, respectively, but will be or have been included as a cash outflow from investing activities when paid.

16. SEGMENT INFORMATION

We identify reportable segments based on the criteria set forth by the FASB regarding disclosures about segments of an enterprise, including the regulatory environment of our subsidiaries and the business activities performed to earn revenues and incur expenses. The following tables show our financial information by reportable segment:

OPERATING REVENUES:	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Regulated Operating Subsidiaries	$297	$310	$584	$615
Intercompany eliminations	(7)	(7)	(15)	(14)
Total Operating Revenues	$290	$303	$569	$601

INCOME (LOSS) BEFORE INCOME TAXES:	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Regulated Operating Subsidiaries	$147	$164	$290	$326
ITC Holdings and other	(33)	(35)	(68)	(70)
Total Income Before Income Taxes	$114	$129	$222	$256

NET INCOME:	Three months ended June 30,		Six months ended June 30,	
(in millions)	2018	2017	2018	2017
Regulated Operating Subsidiaries	$109	$101	$215	$200
ITC Holdings and other	79	81	161	161
Intercompany eliminations	(109)	(101)	(215)	(200)
Total Net Income	$79	$81	$161	$161

TOTAL ASSETS:	June 30,	December 31,
(in millions)	2018	2017
Regulated Operating Subsidiaries	$8,963	$ 8,688
ITC Holdings and other	4,846	4,799
Reconciliations / Intercompany eliminations (a)	(4,733)	(4,664)

Total Assets	$9,076	$ 8,823

(a) Reconciliation of total assets results primarily from differences in the netting of deferred tax assets and liabilities in our segments as compared to the classification in our condensed consolidated statements of financial position.

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ITEM 2. 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," "projects," "likely" and similar phras 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 following risks and uncertainties listed in "Item 1A Risk Factors" of our Form 10-K for the year ended December 31, 2017:

- Certain elements of our Regulated Operating Subsidiaries' Formula Rates can be and have been challenged, which could result in lowered rates and/or refunds of amounts previously collected and thus have an adverse effect on our business, financial condition, results of operations and cash flows.
- The TCJA and any future changes in tax laws or regulations may negatively affect our results of operations, net income, financial condition and cash flows.
- 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.
- 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.
- Changes in energy laws, regulations or policies could impact our business, financial condition, results of operations and cash flows.
- 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.
- 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.
- 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.
- Hazards associated with high-voltage electricity transmission may result in suspension of our operations, costly litigation or the imposition of civil or criminal penalties.
- We are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination.
- 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.
- 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.
- Acts of war, terrorist attacks, cyber 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.

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- 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.
- 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.
- Adverse changes in our credit ratings may negatively affect us.
- Certain provisions in our debt instruments limit our financial and operating flexibility.

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 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, which are also intended to improve overall grid reliability, reduce transmission constraints and facilitate interconnections of new generating resources, as well as enhance competitive wholesale electricity markets.

As electric transmission utilities whose rates are regulated by the FERC, our Regulated Operating Subsidiaries earn revenues for the use of their electric transmission systems by our customers. We derive nearly all of our revenues from providing electric transmission service over our Regulated Operating Subsidiaries' transmission systems to investor-owned utilities, such as DTE Electric, Consumers Energy and 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.

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 Note 5 to the condensed consolidated interim 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 six months ended June 30, 2018 or that may affect future results include:

- The change in federal tax rate arising from the enactment of the TCJA, which results in reductions to revenue requirements, payments of the 2018 resettlement obligation in connection with the reposting of the 2018 rates and payments related to the amortization through rates of the net regulatory liability recorded for excess deferred taxes;
- Our capital expenditures of $365 million at our Regulated Operating Subsidiaries during the six months ended June 30, 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 7 to the condensed consolidated interim financial statements, including issuance of First Mortgage bonds by ITCTransmission and commercial paper issued under ITC Holdings' commercial paper program to fund capital investment at our Regulated Operating Subsidiaries as well as for general corporate purposes; and
- Our MISO Regulated Operating Subsidiaries have an estimated current regulatory liability of $147 million as of June 30, 2018 for the potential refund relating to the Second Complaint, as described in Note 14 to the condensed

consolidated interim financial statements.

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

Recent Developments

Rate of Return on Equity Complaints

In November 2013 and February 2015, certain parties filed complaints with the FERC under Section 206 of the FPA requesting that the FERC find the then current MISO regional base ROE rate for all MISO TOs, including ITCTransmission, METC and ITC Midwest, to no longer be just and reasonable. The complainants sought a FERC order reducing the base ROE used in the formula transmission rates for our MISO Regulated Operating Subsidiaries. In September 2016, the FERC issued the September 2016 Order in connection with the Initial Complaint reducing the base ROE from 12.38% to 10.32%, with a maximum ROE of 11.35%, effective for the period from November 12, 2013 through February 11, 2015 and prospectively from the date of that order until a new approved rate is established by the FERC in connection with the Second Complaint filed with the FERC under Section 206 of the FPA on February 12, 2015. The total refund for the Initial Complaint resulting from this FERC order, including interest, was $118 million for our MISO Regulated Operating Subsidiaries and refunds were completed during the first six months of 2017.

An order has not yet been issued by the FERC in connection with the Second Complaint. If the Second Complaint is not dismissed, we expect FERC to establish a new base ROE and zone of reasonableness that will be used, along with any ROE adders, to calculate the refund liability for the refund period related to the Second Complaint and future ROEs for our MISO Regulated Operating Subsidiaries. As of June 30, 2018, the estimated range of refunds for the related refund period is from $108 million to $147 million on a pre-tax basis. We had an estimated current regulatory liability for the Second Complaint of $147 million and $145 million as of June 30, 2018 and December 31, 2017, respectively. The recognition of the obligations associated with the complaints resulted in a reduction of net income and additional revenue and interest expense as set forth in the table below for the periods indicated.

	Three months ended		Six months ended	
	June 30,		June 30,	
(in millions)	2018	2017	2018	2017
Revenue increase	$(1)	$ —	$(1)	$ —
Interest expense increase	1	2	3	3
Estimated net income reduction	1	1	2	2

It is possible that the outcome of these matters could differ from the estimated range of losses and materially affect our consolidated results of operations due to the uncertainty of the calculation of an authorized base ROE along with the zone of reasonableness. Further uncertainty regarding the outcome of the Initial Complaint and the Second Complaint and the timing of completion of these matters has been introduced due to the Emera Maine v. FERC decision. Based on the level of aggregate equity in our MISO Regulated Operating Subsidiaries, we estimate that each 10 basis point reduction in the authorized ROE would reduce annual consolidated net income by approximately $3 million. In addition, the motion to dismiss, filed in September 2017, could also affect the resolution of the Second Complaint. For a more detailed discussion of the ROE complaints, see Note 14 to the condensed consolidated interim financial statements.

Reposting of Rates for Regulated Operating Subsidiaries

As a result of the reduction in the federal tax rate arising from the enactment of the TCJA, the 2018 projected Formula Rates for our MISO Regulated Operating Subsidiaries have been reposted. On March 15, 2018, the FERC granted a waiver which allows us the ability to adjust the rates effective back to January 1, 2018 for our MISO Regulated Operating Subsidiaries and allows MISO to return to customers excess amounts previously collected in 2018. Our rates included in MISO invoices for services provided in March 2018 reflected the lower corporate tax rate. Resettlement of invoices for services provided in January and February 2018 occurred in April 2018 when the 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.

In addition, the 2018 projected Formula Rates for ITC Great Plains, which are settled by SPP, have been reposted. On May 25, 2018, the FERC granted a waiver which allows us the ability to adjust the rate effective back to January 1, 2018 and allows SPP to return to customers excess amounts previously collected in 2018. As of June 30, 2018, we recorded a current regulatory liability and a reduction of revenue of $4 million related to the resettlement of invoices for services provided in January through May 2018. This reduction of revenue will be offset through a lower income tax provision for ITC Great Plains and as such should not impact net income.

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Challenge to Independence Incentive Adders for Transmission Rates

On April 20, 2018, Consumers Energy, IP&L, Midwest Municipal Transmission Group, Missouri River Energy Services, Southern Minnesota Municipal Power Agency & WPPI Energy filed a complaint with the FERC under section 206 of the FPA, challenging the independence incentive adders that are included in transmission rates charged by ITC’s operating subsidiaries in the MISO region. The independence incentive adder was established to encourage investment in transmission infrastructure and adders were awarded to the MISO Regulated Operating Subsidiaries in recognition of their status as independent transmission-only companies. The adders allow either 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 FERC. The MISO Regulated Operating Subsidiaries have answered the complaint and we are awaiting an order from FERC. We believe the likelihood of a material adverse result to our consolidated results of operations, cash flows or financial condition is remote.

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 initially reflect 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 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.

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 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 and, 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 14 and Note 5 to the condensed consolidated interim 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) rebuild existing property, plant and equipment; (2) upgrade the system to address demographic changes that have impacted transmission load and the changing role that transmission plays in meeting the needs of the wholesale market, including accommodating the siting of new generation or increasing import capacity to meet changes in peak electrical demand; (3) relieve congestion in the transmission systems; and (4) achieve state and federal policy goals, such as renewable generation portfolio standards. The following table shows our actual and expected capital expenditures at our Regulated Operating Subsidiaries:

(in millions)	Actual Capital Expenditures for the Six Months Ended June 30, 2018	Forecasted Capital Expenditures 2018 — 2022
Expenditures for property, plant and equipment (a)	$ 365	$ 2,842

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

We are pursuing development projects that could result in a significant amount of capital investment, but 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 — Development Projects” in our Form 10-K for the year ended December 31, 2017 for a discussion of our development projects.

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

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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.

RESULTS OF OPERATIONS

Results of Operations and Variances

(in millions)	Three months ended June 30, 2018	Three months ended June 30, 2017	Increase (decrease)	Percentage increase (decrease)	Six months ended June 30, 2018	Six months ended June 30, 2017	Increase (decrease)	Percentage increase (decrease)
OPERATING REVENUES								
Transmission and other services	$311	$309	$ 2	1 %	$582	$585	$ (3)	(1)%
Formula rate true-up	(21)	(6)	(15)	250 %	(13)	16	(29)	(181)%
Total operating revenues	290	303	(13)	(4)%	569	601	(32)	(5)%
OPERATING EXPENSES								
Operation and maintenance	28	29	(1)	(3)%	51	58	(7)	(12)%
General and administrative	28	29	(1)	(3)%	59	60	(1)	(2)%
Depreciation and amortization	44	42	2	5 %	88	83	5	6 %
Taxes other than income taxes	28	27	1	4 %	55	51	4	8 %
Other operating (income) and expenses — net	(1)	(1)	—	— %	(1)	(1)	—	— %
Total operating expenses	127	126	1	1 %	252	251	1	— %
OPERATING INCOME	163	177	(14)	(8)%	317	350	(33)	(9)%
OTHER EXPENSES (INCOME)								
Interest expense — net	56	55	1	2 %	111	108	3	3 %
Allowance for equity funds used during construction	(9)	(8)	(1)	13 %	(18)	(16)	(2)	13 %
Other (income) and expenses — net	2	1	1	100 %	2	2	—	— %
Total other expenses (income)	49	48	1	2 %	95	94	1	1 %
INCOME BEFORE INCOME TAXES	114	129	(15)	(12)%	222	256	(34)	(13)%
INCOME TAX PROVISION	35	48	(13)	(27)%	61	95	(34)	(36)%
NET INCOME	$79	$81	$ (2)	(3)%	$161	$161	$ —	— %

Operating Revenues

Three months ended June 30, 2018 compared to three months ended June 30, 2017

The following table sets forth the components of and changes in operating revenues which included revenue accruals and deferrals as described in Note 5 to the condensed consolidated interim financial statements:

(in millions)	2018 Amount	2018 Percentage	2017 Amount	2017 Percentage	Increase (decrease)	Percentage increase (decrease)
Network revenues (a)	$190	66 %	$203	67 %	$ (13)	(6)%
Regional cost sharing revenues (a)	82	29 %	83	28 %	(1)	(1)%
Point-to-point	4	1 %	7	2 %	(3)	(43)%
Scheduling, control and dispatch (a)	4	1 %	4	1 %	—	— %
Other (b)	10	3 %	6	2 %	4	67 %
Total	$290	100 %	$303	100 %	$ (13)	(4)%

(a) Includes a portion of the Formula rate true-up of $(21) million and $(6) million for the three months ended June 30, 2018 and 2017, respectively.

(b) Includes reduction in refund liabilities recognized in prior periods of $1 million for the three months ended June 30, 2018.

Network revenues decreased primarily due to lower network revenue requirements at our Regulated Operating Subsidiaries, as a result of the TCJA which reduced the U.S. federal corporate income tax rate from 35% to 21%, 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, as a result of the TCJA which reduced the U.S. federal corporate income tax rate from 35% to 21%. These decreases were partially offset by an increase in capital projects placed in service that were identified by MISO and SPP as

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eligible for regional cost sharing as well as higher accumulated investment for existing regional cost sharing projects in northern Michigan and Kansas for the three months ended June 30, 2018 as compared to the same period in 2017.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

The following table sets forth the components of and changes in operating revenues which included revenue accruals and deferrals as described in Note 5 to the condensed consolidated interim financial statements:

(in millions)	2018 Amount	2018 Percentage	2017 Amount	2017 Percentage	Increase (decrease)	Percentage increase (decrease)
Network revenues (a)	$379	67 %	$405	67 %	$ (26)	(6)%
Regional cost sharing revenues (a)	161	28 %	166	28 %	(5)	(3)%
Point-to-point	7	1 %	13	2 %	(6)	(46)%
Scheduling, control and dispatch (a)	8	1 %	7	1 %	1	14 %
Other (b)	14	3 %	10	2 %	4	40 %
Total	$569	100 %	$601	100 %	$ (32)	(5)%

(a) Includes a portion of the Formula rate true-up of $(13) million and $16 million for the six months ended June 30, 2018 and 2017, respectively.

(b) Includes reduction in refund liabilities recognized in prior periods of $1 million for the six months ended June 30, 2018.

Network revenues decreased primarily due to lower network revenue requirements at our Regulated Operating Subsidiaries, as a result of the TCJA which reduced the U.S. federal corporate income tax rate from 35% to 21%, 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, as a result of the TCJA which reduced the U.S. federal corporate income tax rate from 35% to 21%. These decreases were partially offset by an increase in capital projects placed in service that were identified by MISO and SPP as eligible for regional cost sharing as well as higher accumulated investment for existing regional cost sharing projects in northern Michigan and Kansas for the six months ended June 30, 2018 as compared to the same period in 2017.

Operating Expenses

Operation and maintenance expenses

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Operation and maintenance expenses decreased primarily due to lower field maintenance expenses, consisting primarily of lower vegetation management requirements.

Income Tax Provision

Three months ended June 30, 2018 compared to three months ended June 30, 2017

Our effective tax rates for the three months ended June 30, 2018 and 2017 were 31% and 37%, respectively. The decrease in our effective tax rate is due to the reduction in the federal tax rate arising from the enactment of the TCJA. Our effective tax rate for the three months ended June 30, 2018 exceeded our 21% statutory federal income tax rate due primarily to state income taxes, partially offset by the tax effects of AFUDC equity which reduced the effective tax rate. During the three months ended June 30, 2018, Iowa enacted a reduction in corporate statutory income tax rates from 12.0% to 9.8%, effective January 1, 2021. Based upon the future change in rate, we have revalued the Iowa NOL at ITC Holdings. As a result, additional income tax expense was recorded in 2018. The amount of income tax expense relating to AFUDC equity was recognized as a regulatory asset and is not included in the income tax provision.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Our effective tax rates for the six months ended June 30, 2018 and 2017 were 27% and 37%, respectively. The decrease in our effective tax rate is due to the reduction in the federal tax rate arising from the enactment of the TCJA. Our effective tax rate for the six months ended June 30, 2018 exceeded our 21% statutory federal income tax rate due primarily to state income taxes, partially offset by the tax effects of AFUDC equity which reduced the effective tax rate. During the three months ended June 30, 2018, Iowa enacted a reduction in corporate statutory income tax rates from 12.0% to 9.8%, effective January 1, 2021. Based upon the future change in rate, we have revalued the Iowa NOL at ITC Holdings. As a result, additional income

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tax expense was recorded in 2018. The amount of income tax expense relating to AFUDC equity was recognized as a regulatory asset and is 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 7 to the condensed consolidated interim 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — 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 14 to the condensed consolidated interim 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations.” We expect our interest payments to increase each year as a result of additional debt expected to be incurred to fund our capital expenditures and for general corporate purposes.
- Fund any refund obligation in connection with the Second Complaint.
- Fund reductions to revenue requirements at our Regulated Operating Subsidiaries going forward arising from the enactment of the TCJA.
- Fund payments related to the amortization through rates of the net regulatory liability recorded for excess deferred taxes and any other obligations arising from the implementation of the TCJA.
- Fund contributions to our retirement benefit plans, as described in Note 9 to the condensed consolidated interim financial statements.

In addition to the expected capital requirements above, any adverse determinations or settlements relating to the regulatory matters or contingencies described in Notes 5 and 14 to the condensed consolidated interim 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 June 30, 2018, we had consolidated indebtedness under our revolving credit agreements of $255 million, with unused capacity under our revolving credit agreements of $645 million. Additionally, ITC Holdings had $13 million of commercial paper issued and outstanding as of June 30, 2018, with the ability to issue an additional $387 million under the commercial paper program. See Note 7 to the condensed consolidated interim financial statements for a discussion of the commercial paper program, our revolving credit agreements as well as the debt activity in 2018.

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.

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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.

Issuer	Issuance	Standard and Poor's Ratings Services (a)	Moody's Investor Service, Inc. (b)
ITC Holdings	Senior Unsecured Notes	A-	Baa2
ITC Holdings	Commercial Paper	A-2	Prime-2
ITCTransmission	First Mortgage Bonds	A	A1
METC	Senior Secured Notes	A	A1
ITC Midwest	First Mortgage Bonds	A	A1
ITC Great Plains	First Mortgage Bonds	A	A1

(a) On September 15, 2017, Standard and Poor's reaffirmed the secured credit ratings of ITCTransmission, METC, ITC Midwest, ITC Great Plains and the short-term commercial paper rating at ITC Holdings, which applies to the commercial paper program discussed in Note 7 to the condensed consolidated interim financial statements. On September 28, 2017, Standard and Poor's raised the senior unsecured credit rating of ITC Holdings to A- from BBB+. On December 20, 2017, Standard and Poor's published reports on ITCTransmission, METC and ITC Midwest as part of their annual review process. No ratings actions were taken in those reports. On March 21, 2018, Standard and Poor's revised its outlook on all these entities from stable to negative.

(b) On April 16, 2018, Moody's issued credit opinions that maintained the senior unsecured credit rating of ITC Holdings, the secured credit ratings of ITCTransmission, METC, ITC Midwest, ITC Great Plains and the short-term commercial paper rating at ITC Holdings, which applies to the commercial paper program discussed in Note 7 to the condensed consolidated interim financial statements. Moody's also maintained the stable outlook for these entities.

Covenants

Our debt instruments contain numerous financial and operating covenants that place significant restrictions on certain transactions as well as require us to meet certain financial ratios, which are described in Note 7 to the condensed consolidated interim financial statements and in our Form 10-K for the fiscal year ended December 31, 2017. As of June 30, 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.

Cash Flows From Operating Activities

Net cash provided by operating activities was $274 million and $180 million for the six months ended June 30, 2018 and 2017, respectively. The increase in cash provided by operating activities was due primarily to the refund, including interest, paid pursuant to the Initial Complaint during the six months ended June 30, 2017 and was further increased by higher receipts from tax refunds received in 2018. This increase was partially offset by higher interest payments and lower receipts from operating revenues as a result of the TCJA during the six months ended June 30, 2018 compared to the same period in 2017.

Cash Flows From Investing Activities

Net cash used in investing activities was $349 million and $388 million for the six months ended June 30, 2018 and 2017, respectively. The decrease in cash used in investing activities was due primarily to a decrease in expenditures for property, plant and equipment during the six months ended June 30, 2018 compared to the same period in 2017.

Cash Flows From Financing Activities

Net cash provided by financing activities was $21 million and $207 million for the six months ended June 30, 2018 and 2017, respectively. The decrease in cash provided by financing activities was due primarily to a decrease in borrowings under our revolving and term loan credit agreements, an increase in retirement of long-term debt, repayment of our term loan credit agreement and an increase in dividends paid during the six months ended June 30, 2018 compared to the same period in 2017. These decreases were partially offset by an increase in long-term debt issuances and a decrease in repayments of our revolving credit agreements. See Note 7 to the condensed consolidated interim 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 our commercial paper program.

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CONTRACTUAL OBLIGATIONS

Our contractual obligations are described in our Form 10-K for the year ended December 31, 2017. There have been no material changes to that information since December 31, 2017, other than the items listed below and described in Note 7 to the condensed consolidated interim financial statements:

- Changes in amounts borrowed under our unsecured, unguaranteed revolving credit agreements;
- The issuance of $225 million of 4.00% First Mortgage Bonds, Series G, due March 30, 2053, by ITCTransmission;
- The repayment of $100 million of ITCTransmission’s 5.75% First Mortgage Bonds, due April 1, 2018, with the proceeds from the issuance of ITCTransmission’s 4.00% First Mortgage Bonds, Series G, due March 30, 2053; and
- The repayment of $50 million of borrowings under the ITCTransmission term loan credit agreement, due March 23, 2019, with the proceeds from the issuance of ITCTransmission’s 4.00% First Mortgage Bonds, Series G, due March 30, 2053.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated interim financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated interim 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 condensed consolidated interim 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 accounting policies discussed in “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” in our Form 10-K for the fiscal year ended December 31, 2017 are considered by management to be the most important to an understanding of the consolidated financial statements because of their significance to the portrayal of our financial condition and results of operations or because their application places the most significant demands on management’s judgment and estimates about the effect of matters that are inherently uncertain. There have been no material changes to that information during the six months ended June 30, 2018.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the condensed consolidated interim financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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 and debt maturing within one year, net of discount and deferred financing fees and excluding revolving credit agreements was $5,029 million at June 30, 2018. The total book value of our consolidated long-term debt and debt maturing within one year, excluding revolving credit agreements was $4,955 million at June 30, 2018. We performed an analysis calculating the impact of changes in interest rates on the fair value of long-term debt and debt maturing within one year, excluding revolving credit agreements at June 30, 2018. An increase in interest rates of 10% (from 5.0% to 5.5%, for example) at June 30, 2018 would decrease the fair value of debt by $218 million, and a decrease in interest rates of 10% at June 30, 2018 would increase the fair value of debt by $236 million at that date.

Revolving Credit Agreements

At June 30, 2018, we had a consolidated total of $255 million outstanding under our revolving credit agreements, which are variable rate loans and fair value approximates book value. A 10% increase or decrease in borrowing rates under the revolving credit agreements compared to the weighted average rates in effect at June 30, 2018 would increase or decrease interest expense by less than $1 million for an annual period with a constant borrowing level of $255 million.

Other

As described in our Form 10-K for the fiscal year ended December 31, 2017, we are subject to commodity price risk from market price fluctuations, and to credit risk primarily with DTE Electric, Consumers Energy and IP&L, our primary customers. There have been no material changes in these risks during the six months ended June 30, 2018.

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 14 to the condensed consolidated interim financial statements for a description of recent developments in the ROE complaints filed against all MISO TOs, including our MISO Regulated Operating Subsidiaries.

ITEM 1A. RISK FACTORS

For information regarding risk factors affecting us, see “Item 1A Risk Factors” of our Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to the risk factors set forth therein.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report (unless otherwise noted to be previously filed, and therefore incorporated herein by reference). Our SEC file number is 001-32576.

Exhibit No.	Description of Document
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase

101.DEF	XBRL Taxonomy Extension Definition Database
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: July 30, 2018

ITC HOLDINGS CORP.

By:	/s/ Linda H. Apsey Linda H. Apsey President and Chief Executive Officer (duly authorized officer)
By:	/s/ Gretchen L. Holloway Gretchen L. Holloway Senior Vice President and Chief Financial Officer (principal financial and accounting officer)