ITC Holdings Corp.
Form 10-K
February 16, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-32576
ITC HOLDINGS CORP.
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes o No þ
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 þ No o
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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information, statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company o
		(Do not check if a smaller reporting company)	

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

The aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2016 was approximately $7 billion, based on the closing sale price as reported on the New York Stock Exchange. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant are assumed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the registrant.

All shares of outstanding common stock of ITC Holdings Corp. are held by its parent company, ITC Investment Holdings Inc., which is an indirect subsidiary of Fortis Inc. There were 224,203,112 shares of common stock, no par value, outstanding as of February 16, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

None

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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

- “Consumers Energy” are references to Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation;
- “DTE Electric” are references to DTE Electric Company, a wholly-owned subsidiary of DTE Energy;
- “DTE Energy” are references to DTE Energy Company;
- “Eiffel” are references to Eiffel Investment Pte Ltd, a private limited company duly organized and validly existing under the laws of Singapore that is the GIC subsidiary that is a minority investor in Investment Holdings and successor to Finn Investment Pte Ltd;
- “FERC” are references to the Federal Energy Regulatory Commission;
- “Fortis” are references to Fortis Inc.;
- “FortisUS” are references to FortisUS Inc., an indirect subsidiary of Fortis;
- “FPA” are references to the Federal Power Act;
- “GIC” are references to GIC Private Limited;
- “ICC” are references to the Illinois Commerce Commission;
- “IP&L” are references to Interstate Power and Light Company, an Alliant Energy Corporation subsidiary;
- “ISO” are references to Independent System Operators;
- “Investment Holdings” are references to ITC Investment Holdings Inc., a majority owned indirect subsidiary of Fortis;
- “IUB” are references to the Iowa Utilities Board;

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- “KCC” are references to the Kansas Corporation Commission;
- “kV” are references to kilovolts (one kilovolt equaling 1,000 volts);
- “kW” are references to kilowatts (one kilowatt equaling 1,000 watts);
- “LIBOR” are references to the London Interbank Offered Rate;
- “Merger” are references to the merger with Fortis, whereby ITC Holdings merged with Merger Sub and subsequently became a majority owned indirect subsidiary of Fortis;
- “Merger Agreement” are references to the agreement and plan of merger between Fortis, FortisUS, Merger Sub and ITC Holdings for the Merger;
- “Merger Sub” are references to Element Acquisition Sub, Inc., an indirect subsidiary of Fortis that merged into ITC Holdings in the Merger;
- “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;
- “MOPSC” are references to the Missouri Public Service Commission;
- “MPSC” are references to the Michigan Public Service Commission;
- “MPUC” are references to the Minnesota Public Utilities Commission;
- “MVPs” are references to multi-value projects, which have been determined by MISO to have regional value while meeting near-term system needs;
- “MW” are references to megawatts (one megawatt equaling 1,000,000 watts);
- “NERC” are references to the North American Electric Reliability Corporation;
- “NOLs” are references to net operating loss carryforwards for income taxes;
- “NYSE” are references to the New York Stock Exchange;
- “OCC” are references to Oklahoma Corporation Commission;
- “PSCW” are references to the Public Service Commission of Wisconsin;
- “RTO” are references to Regional Transmission Organizations;
- “Shareholders Agreement” are references to the Shareholders’ Agreement, dated as of October 14, 2016 by and among the Company, Investment Holdings, FortisUS, Finn Investment Pte Ltd, and any other person that becomes a shareholder of Investment Holdings pursuant to such agreement; and
- “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.

EXPLANATORY NOTE

On October 14, 2016, ITC Holdings became a wholly-owned subsidiary of Investment Holdings upon the closing of the Merger. On the same date, the common shares of ITC Holdings were delisted from the NYSE. As a result, there is limited share data, and no per share data, presented in this Form 10-K. Refer to Note 2 to the consolidated financial statements for further details regarding the Merger.

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PART I

ITEM 1. BUSINESS.

Overview

Our business consists primarily of the electric transmission operations of our Regulated Operating Subsidiaries. In 2002, ITC Holdings was incorporated in the State of Michigan for the purpose of acquiring ITCTransmission. ITCTransmission was originally formed in 2001 as a subsidiary of DTE Electric, an electric utility subsidiary of DTE Energy, and was acquired in 2003 by ITC Holdings. METC was originally formed in 2001 as a subsidiary of Consumers Energy, an electric and gas utility subsidiary of CMS Energy Corporation, and was acquired in 2006 by ITC Holdings. ITC Midwest was formed in 2007 by ITC Holdings to acquire the transmission assets of IP&L in December 2007. ITC Great Plains was formed in 2006 by ITC Holdings and became a FERC-jurisdictional entity in 2009. ITC Interconnection was formed in 2014 by ITC Holdings and became a FERC-jurisdictional entity in June 2016 after acquiring certain transmission assets from a merchant generating company and placing a newly constructed transmission line in service. 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 not within 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 regulated by the FERC, our Regulated Operating Subsidiaries earn revenues for the use of their electric transmission systems by our customers, which include investor-owned utilities, municipalities, cooperatives, power marketers and alternative energy suppliers. As independent transmission companies, our Regulated Operating Subsidiaries are subject to rate regulation only by the FERC. The rates charged by our Regulated Operating Subsidiaries are established using cost-based formula rates, as discussed in "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism."

The Merger

On February 9, 2016, ITC Holdings entered into the Merger Agreement with Fortis, FortisUS and Merger Sub. On April 20, 2016, Fortis reached a definitive agreement with a subsidiary of GIC for GIC to acquire an indirect 19.9% equity interest in ITC Holdings upon completion of the Merger. On October 14, 2016, ITC Holdings and Fortis completed the Merger contemplated by the Merger Agreement. On the same date, the common shares of ITC Holdings were delisted from the NYSE and the common shares of Fortis were listed and began trading on the NYSE. Fortis continues to have its shares listed on the Toronto Stock Exchange. As a result of the Merger, Merger Sub merged with and into ITC Holdings with ITC Holdings continuing as the surviving corporation and becoming a majority owned indirect subsidiary of Fortis. In the Merger, ITC Holdings shareholders received $22.57 in cash and 0.7520 Fortis common shares for each share of common stock of ITC Holdings. For a discussion of various risks relating to the Merger, see "Item 1A Risk Factors — Risks Relating to the Merger." Refer to Note 2 to the consolidated financial statements for further details on the Merger.

Development of Business

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

We expect to invest approximately $2.8 billion from 2017 through 2021 at our Regulated Operating Subsidiaries. Included in this amount are capital expenditures to (1) maintain and replace the current transmission infrastructure, (2) enhance system integrity and reliability and accommodate load growth and (3) develop and build regional transmission infrastructure, including additional transmission facilities that will provide interconnection opportunities for generating facilities.

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Development Projects

Through our merchant and international activities, we are actively pursuing projects to upgrade the existing transmission grid and regional transmission facilities, primarily to improve overall grid reliability, reduce transmission constraints, enhance competitive markets and facilitate interconnections of new generating resources, including wind generation and other renewable resources necessary to achieve state and federal policy goals. Additionally, we may pursue other non-traditional transmission investment opportunities not described above.

Segments

We have one reportable segment consisting of our Regulated Operating Subsidiaries. Additionally, we have other subsidiaries focused primarily on business development activities and a holding company whose activities include corporate debt financings and certain other corporate activities. A more detailed discussion of our reportable segment, including financial information about the segment, is included in Note 16 to the consolidated financial statements.

Operations

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

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

Asset Planning

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

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

Engineering, Design and Construction

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

Maintenance

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

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Real Time Operations

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

Local Balancing Authority Operator — Under the functional control of MISO, ITCTransmission and METC operate their electric transmission systems as a combined Local Balancing Authority ("LBA") area, known as the Michigan Electric Coordinated Systems ("MECS"). From our operations facility in Novi, Michigan, our employees perform the LBA functions as outlined in MISO's Balancing Authority Agreement. These functions include actual interchange data administration and verification as well as MECS LBA area emergency procedure implementation and coordination. ITC Midwest and ITC Great Plains are not responsible for LBA functions for their respective assets.

Operating Contracts

Our Regulated Operating Subsidiaries have various operating contracts, including numerous interconnection agreements with generation and transmission providers that address terms and conditions of interconnection. The following significant agreements exist at our Regulated Operating Subsidiaries:

ITCTransmission

DTE Electric operates the electric distribution system to which ITCTransmission's transmission system connects. A set of three operating contracts sets forth the terms and conditions related to DTE Electric's and ITCTransmission's ongoing working relationship. These contracts include the following:

Master Operating Agreement. The Master Operating Agreement (the "MOA"), dated as of February 28, 2003, governs the primary day-to-day operational responsibilities of ITCTransmission and DTE Electric and will remain in effect until terminated by mutual agreement of the parties (subject to any required FERC approvals) unless earlier terminated pursuant to its terms. The MOA identifies the control area coordination services that ITCTransmission is obligated to provide to DTE Electric. The MOA also requires DTE Electric to provide certain generation-based support services to ITCTransmission.

Generator Interconnection and Operation Agreement. DTE Electric and ITCTransmission entered into the Generator Interconnection and Operation Agreement (the "GIOA"), dated as of February 28, 2003, in order to establish, re-establish and maintain the direct electricity interconnection of DTE Electric's electricity generating assets with ITCTransmission's transmission system for the purposes of transmitting electric power from and to the electricity generating facilities. Unless otherwise terminated by mutual agreement of the parties (subject to any required FERC approvals), the GIOA will remain in effect until DTE Electric elects to terminate the agreement with respect to a particular unit or until a particular unit ceases commercial operation.

Coordination and Interconnection Agreement. The Coordination and Interconnection Agreement (the "CIA"), dated as of February 28, 2003, governs the rights, obligations and responsibilities of ITCTransmission and DTE Electric regarding, among other things, the operation and interconnection of DTE Electric's distribution system and ITCTransmission's transmission system, and the construction of new facilities or modification of existing facilities. Additionally, the CIA allocates costs for operation of supervisory, communications and metering equipment. The CIA will remain in effect until terminated by mutual agreement of the parties (subject to any required FERC approvals).

METC

Consumers Energy operates the electric distribution system to which METC's transmission system connects. METC is a party to a number of operating contracts with Consumers Energy that govern the operations and maintenance of its transmission system. These contracts include the following:

Amended and Restated Easement Agreement. Under the Amended and Restated Easement Agreement (the "Easement Agreement"), dated as of April 29, 2002 and as further supplemented, Consumers Energy provides METC with an easement to the land, which we refer to as premises, on which a majority of METC's transmission towers, poles, lines and other transmission facilities used to transmit electricity at voltages of at least 120 kV are located, which we refer to collectively as the facilities. Consumers Energy retained for itself

the rights to, and the value of activities associated with, all other uses of the premises and the facilities covered by the Easement Agreement, such as for distribution of electricity, fiber optics, telecommunications, gas pipelines and agricultural uses. Accordingly, METC is not permitted to use the premises or the facilities covered by the Easement Agreement for any purposes other than to provide electric transmission and related services, to inspect, maintain, repair, replace and remove electric transmission facilities and to alter, improve, relocate and construct additional electric transmission facilities. The easement is further subject to the rights of any third parties that had rights to use or occupy the premises or the facilities prior to April 1, 2001 in a manner not inconsistent with METC's permitted uses. METC pays Consumers Energy annual rent of $10 million, in equal quarterly installments, for the easement and related rights under the Easement Agreement. Although METC and Consumers Energy share the use of the premises and the facilities covered by the Easement Agreement, METC pays the entire amount of any rentals, property taxes, inspection fees and other amounts required to be paid to third parties with respect to any use, occupancy, operations or other activities on the premises or the facilities and is generally responsible for the maintenance of the premises and the facilities used for electric transmission at its expense. METC also must maintain commercial general liability insurance protecting METC and Consumers Energy against claims for personal injury, death or property damage occurring on the premises or the facilities and pay for all insurance premiums. METC is also responsible for patrolling the premises and the facilities by air at its expense at least annually and to notify Consumers Energy of any unauthorized uses or encroachments discovered. METC must indemnify Consumers Energy for all liabilities arising from the facilities covered by the Easement Agreement.

METC must notify Consumers Energy before altering, improving, relocating or constructing additional transmission facilities covered by the Easement Agreement. Consumers Energy may respond by notifying METC of reasonable work and design restrictions and precautions that are needed to avoid endangering existing distribution facilities, pipelines or communications lines, in which case METC must comply with these restrictions and precautions. METC has the right at its own expense to require Consumers Energy to remove and relocate these facilities, but Consumers Energy may require payment in advance or the provision of reasonable security for payment by METC prior to removing or relocating these facilities, and Consumers Energy need not commence any relocation work until an alternative right-of-way satisfactory to Consumers Energy is obtained at METC's expense.

The term of the Easement Agreement runs through December 31, 2050 and is subject to 10 automatic 50-year renewals after that time unless METC provides one year's notice of its election not to renew the term. Consumers Energy may terminate the Easement Agreement 30 days after giving notice of a failure by METC to pay its quarterly installment if METC does not cure the non-payment within the 30-day notice period. At the end of the term or upon any earlier termination of the Easement Agreement, the easement and related rights terminate and the transmission facilities revert to Consumers Energy.

Amended and Restated Operating Agreement. Under the Amended and Restated Operating Agreement (the "Operating Agreement"), dated as of April 29, 2002, METC agrees to operate its transmission system to provide all transmission customers with safe, efficient, reliable and nondiscriminatory transmission service pursuant to its tariff. Among other things, METC is responsible under the Operating Agreement for maintaining and operating its transmission system, providing Consumers Energy with information and access to its transmission system and related books and records, administering and performing the duties of control area operator (that is, the entity exercising operational control over the transmission system) and, if requested by Consumers Energy, building connection facilities necessary to permit interaction with new distribution facilities built by Consumers Energy. Consumers Energy has corresponding obligations to provide METC with access to its books and records and to build distribution facilities necessary to provide adequate and reliable transmission services to wholesale customers. Consumers Energy must cooperate with METC as METC performs its duties as control area operator, including by providing reactive supply and voltage control from generation sources or other ancillary services and reducing load. The Operating Agreement is effective through 2050 and is subject to 10 automatic 50-year renewals after that time, unless METC provides one year's notice of its election not to renew.

Amended and Restated Purchase and Sale Agreement for Ancillary Services. The Amended and Restated Purchase and Sale Agreement for Ancillary Services (the "Ancillary Services Agreement") is dated as of April 29, 2002. Since METC does not own any generating facilities, it must procure ancillary services from third party suppliers, such as

Consumers Energy. Currently, under the Ancillary Services Agreement, METC pays

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Consumers Energy for providing certain generation based services necessary to support the reliable operation of the bulk power grid, such as voltage support and generation capability and capacity to balance loads and generation. METC is not precluded from procuring these ancillary services from third party suppliers when available. The Ancillary Services Agreement is subject to rolling one-year renewals starting May 1, 2003, unless terminated by either METC or Consumers Energy with six months prior written notice.

Amended and Restated Distribution-Transmission Interconnection Agreement. The Amended and Restated Distribution-Transmission Interconnection Agreement (the “DT Interconnection Agreement”), dated April 1, 2001 and most recently amended and restated effective as of January 1, 2015, provides for the interconnection of Consumers Energy’s distribution system with METC’s transmission system and defines the continuing rights, responsibilities and obligations of the parties with respect to the use of certain of their own and the other party’s properties, assets and facilities. METC agrees to provide Consumers Energy interconnection service at agreed-upon interconnection points, and the parties have mutual responsibility for maintaining voltage and compensating for reactive power losses resulting from their respective services. The DT Interconnection Agreement is effective so long as any interconnection point is connected to METC, unless it is terminated earlier by mutual agreement of METC and Consumers Energy.

Amended and Restated Generator Interconnection Agreement. The Amended and Restated Generator Interconnection Agreement (the “Generator Interconnection Agreement”), dated as of April 29, 2002 and most recently amended effective as of October 1, 2016, specifies the terms and conditions under which Consumers Energy and METC maintain the interconnection of Consumers Energy’s generation resources and METC’s transmission assets. The Generator Interconnection Agreement is effective either until it is replaced by any MISO-required contract, or until mutually agreed by METC and Consumers Energy to terminate, but not later than the date that all listed generators cease commercial operation.

ITC Midwest

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

Distribution-Transmission Interconnection Agreement. The Distribution-Transmission Interconnection Agreement (the “DTIA”), dated as of December 17, 2007 and amended and restated effective as of December 1, 2016, governs the rights, responsibilities and obligations of ITC Midwest and IP&L, with respect to the use of certain of their own and the other parties’ property, assets and facilities and the construction of new facilities or modification of existing facilities. Additionally, the DTIA sets forth the terms pursuant to which the equipment and facilities and the interconnection equipment of IP&L will continue to connect ITC Midwest’s facilities through which ITC Midwest provides transmission service under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff. The DTIA will remain in effect until terminated by mutual agreement by the parties (subject to any required FERC approvals) or as long as any interconnection point of IP&L is connected to ITC Midwest’s facilities, unless modified by written agreement of the parties.

Large Generator Interconnection Agreement. ITC Midwest, IP&L and MISO entered into the Large Generator Interconnection Agreement (the “LGIA”), dated as of December 20, 2007 and amended as of August 6, 2013, in order to establish, re-establish and maintain the direct electricity interconnection of IP&L’s electricity generating assets with ITC Midwest’s transmission system for the purposes of transmitting electric power from and to the electricity generating facilities. The LGIA will remain in effect until terminated by ITC Midwest or until IP&L elects to terminate the agreement if a particular unit ceases commercial operation for three consecutive years.

Operations Services Agreement For 34.5 kV Transmission Facilities. ITC Midwest and IP&L entered into the Operations Services Agreement for 34.5 kV Transmission Facilities (the “OSA”), effective as of January 1, 2011, under which IP&L performs certain operations functions for ITC Midwest’s 34.5 kV transmission system on behalf of ITC Midwest. The OSA provides that when ITC Midwest upgrades 34.5 kV facilities to higher operating voltages it may notify IP&L of the change and the OSA is no longer applicable to those facilities. The OSA will remain in full force and effect until December 31, 2015 and will extend automatically from year to year thereafter until terminated by either party upon not less than one year prior written notice to the other party.

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ITC Great Plains

Amended and Restated Maintenance Agreement. Mid-Kansas Electric Company LLC ("Mid-Kansas") and ITC Great Plains have entered into a Maintenance Agreement (the "Mid-Kansas Agreement"), dated as of August 24, 2010, and most recently amended effective as of June 1, 2015, pursuant to which Mid-Kansas has agreed to perform various field operations and maintenance services related to certain ITC Great Plains facilities. The Mid-Kansas Agreement has an initial term of 10 years and automatic 10-year renewals unless terminated (1) due to a breach by the non-terminating party following notice and failure to cure, (2) by mutual consent of the parties, or (3) by ITC Great Plains under certain limited circumstances. Services must continue to be provided for at least six months subsequent to the termination date in any case.

Regulatory Environment

Many regulators and public policy makers support the need for further investment in the transmission grid. The growth and changing mix of electricity generation, wholesale power sales and consumption combined with historically inadequate transmission investment have resulted in significant transmission constraints across the United States and increased stress on aging equipment. These problems will continue without increased investment in transmission infrastructure. Transmission system investments can also increase system reliability and reduce the frequency of power outages. Such investments can reduce transmission constraints and improve access to lower cost generation resources, resulting in a lower overall cost of delivered electricity for end-use consumers. After the 2003 blackout that affected sections of the Northeastern and Midwestern United States and Ontario, Canada, the Department of Energy (the "DOE") established the Office of Electric Transmission and Distribution (now the Office of Electricity Delivery and Energy Reliability), focused on working with reliability experts from the power industry, state governments and their Canadian counterparts to improve grid reliability and increase investment in the country's electric infrastructure. In addition, the FERC has signaled its desire for substantial new investment in the transmission sector by implementing various financial and other incentives.

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

The FERC requires compliance with certain reliability standards by transmission owners and may take enforcement actions for violations, including the imposition of substantial fines. NERC is responsible for developing and enforcing these mandatory reliability standards. We continually assess our transmission systems against standards established by NERC, as well as the standards of applicable regional entities under NERC that have been delegated certain authority for the purpose of proposing and enforcing reliability standards. Finally, utility holding companies are subject to FERC regulations related to access to books and records in addition to the requirement of the FERC to review and approve mergers and consolidations involving utility assets and holding companies in certain circumstances.

Federal Regulation

As electric transmission companies, our Regulated Operating Subsidiaries are regulated by the FERC. The FERC is an independent regulatory commission within the DOE that regulates the interstate transmission and certain wholesale sales of natural gas, the transmission of oil and oil products by pipeline and the transmission and wholesale sales of electricity in interstate commerce. The FERC also administers accounting and financial reporting regulations and standards of conduct for the companies it regulates. In 1996, in order to facilitate open access transmission for participants in wholesale power markets, the FERC issued Order No. 888. The open access policy promulgated by the FERC in Order No. 888 was upheld in a United States Supreme Court decision, State of New York vs. FERC, issued on March 4, 2002. To facilitate open access, among other things, FERC Order No. 888 encouraged investor owned utilities to cede operational control over their transmission systems to ISOs, which are not-for-profit entities.

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

FERC Order No. 1000 (“Order 1000”) amends certain existing transmission planning and cost allocation requirements to ensure that FERC-jurisdictional services are provided at just and reasonable rates and on a basis that is just and reasonable and not unduly discriminatory or preferential. With respect to transmission planning, Order 1000: (1) requires that each public utility transmission provider participate in a regional transmission planning process that produces a regional transmission plan; (2) requires that each public utility transmission provider amend its Open Access Transmission Tariff to describe procedures that provide for the consideration of transmission needs driven by public policy requirements in the local and regional transmission planning processes; (3) removes a federal right of first refusal for certain new transmission facilities from FERC-approved tariffs and agreements; and (4) improves coordination between neighboring transmission planning regions for new interregional transmission facilities. MISO and SPP are compliant with the regional and interregional requirements of Order 1000 after making multiple compliance filings at the FERC.

Order 1000 could potentially lead to greater competition for certain future transmission projects, including within our current operating areas. We are currently exploring opportunities resulting from Order 1000 within MISO and SPP as well as other RTOs.

Revenue Requirement Calculations and Cost Sharing for Projects with Regional Benefits

The cost-based formula rates used by our Regulated Operating Subsidiaries include revenue requirement calculations for various types of projects. Network revenues continue to be the largest component of revenues recovered through our formula rates. However, regional cost sharing revenues are growing as a result of projects that have been identified by MISO or SPP as having regional benefits, and therefore eligible for regional cost recovery under their tariffs. Separate calculations of revenue requirement are performed for projects that have been approved for regional cost sharing and impact only which parties ultimately pay for the transmission services related to these projects and do not impact our financial results.

We have projects that are eligible for regional cost sharing under the MISO tariff, such as certain network upgrade projects, and the MVPs, including the four North Central MVPs and the Thumb Loop Project in Michigan. Additionally, certain projects at ITC Great Plains are eligible for recovery through a region-wide charge in the SPP tariff, including two regional cost sharing projects in Kansas. Certain of these projects are described in more detail in “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments.”

State Regulation

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

ITCTransmission, METC and ITC Interconnection

Michigan

The MPSC has jurisdiction over the siting of certain transmission facilities. Additionally, ITCTransmission, METC and ITC Interconnection have the right as independent transmission companies to condemn property in the state of

Michigan for the purposes of building or maintaining transmission facilities.

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

ITC Midwest

Iowa

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

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

Minnesota

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

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

Illinois

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

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

Missouri

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

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

Wisconsin

ITC Midwest is a “public utility” and independent transmission owner in Wisconsin. The PSCW in a May 2014 order granted ITC Midwest a certificate of authority to transact public utility business in the state. In a separate May 2014 order, the PSCW also recognized ITC Holdings Corp. as a public utility holding company under Wisconsin statutes. The PSCW exercises jurisdiction over the siting of new transmission lines through the issuance of certificates of authority and certificates of public convenience and necessity. Upon receipt of such certificates for a transmission project, ITC Midwest has condemnation authority as a foreign transmission provider under Wisconsin law. ITC

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Midwest is also subject to the jurisdiction of certain local and state agencies, including the Wisconsin Department of Natural Resources, relating to environmental and road permits.

ITC Great Plains

Kansas

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

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

Oklahoma

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

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

Sources of Revenue

See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Operating Revenues" for a discussion of our principal sources of revenue.

Seasonality

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

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

Principal Customers

Our principal transmission service customers are DTE Electric, Consumers Energy and IP&L, which accounted for approximately 20.7%, 21.7% and 25.5%, respectively, of our consolidated billed revenues for the year ended December 31, 2016. One or more of these customers together have consistently represented a significant percentage of our operating revenue. These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2014 revenue accruals and deferrals and exclude any amounts for the 2016 revenue accruals and deferrals that were included in our 2016 operating revenues, but will not be billed to our customers until 2018. Refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism" for a discussion on the difference between billed revenues and operating revenues. Our remaining revenues were generated from providing service to other entities such as alternative electricity suppliers, power marketers and other wholesale customers that provide electricity to end-use consumers and from transaction-based capacity reservations. Nearly all of our revenues are from transmission customers in the United States. Although we may recognize allocated revenues from time to time from Canadian entities reserving transmission over the Ontario or Manitoba interface, these revenues have not been and are not expected to be material to us.

Billing

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

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

Competition

Each of our MISO Regulated Operating Subsidiaries operates the primary transmission system in its respective service area and has limited competition for certain projects. However, the competitive environment is evolving due to the implementation of Order 1000. See further discussion of Order 1000 above under “Regulatory Environment — Federal Regulation.” For our subsidiaries focused on development opportunities for transmission investment in other service areas, the incumbent utilities or other entities with transmission development initiatives may compete with us by seeking approval to be named the party authorized to build new capital projects that we are also pursuing. Because our Regulated Operating Subsidiaries are currently the only transmission companies that are independent from electricity market participants, we believe that we are best able to develop these projects in a non-discriminatory manner. However, there are no assurances that we will be selected to develop projects other entities are also pursuing.

Employees

As of December 31, 2016, we had 660 employees. We consider our relations with our employees to be good.

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 polychlorinated biphenyls, or 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.

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Claims have been made or threatened against electric utilities for bodily injury, disease or other damages allegedly related to exposure to electromagnetic fields associated with electric transmission and distribution lines. While we do not believe that a causal link between electromagnetic field exposure and injury has been generally established and accepted in the scientific community, the liabilities and costs imposed on our business could be significant if such a relationship is established or accepted. We are not aware of any pending or threatened claims against us for bodily injury, disease or other damages allegedly related to exposure to electromagnetic fields and electric transmission and distribution lines that entail costs likely to have a material adverse effect on our results of operations, financial position or liquidity.

Filings Under the Securities Exchange Act of 1934

Our internet address is http://www.itc-holdings.com. All of our reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, can be accessed free of charge through our website. These reports are available as soon as practicable after they are electronically filed with the Securities and Exchange Commission (the “SEC”). Our website also has posted our Code of Conduct and Ethics. The information on our website is not incorporated by reference into this report.

To learn more about us, please visit our website at http://www.itc-holdings.com. We use our website as a channel of distribution of material company information. Financial and other material information regarding us is routinely posted on our website and is readily accessible.

The public may also read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington DC, 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The internet address is http://www.sec.gov.

ITEM 1A. RISK FACTORS.

Risks Related to Our Business

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.

Our Regulated Operating Subsidiaries provide transmission service under rates regulated by the FERC. The FERC has approved the cost-based formula rates used by our Regulated Operating Subsidiaries to calculate their respective annual revenue requirements, but it has not expressly approved the amount of actual capital and operating expenditures to be used in the formula rates. All aspects of our Regulated Operating Subsidiaries’ rates approved by the FERC, including the formula rate templates, the rates of return on the actual equity portion of their respective capital structures and the approved targeted capital structures, are subject to challenge by interested parties at the FERC, or by the FERC on its own initiative in a proceeding under Section 206 of the FPA. In addition, interested parties may challenge the annual implementation and calculation by our Regulated Operating Subsidiaries of their projected rates and formula rate true up pursuant to their approved formula rates under the Regulated Operating Subsidiaries' formula rate implementation protocols. End-use consumers and entities supplying electricity to end-use consumers may also attempt to influence government and/or regulators to change the rate setting methodologies that apply to our Regulated Operating Subsidiaries, particularly if rates for delivered electricity increase substantially. If a challenger can establish that any of these aspects are unjust, unreasonable, unduly discriminatory or preferential, then the FERC will make appropriate prospective adjustments to them and/or disallow any of our Regulated Operating Subsidiaries’ inclusion of those aspects in the rate setting formula. This could result in lowered rates and/or refunds of amounts collected, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In November 2013, certain parties filed a joint complaint with the FERC under Section 206 of the FPA, requesting that the FERC find the base rate of return on equity for all MISO transmission owners, including ITCTransmission, METC and ITC Midwest, to be unjust and unreasonable. The joint complainants sought a FERC order reducing the base rate of return on equity used in the MISO transmission owners’ formula transmission rate, reducing the targeted equity component of MISO transmission owners’ capital structures and terminating the return on equity adders approved for ITCTransmission and METC. Although the FERC issued an order rejecting the November

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2013 complaint as to the capital structures and ITCTransmission's and METC’s equity adders, a hearing was ordered on the November 2013 complaint's allegations as to the base rate of return on equity for all MISO transmission owners. On December 22, 2015, the presiding administrative law judge issued an initial decision recommending to the FERC a reduction in the base rate of return on equity of the MISO Transmission owners from 12.38% to 10.32%, with a maximum rate of 11.35%. On September 28, 2016, the FERC issued an order affirming the presiding administrative law judge's initial decision, with the new rates to become effective immediately and for the period from November 12, 2013 through February 11, 2015.

In February 2015, an additional complaint was filed under Section 206 of the FPA seeking a FERC order reducing the base rate of return on equity for all MISO transmission owners, including for our MISO Regulated Operating Subsidiaries, to 8.67%. On June 30, 2016, the presiding administrative law judge issued an initial decision on the February 2015 complaint, which recommended a base rate of return on equity of 9.70%, which would be applicable for the period from February 12, 2015 through May 11, 2016 and going forward from the date on which the FERC issues an order on the February 2015 complaint, with a maximum rate of 10.68%. In resolving the February 2015 complaint, we expect the FERC to establish a new base rate and zone of reasonable returns that will be used, along with any incentive adders, to calculate the refund liability for the period from February 12, 2015 through May 11, 2016 and going forward from the date on which the FERC issues an order. A decision from the FERC on the February 2015 complaint is anticipated in 2017. In 2016, 2015 and 2014, we adjusted revenues downward to accrue for the refund liability based on our estimate of the outcome of these complaints, which had a negative effect on our net income for those periods. The resolution of the second complaint may reduce our future revenues and net income and have an adverse effect on our future results of operations, cash flows and financial condition.

Our actual capital investment may be lower than planned, which would cause a lower than anticipated rate base and would therefore result in lower revenues, earnings and associated cash flows compared to our current expectations. In addition, we expect to invest in strategic development opportunities to improve the efficiency and reliability of the transmission grid, but we cannot provide assurance that we will be able to initiate or complete any of these investments. In addition, we expect to incur expenses related to the pursuit of development opportunities, which may be higher than forecasted.

Each of our operating subsidiaries’ rate base, revenues, earnings and associated cash flows are determined in part by additions to property, plant and equipment and when those additions are placed in service. We anticipate making significant capital investments over the next several years; however, the amounts could change significantly due to factors beyond our control. If our operating subsidiaries’ capital investment and the resulting in-service property, plant and equipment are lower than anticipated for any reason, our operating subsidiaries will have a lower than anticipated rate base, thus causing their revenue requirements and future earnings to be lower than anticipated.

We are pursuing broader strategic development investment opportunities including those related to building regional transmission facilities and interconnections for generating resources, among others. Incumbent utilities or other transmission development entities may compete with us for regulatory approval to develop capital projects that we are pursuing. If we are unable to compete successfully for approval of these projects, our opportunities to expand our rate base and increase our revenues and earnings may become limited.

Any capital investment at our operating subsidiaries or as a result of our broader strategic development initiatives may be lower than our published estimates due to, among other factors, the impact of actual loads, forecasted loads, regional economic conditions, weather conditions, union strikes, labor shortages, material and equipment prices and availability, our ability to obtain financing for such expenditures, if necessary, limitations on the amount of construction that can be undertaken on our system or transmission systems owned by others at any one time, regulatory requirements relating to our rate construct, environmental issues, siting, regional planning, cost recovery or other issues, or as a result of legal proceedings and variances between estimated and actual costs of construction contracts awarded and the potential for greater competition. Our ability to engage in construction projects resulting from pursuing these initiatives is subject to significant uncertainties, including the factors discussed above, and will depend on obtaining any necessary regulatory and other approvals for the project and for us to initiate construction, our achieving status as the builder of the project in some circumstances and other factors. Therefore, we can provide no assurance as to the actual level of investment we may achieve at our operating subsidiaries or as a result of the broader strategic development initiatives.

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

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

Each of our Regulated Operating Subsidiaries is a “public utility” under the FPA and, accordingly, is subject to regulation by the FERC. Approval of the FERC is required under Section 203 of the FPA for a disposition or acquisition of regulated public utility facilities, either directly or indirectly through a holding company. Such approval is also required to acquire a significant interest in securities of a public utility. Section 203 of the FPA also provides the FERC with explicit authority over utility holding companies’ purchases or acquisitions of, and mergers or consolidations with, a public utility. Finally, each of our Regulated Operating Subsidiaries must also seek approval by the FERC under Section 204 of the FPA for issuances of its securities (including debt securities).

We are also pursuing development projects for construction of transmission facilities and interconnections with generating resources. These projects may require regulatory approval by Federal agencies, including the FERC, applicable RTOs and state and local regulatory agencies. Failure to secure such regulatory approval for new strategic development projects could adversely affect our ability to grow our business and increase our revenues. If we fail to obtain these approvals when necessary, we may incur liabilities for such failure.

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

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

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

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

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

ITCTransmission derives a substantial portion of its revenues from the transmission of electricity to DTE Electric's local distribution facilities. DTE Electric accounted for approximately 57.3% of ITCTransmission's total billed revenues for the year ended December 31, 2016 and is expected to constitute the majority of ITCTransmission's revenues for the foreseeable future. DTE Electric is rated BBB+/stable and A2/stable by Standard and Poor's Ratings Services and Moody's Investors Services, Inc., respectively. Similarly, Consumers Energy accounted for approximately 76.7% of METC's total billed revenues for the year ended December 31, 2016 and is expected to constitute the majority of METC's revenues for the foreseeable future. Consumers Energy is rated BBB+/stable and A3/stable by Standard and Poor's Ratings Services and Moody's Investors Services, Inc., respectively. Further, IP&L accounted for approximately 73.3% of ITC Midwest's total billed revenues for the year ended December 31, 2016 and is expected to constitute the majority of ITC Midwest's revenues for the foreseeable future. IP&L is rated A-/stable and Baa1/stable by Standard and Poor's Ratings Services and Moody's Investors Services, Inc., respectively. These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2014 revenue accruals and deferrals and exclude any amounts for the 2016 revenue accruals and deferrals that were included in our 2016 operating revenues, but will not be billed to our customers until 2018.

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

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

METC does not own the majority of the land on which its electric transmission assets are located. Instead, under the provisions of an Easement Agreement with Consumers Energy, METC pays annual rent of $10 million to Consumers Energy in exchange for rights-of-way, leases, fee interests and licenses which allow METC to use the land on which its transmission lines are located. Under the terms of the Easement Agreement, METC's easement rights could be eliminated if METC fails to meet certain requirements, such as paying contractual rent to Consumers Energy in a timely manner. Additionally, a significant amount of the land on which our other subsidiaries' assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, they must comply with the provisions of various easements, mineral rights and other similar encumbrances, which may adversely impact their ability to complete their construction projects in a timely manner.

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

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

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

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

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

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

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

In addition, claims have been made or threatened against electric utilities for bodily injury, disease or other damages allegedly related to exposure to electromagnetic fields associated with electric transmission and distribution lines. We cannot provide assurance that such claims will not be asserted against us or that, if determined in a manner adverse to our interests, such claims would not have a material effect on our business, financial condition and results of operations.

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

The various regulatory requirements to which we are subject include reliability standards established by the NERC, which acts as the nation’s Electric Reliability Organization approved by the FERC in accordance with Section 215 of the FPA. These standards address operation, planning and security of the bulk power system, including requirements with respect to real-time transmission operations, emergency operations, vegetation management, critical infrastructure protection and personnel training. Failure to comply with these requirements can result in monetary penalties as well as non-monetary sanctions. Monetary penalties vary based on an assigned risk factor for each potential violation, the severity of the violation and various other circumstances, such as whether the violation was intentional or concealed, whether there are repeated violations, the degree of the violator’s cooperation in investigating and remediating the violation and the presence of a compliance program, and such penalties can be substantial. Non-monetary sanctions include potential limitations on the violator’s activities or operation and placing the violator on a watchlist for major violators. Despite our best efforts to comply and the implementation of a compliance program intended to ensure reliability, there can be no assurance that violations will not occur that would result in material penalties or sanctions. If any of our subsidiaries were to violate the NERC reliability standards, even unintentionally, in any material way, any penalties or sanctions imposed against us could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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us to penalties that could have a material adverse effect on our financial condition, results of operations and cash flows.

Acts of war, terrorist attacks, 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.

Acts of war, terrorist attacks, cyber attacks, natural disasters, severe weather and other catastrophic events may negatively affect our business, financial condition and cash flows in unpredictable ways, such as increased security measures and disruptions of markets. Energy related assets, including, for example, our transmission facilities and DTE Electric’s, Consumers Energy’s and IP&L’s generation and distribution facilities that we interconnect with, may be at risk of acts of war, terrorist attacks and cyber attacks, as well as natural disasters, severe weather and other catastrophic events. In addition to any physical damage caused by such events, cyber attacks targeting our information systems could impair our records, networks, systems and programs, or transmit viruses to other systems. Such events or the threat of such events may increase costs associated with heightened security requirements. In addition, such events or threats may have a material effect on the economy in general and could result in a decline in energy consumption, which may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Changes in tax laws or regulations may negatively affect our results of operations, net income, financial condition and cash flows.

We are subject to taxation by various taxing authorities at the federal, state and local levels. The Trump Administration has made federal corporate tax reform one of its priorities and the possibility of such reform is thought to be increased in light of the Republican-led Congress. While such reform is likely to be favorable to corporations generally, the structure of any such reform is unknown and a change in tax laws or rates could in fact adversely affect our results of operations, net income, financial condition and cash flows. For example, federal bonus depreciation is currently available for property acquired and placed in service through 2019, with certain provisions that allow for an additional year of eligibility for certain property with long construction periods. If tax reform results in extending accelerated tax depreciation similar to the provisions of bonus depreciation, the higher deferred tax liabilities and the corresponding reduced rate base would have a negative effect on our annual revenues and net income over the tax lives of the eligible assets. Additionally, we have a considerable amount of debt, including debt at ITC Holdings, and any change in tax laws or regulations that reduce the deduction of interest expense for income tax purposes could have a negative effect on our net income. We cannot predict the timing or structure of tax-related developments.

Risks Relating to Our Corporate and Financial Structure

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

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

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

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

- If future cash flows are insufficient, we may not be able to make principal or interest payments on our debt obligations, which could result in the occurrence of an event of default under one or more of those debt instruments.
- We may need to increase our indebtedness in order to make the capital expenditures and other expenses or investments planned by us.
- Our indebtedness has the general effect of reducing our flexibility to react to changing business and economic conditions insofar as they affect our financial condition. A substantial portion of the dividends and payments in lieu of taxes we receive from our subsidiaries will be dedicated to the payment of interest on our indebtedness, thereby, reducing the funds available for working capital and capital expenditures.
- We currently have debt instruments outstanding with short-term maturities or relatively short remaining maturities. Our ability to secure additional financing prior to or after these facilities mature, if needed, may be substantially restricted by the existing level of our indebtedness and the restrictions contained in our debt instruments. Additionally, the interest rates at which we might secure additional financings may be higher than our currently outstanding debt instruments or higher than forecasted at any point in time, which could adversely affect our business, financial condition, results of operations and cash flows.
- Market conditions could affect our access to capital markets, restrict our ability to secure financing to make the capital expenditures and investments and pay other expenses planned by us which could adversely affect our business, financial condition, cash flows and results of operations.

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

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

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

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

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

Adverse changes in our credit ratings may negatively affect us.

Our ability to access capital markets is important to our ability to operate our business. Increased scrutiny of the energy industry and the impact of regulation, as well as changes in our financial performance and unfavorable

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conditions in the capital markets could result in credit agencies reexamining our credit ratings. A downgrade in our credit ratings could restrict or discontinue our ability to access capital markets at attractive rates and increase our borrowing costs. A rating downgrade could also increase the interest we pay on commercial paper and under our revolving credit agreements.

Risks Related to the Merger

ITC Holdings and its subsidiaries are subject to business uncertainties during the period of integration with Fortis that could adversely affect ITC Holdings' financial results.

Uncertainty about the effect of the Merger on employees or vendors and others, including contractors, may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel, and could cause vendors, contractors and others that deal with us to seek to change existing business relationships. Employee retention may be challenging, as employees may experience uncertainty about their future roles with the combined company. If, despite our retention efforts, key employees retire or depart due to the uncertainty of employment and difficulty of integration or a desire not to remain with the combined company, we may incur significant costs in identifying, hiring, and retaining replacements for departing employees, which could have a material adverse effect on our business operations and financial results. In addition, integration-related issues may place a significant burden on management, employees and internal resources which could otherwise have been devoted to other business opportunities. The diversion of management's attention and any delays or difficulties encountered in connection with the Merger and the integration of ITC Holdings' operations with Fortis could have an adverse effect on our business, financial results or financial condition. The integration process may also result in additional and unforeseen expenses.

We are the target of securities class action and derivative lawsuits, which could result in substantial costs and diversion of management's time and resources.

Securities class action lawsuits and derivative lawsuits are often brought against companies that have entered into merger agreements. There is currently a class action lawsuit pending against us and our directors in connection with the Merger, as described in Note 15 to the consolidated financial statements. We are not able to predict the outcome of this action or others that may be brought, nor can we predict the amount of time and expense that will be required to resolve the actions. Even if we believe the lawsuits are without merit, defending against or settling these claims can result in substantial costs to us and divert management's time and resources.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our Regulated Operating Subsidiaries' transmission facilities are located in Michigan and portions of Iowa, Minnesota, Illinois, Missouri, Kansas and Oklahoma. Our MISO Regulated Operating Subsidiaries and ITC Great Plains have agreements with other utilities for the joint ownership of specific substations, transmission lines and other transmission assets. See Note 14 to the consolidated financial statements for more information on the jointly owned assets.

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

- approximately 3,100 circuit miles of overhead and underground transmission lines rated at voltages of 120 kV to 345 kV;
- approximately 18,700 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 185 stations and substations which either interconnect ITCTransmission's transmission facilities or connect ITCTransmission's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment);
- warehouses and related equipment;
- associated land held in fee, rights-of-way and easements;

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- an approximately 188,000 square-foot corporate headquarters facility and operations control room in Novi, Michigan, including furniture, fixtures and office equipment; and
- an approximately 40,000 square-foot facility in Ann Arbor, Michigan that includes a back-up operations control room.

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

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

- approximately 5,600 circuit miles of overhead transmission lines rated at voltages of 120 kV to 345 kV;
- approximately 37,000 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 104 stations and substations which either interconnect METC's transmission facilities or connect METC's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment); and
- warehouses and related equipment.

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

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

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

- approximately 6,600 circuit miles of transmission lines rated at voltages of 34.5 kV to 345 kV;
- transmission towers and poles;
- station assets, such as transformers and circuit breakers, at approximately 276 stations and substations which either interconnect ITC Midwest's transmission facilities or connect ITC Midwest's facilities with generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment);
- warehouses and related equipment; and
- associated land held in fee, rights-of-way and easements.

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

ITC Great Plains owns transmission and related assets including:

- approximately 470 miles of transmission lines rated at a voltage of 345 kV;
- approximately 1,910 transmission towers and poles;
- station assets, such as transformers and circuit breakers, at 9 stations and substations which either interconnect ITC Great Plains' transmission facilities or connect ITC Great Plains' facilities with transmission, generation or distribution facilities owned by others;
- other transmission equipment necessary to safely operate the system (e.g., monitoring and metering equipment); and
- associated land held in fee, rights-of-way and easements.

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ITC Great Plains' First Mortgage Bonds are issued under ITC Great Plains' first mortgage and deed of trust. As a result, the bondholders have the benefit of a first mortgage lien on substantially all of ITC Great Plains' property.
ITC Interconnection owns certain substation assets and less than a mile of a transmission line rated at a voltage of 345 kV in Michigan. As of December 31, 2016, there were no liens or encumbrances on the assets of ITC Interconnection.
The assets of our Regulated Operating Subsidiaries are suitable for electric transmission and adequate for the electricity demand in our service territory. We prioritize capital spending based in part on meeting reliability standards within the industry. This includes replacing and upgrading existing assets as needed.

ITEM 3. LEGAL PROCEEDINGS.

We are involved in certain legal proceedings before various courts, governmental agencies and mediation panels concerning matters arising in the ordinary course of business. These proceedings include certain contract disputes, regulatory matters and pending judicial matters. We cannot predict the final disposition of such proceedings. We regularly review legal matters and record provisions for claims that are considered probable of loss.
Refer to Notes 5 and 15 to the consolidated financial statements for a description of certain pending legal proceedings, which description is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

With the consummation of the Merger on October 14, 2016, ITC Holdings became a wholly-owned subsidiary of Investment Holdings and ITC Holdings' common stock was delisted from NYSE. Consequently, there is no longer any public trading market for the common stock of ITC Holdings. Prior to the closing of the Merger, the common stock of ITC Holdings was traded on the NYSE under the symbol ITC. The following tables set forth the high and low sales price per share of the common stock for each full quarterly period in 2015 and 2016 (through October 14, 2016), as reported on the NYSE, and the cash dividends per share paid during the periods indicated.

Year Ended December 31, 2016	High	Low	Dividends
October 1 through October 14, 2016	$46.48	$44.91	$ —
Quarter ended September 30, 2016	47.46	44.64	0.2155
Quarter ended June 30, 2016	46.89	42.44	0.1875
Quarter ended March 31, 2016	43.89	36.53	0.1875

Year Ended December 31, 2015	High	Low	Dividends
Quarter ended December 31, 2015	$39.60	$30.33	$ 0.1875
Quarter ended September 30, 2015	35.68	31.16	0.1875
Quarter ended June 30, 2015	37.12	30.64	0.1625
Quarter ended March 31, 2015	44.00	35.54	0.1625

Additionally, ITC Holdings paid dividends of $33 million to Investment Holdings during the fourth quarter of 2016. ITC Holdings also paid dividends of $33 million to Investment Holdings in January 2017. The debt agreements to which we are a party contain numerous financial covenants that could limit ITC Holdings' ability to pay dividends. Further, each of our subsidiaries is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to ITC Holdings.
There were no share repurchases for the period from October 1, 2016 through the closing of the Merger.

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ITEM 6. SELECTED FINANCIAL DATA.

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

	ITC Holdings and Subsidiaries Year Ended December 31,				
(In millions)	2016	2015	2014	2013	2012
OPERATING REVENUES (a) (b) (c)	$1,125	$1,045	$1,023	$941	$831
OPERATING EXPENSES					
Operation and maintenance	114	113	112	113	122
General and administrative (d) (e) (f)	239	145	115	149	112
Depreciation and amortization	158	145	128	119	107
Taxes other than income taxes	93	82	76	66	60
Other operating income and expense — net	(1)	(1)	(1)	(2)	(2)
Total operating expenses	603	484	430	445	399
OPERATING INCOME	522	561	593	496	432
OTHER EXPENSES (INCOME)					
Interest expense — net	211	204	187	168	156
Allowance for equity funds used during construction	(35)	(28)	(21)	(30)	(23)
Loss on extinguishment of debt	—	—	29	—	—
Other income	(2)	(2)	(1)	(1)	(2)
Other expense	5	3	5	7	4
Total other expenses (income)	179	177	199	144	135
INCOME BEFORE INCOME TAXES	343	384	394	352	297
INCOME TAX PROVISION	97	142	150	119	109
NET INCOME	$246	$242	$244	$233	$188

	ITC Holdings and Subsidiaries As of December 31,				
(In millions)	2016	2015	2014	2013	2012
BALANCE SHEET DATA:					
Cash and cash equivalents	$8	$14	$28	$34	$26
Working capital (deficit) (g)	(400)	(550)	(291)	(325)	(828)
Property, plant and equipment — net	6,698	6,110	5,497	4,847	4,135
Goodwill	950	950	950	950	950
Total assets (g) (h)	8,223	7,555	6,932	6,241	5,525
Debt:					
ITC Holdings (h)	2,387	2,304	2,123	1,871	1,683
Regulated Operating Subsidiaries (h)	2,203	2,125	1,954	1,717	1,448
Total debt (h)	4,590	4,429	4,077	3,588	3,131
Total stockholders' equity	$1,901	$1,709	$1,670	$1,614	$1,415

	ITC Holdings and Subsidiaries Year Ended December 31,				
(In millions)	2016	2015	2014	2013	2012
CASH FLOWS DATA:					
Expenditures for property, plant and equipment	$750	$701	$753	$824	$814

(a) During 2016, 2015 and 2014, we recognized an aggregate estimated regulatory liability for the refund and potential refund relating to the rate of return on equity complaints as described in Note 15 to the consolidated

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financial statements, which resulted in a reduction in operating revenues of $80 million, $115 million and $47 million, respectively.

(b) During 2015, we recognized a regulatory liability for the refund relating to the formula rate template modifications filing as described in Note 5 to the consolidated financial statements, which resulted in a reduction in operating revenues of $10 million.

(c) During 2012, we initially recognized the FERC audit refund liability, which resulted in a reduction in operating revenues of $11 million.

(d) During 2016, we expensed external legal, advisory and financial services fees of $55 million related to the Merger and approximately $41 million due to the accelerated vesting of the share-based awards that occurred at the completion of the Merger. See Note 2 to the consolidated financial statements for further details on the impact of the Merger. The external and internal costs related to the Merger were recorded at ITC Holdings and have not been included as components of revenue requirement at our Regulated Operating Subsidiaries.

(e) The increase in general and administrative expenses in 2015 was due primarily to higher compensation related expenses, including the development bonuses described below under "Recent Developments — Development Bonuses," and higher legal and advisory professional service fees for various development initiatives.

(f) During 2013 and 2012, we expensed external legal, advisory and financial services fees of $43 million and $19 million, respectively, recorded within general and administrative expenses related to a proposed transaction whereby the electric transmission business of Entergy Corporation was to be separated and subsequently merged with a wholly-owned subsidiary of ITC Holdings. The proposed transaction was terminated in December 2013. The external and internal costs related to the proposed transaction with Entergy Corporation were recorded at ITC Holdings and were not included as components of revenue requirement at our Regulated Operating Subsidiaries.

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

(h) All amounts presented reflect the change in authoritative guidance on the presentation of debt issuance costs on the balance sheet. This change was adopted retrospectively by us in 2016. Refer to Notes 3 and 9 of the consolidated financial statements for more information.

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

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

Our reports, filings and other public announcements contain certain statements that describe our management's beliefs concerning future business conditions, plans and prospects, growth opportunities, the outlook for our business and the electric transmission industry, expectations with respect to various legal and regulatory proceedings and the Merger 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" an phrases. These forward-looking statements are based upon assumptions our management believes are reasonable. Such forward-looking statements are based on estimates and assumptions and subject to significant risks and uncertainties which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among others, the risks and uncertainties listed in this report under "Item 1A Risk Factors" and in our other reports filed with the SEC from time to time.

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

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Overview

Through our Regulated Operating Subsidiaries, we operate high-voltage systems in Michigan 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 operate, maintain and invest in transmission infrastructure in order to enhance system integrity and reliability, reduce transmission constraints and upgrade the transmission networks to support new generating resources interconnecting to our transmission systems. We also are pursuing development projects not within our existing systems, which are likewise 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 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 "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism."

Our Regulated Operating Subsidiaries' 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 and results of operations and cash flows for the year ended December 31, 2016 or that may affect future results include:

- Our capital expenditures of $750 million at our Regulated Operating Subsidiaries during the year ended December 31, 2016, resulting primarily from our focus on improving system reliability, increasing system capacity and upgrading the transmission network to support new generating resources;
- Debt issuances as described in Note 9 to the consolidated financial statements, including commercial paper issued under ITC Holdings' commercial paper program, and borrowings under our revolving and term loan credit agreements in 2016 and 2015 to fund capital investment at our Regulated Operating Subsidiaries as well as for general corporate purposes;
- Debt maturing within one year of $235 million and the potentially higher interest rates associated with the additional financing required to repay this debt as discussed in Note 9 to the consolidated financial statements;
- Recognition of the liability for the refund and potential refund relating to the rate of return on equity ("ROE") complaints, as described in Note 15 to the consolidated financial statements, which resulted in a total estimated pre-tax reduction of revenue and additional interest of $90 million and $120 million and an estimated after-tax reduction to net income of $55 million and $73 million for the years ended December 31, 2016 and 2015, respectively. On February 14, 2017, our MISO Regulated Operating Subsidiaries provided $119 million to MISO to fund the payment of the refund, including interest, for the initial ROE complaint;
- Election of bonus depreciation for tax years 2015 and 2016. The total impact from these matters was lower revenues of approximately $20 million and lower net income of approximately $12 million for the year ended December 31, 2016. These matters also resulted in additional net deferred income tax liabilities of approximately $109 million and a corresponding income tax receivable of $12 million as of December 31, 2016, and income tax refunds of $128 million, which were received in August 2016; and
- As a result of the Merger consummated on October 14, 2016, ITC Holdings became an indirect subsidiary of Fortis as described below under "Recent Developments — The Merger." For the year ended December 31, 2016, we expensed external legal, advisory and financial services fees related to the Merger of $55 million and certain internal labor and associated costs related to the Merger of approximately $58 million, including approximately $41 million of expense recognized due to the accelerated vesting of the share-based awards described in Note 13 to the consolidated financial

statements. These merger-related costs were

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recorded within general and administrative expenses. Certain amounts of the external costs are not expected to be deductible for income tax purposes. The external and internal costs related to the Merger were recorded at ITC Holdings and have not been included as components of revenue requirement at our Regulated Operating Subsidiaries. These items are discussed in more detail throughout “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Cost-Based Formula Rates with True-Up Mechanism

Our Regulated Operating Subsidiaries calculate their revenue requirements using cost-based formula rates and 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 rates, 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, rather than lagging. The formula rate for a given year initially utilizes 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.

Illustrative Example of Formula Rate Setting

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

Line	Item	Instructions	Amount
1	Rate base (a)		$1,000,000
2	Multiply by 13-month weighted average cost of capital (b)		8.81 %
3	Allowed return on rate base	(Line 1 x Line 2)	$88,100
4	Recoverable operating expenses (including depreciation and amortization)		$150,000
5	Income taxes (c)		50,000
6	Gross revenue requirement	(Line 3 + Line 4 + Line 5)	$288,100

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

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(b) The weighted average cost of capital for purposes of this illustration is calculated below. The cost of capital for debt is included at a flat interest rate for purposes of this illustration and is not based on our actual cost of capital. The cost of capital rate for equity represents the current maximum allowed MISO ROE rate. See Note 15 to the consolidated financial statements for detail on ROE matters, including pending ROE complaints.

	Percentage of Total Capitalization	Cost of Capital	Weighted Average Cost of Capital
Debt	40.00%	5.00% =	2.00 %
Equity	60.00%	11.35% =	6.81 %
	100.00%		8.81 %

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

Revenue Accruals and Deferrals — Effects of Monthly Peak Loads

For our MISO Regulated Operating Subsidiaries, monthly peak loads are used for billing network revenues, which currently is the largest component of our operating revenues. One of the primary factors that impacts the revenue accruals and deferrals at our MISO Regulated Operating Subsidiaries is actual monthly peak loads experienced as compared to those forecasted in establishing the annual network transmission rate. Under their cost-based formula rates that contain a true-up mechanism, our 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 15 to the consolidated financial statements. 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. In addition, 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. 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

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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:

(In millions)	Actual Capital Expenditures for the year ended December 31, 2016	Forecasted Capital Expenditures 2017 — 2021
Expenditures for property, plant and equipment (a)	$ 750	$ 2,812

(a) Amounts represent the cash payments to acquire or construct property, plant and equipment, as presented in the consolidated statements of cash flows. These amounts do not include 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.

Refer to "Item 1 Business — Development of Business — Development Projects" for discussion of our development projects. We are pursuing projects that could result in a significant amount of capital investment, but are not able to estimate the amounts we ultimately expect to achieve or the timing of such investments.

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

Recent Developments

The Merger

On February 9, 2016, ITC Holdings entered into the Merger Agreement with Fortis, FortisUS and Merger Sub. On April 20, 2016, Fortis reached a definitive agreement with a subsidiary of GIC for GIC to acquire an indirect 19.9% equity interest in ITC Holdings upon completion of the Merger. On October 14, 2016, ITC Holdings and Fortis completed the Merger contemplated by the Merger Agreement. On the same date, the common shares of ITC Holdings were delisted from the NYSE and the common shares of Fortis were listed and began trading on the NYSE. Fortis continues to have its shares listed on the Toronto Stock Exchange. As a result of the Merger, Merger Sub merged with and into ITC Holdings with ITC Holdings continuing as the surviving corporation and becoming a majority owned indirect subsidiary of Fortis. In the Merger, ITC Holdings shareholders received $22.57 in cash and 0.7520 Fortis common shares for each share of common stock of ITC Holdings. Refer to Note 2 to the consolidated financial statements for further details on the Merger.

ITC Interconnection

ITC Interconnection was formed in 2014 by ITC Holdings to pursue transmission investment opportunities. On June 1, 2016, ITC Interconnection acquired certain transmission assets from a merchant generating company and placed a newly constructed 345 kV transmission line in service. As a result, ITC Interconnection became a transmission owner in the FERC-approved RTO, PJM Interconnection, and is subject to rate-regulation by the FERC. The revenues earned by ITC Interconnection are based on its facilities reimbursement agreement with the merchant generating company. The financial results of ITC Interconnection are currently not material to our consolidated financial statements.

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Development Bonuses

During 2016, 2015 and 2014, we recognized general and administrative expenses of $1 million, $11 million and $3 million, respectively, for bonuses for certain development projects, including the successful completion of certain milestones relating to projects at ITC Great Plains.

Rate of Return on Equity Complaints

On November 12, 2013, certain parties (the “complainants”) filed a joint complaint with the FERC under Section 206 of the FPA (the “Initial Complaint”), 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 Operating Subsidiaries to 9.15%, reducing the equity component of our capital structure from the FERC approved 60% to 50% and terminating the ROE adders approved for certain ITC Holdings Regulated Operating Subsidiaries, including adders currently utilized by ITCTransmission and METC.

On October 16, 2014, the FERC granted the complainants’ request in part by setting the base ROE for hearing and settlement procedures, while denying all other aspects of the Initial Complaint. The FERC also denied the request to terminate ITCTransmission’s and METC’s ROE incentives, subject to the top end of a zone of reasonableness. The FERC set the refund effective date for the Initial Complaint as November 12, 2013.

On December 22, 2015, the presiding administrative law judge issued an initial decision on the Initial Complaint. On September 28, 2016, the FERC issued an order (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, resulting in an ROE used currently by ITCTransmission, METC and ITC Midwest of 11.35%, 11.35% and 11.32%, respectively. The September 2016 Order requires all MISO TOs, including our MISO Regulated Operating Subsidiaries, to provide refunds within 30 days for the Initial Refund Period. The estimated refund for the Initial Complaint resulting from this FERC order, including interest, is $118 million for our MISO Regulated Operating Subsidiaries, recorded in current liabilities on the consolidated statements of financial position. On October 21, 2016, the MISO TOs, including our MISO Regulated Operating Subsidiaries, filed a request with the FERC for an extension of nine months, until July 28, 2017, to provide refunds, which was granted by the FERC on October 28, 2016. Additionally, 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 future exclusion of certain short-term growth projections in the two-step DCF analysis used by FERC to determine the cost of equity of public utilities. On October 28, 2016, the complainants also filed a request with the FERC 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 14, 2017, our MISO Regulated Operating Subsidiaries provided $119 million to MISO to fund the payment of the refund, including interest, pursuant to the September 2016 Order.

On February 12, 2015, an additional complaint was filed with the FERC under Section 206 of the FPA (the “Second Complaint”) by separate complainants, 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. On June 18, 2015, the FERC set the Second Complaint for hearing and settlement procedures. The FERC also 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, including the MISO TOs and the complainants, have filed briefs contesting various parts of the proposed findings and recommendations. In resolving the Second Complaint, we expect the FERC to establish a new base ROE and zone of reasonable returns that will be used, along with any ROE adders, to calculate the refund liability for the Second Refund Period. We anticipate a FERC order on the Second Complaint in 2017. The timing of providing refunds for the Second Complaint is uncertain; however, we do not expect to provide refunds during 2017 for the Second Complaint and therefore, the associated refund liability is recorded in non-current liabilities on the consolidated statements of financial position.

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In addition to the estimated refund for the Initial Complaint noted above, we believe it is probable that a refund will be required in connection with the Second Complaint. As of December 31, 2016, the estimated range of aggregate refunds for the Initial Refund Period and Second Refund Period is expected to be from $221 million to $258 million on a pre-tax basis. As of December 31, 2016, our MISO Regulated Operating Subsidiaries had recorded aggregate estimated regulatory liabilities totaling $258 million for the Initial Complaint and Second Complaint, representing the best estimate of the probable aggregate refunds based on the resolution of the Initial Complaint in the September 2016 Order. As of December 31, 2015, our MISO Regulated Operating Subsidiaries had recorded an aggregate estimated regulatory liability of $168 million, which represented the low end of the range of potential refunds as of that date, as there was no best estimate within the range of refunds at that time. The recognition of these estimated liabilities resulted in the following impacts to our consolidated results of operations:

	Year Ended December 31,		
(In millions)	2016	2015	2014
Increase (decrease) in:			
Operating revenues	$(80)	$(115)	$(47)
Interest expense	10	5	1
Estimated net income	(55)	(73)	(29)

It is possible 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 under the newly adopted two-step DCF methodology, which is subject to significant discretion by the FERC. As of December 31, 2016, 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 filed a request with the FERC for rehearing on the approved incentive adder for independence and this request was subsequently denied by the FERC on January 6, 2016. An appeal of the FERC's decision has been filed. 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%.

MISO Formula Rate Template Modifications Filing

On October 30, 2015, our MISO Regulated Operating Subsidiaries requested modifications, pursuant to Section 205 of the FPA, to certain aspects of their respective formula rate templates which included, among other things, changes to ensure that various income tax items are computed correctly for purposes of determining their revenue requirements. Our MISO Regulated Operating Subsidiaries requested an effective date of January 1, 2016 for the proposed template changes. On December 30, 2015, the FERC conditionally accepted the formula rate template modifications and required a further compliance filing, which was made on February 8, 2016. On April 14, 2016, the FERC issued an order accepting the February 8, 2016 compliance filing, effective January 1, 2016. The formula rate templates, prior to any proposed modifications, include certain deferred income taxes on contributions in aid of construction in rate base that resulted in the recovery of excess amounts from customers. As of December 31, 2016 and 2015, our MISO Regulated Operating Subsidiaries had recorded an aggregate refund liability of $2 million and $10 million, respectively. The initial recognition of this refund liability in 2015 resulted in a reduction to operating revenues and an increase to interest expense during the year ended December 31, 2015.

Challenges Regarding Bonus Depreciation

On December 18, 2015, IP&L filed a formal challenge (“IP&L challenge”) with the FERC against ITC Midwest on certain inputs to ITC Midwest’s formula rates. The IP&L challenge alleged that ITC Midwest has unreasonably and imprudently opted out of using bonus depreciation in the calculation of its federal income tax expense and thereby unduly increased the transmission charges for transmission service to customers. On March 11, 2016,

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the FERC granted the IP&L challenge in part by requiring ITC Midwest to recalculate its revenue requirements, effective January 1, 2015, to simulate the election of bonus depreciation for 2015. The FERC denied IP&L's request that ITC Midwest be required to elect bonus depreciation in any past or future years; however, stakeholders will be able to challenge any decision by ITC Midwest not to take bonus depreciation in future years. On June 8, 2016, the FERC denied ITC Midwest's request for rehearing of the March 11, 2016 order. On August 3, 2016, ITC Midwest filed a petition for review of the FERC's March 11, 2016 and June 8, 2016 orders in the United States Court of Appeals, District of Columbia Circuit. On September 8, 2016, ITC Midwest filed a motion to defer the petition pending the resolution of a private letter ruling matter from the IRS. In a separate but related matter, on April 15, 2016, Consumers Energy filed a formal challenge, or in the alternative, a complaint under Section 206 of the FPA, with the FERC against METC relating to METC's historical practice of opting out of using bonus depreciation. On July 8, 2016, the FERC denied Consumers Energy's formal challenge and dismissed the complaint without prejudice. The consolidated financial statements reflect the election of bonus depreciation for tax years 2015 and 2016 and the corresponding effects on 2016 revenue requirements for our Regulated Operating Subsidiaries. Additionally, as required by the March 11, 2016 FERC order, we have simulated the election of bonus depreciation for ITC Midwest's 2015 revenue requirement and included the impact of the corresponding refund obligation in these consolidated financial statements. The total impact from reflecting the election of bonus depreciation as described above was lower revenues of $20 million and lower net income of approximately $12 million for the year ended December 31, 2016 as compared to the same period if bonus depreciation was not reflected. These matters also resulted in additional net deferred income tax liabilities of approximately $109 million and a corresponding income tax receivable of $12 million as of December 31, 2016, and income tax refunds of $128 million, which were received from the Internal Revenue Service ("IRS") in August 2016. We are unable to predict the final outcome of this matter; however, the election of bonus depreciation will result in higher cash flows in the year of the election and/or subsequent periods, and reduce our rate base and therefore decrease our revenues and net income over the tax lives of the eligible assets. Bonus depreciation is currently available for property acquired and placed in service through 2019, with certain provisions that allow for an additional year of eligibility for certain property with long construction periods. If bonus depreciation is elected for a given year, we estimate that, based on an amount of tax additions that may be eligible for bonus depreciation representative of our investment plans in the near term, the higher deferred tax liabilities and the corresponding reduced rate base could reduce revenues recognized by us initially for that year by $15 million to $20 million, with a corresponding reduction to annual net income of $9 million to $12 million (disregarding any favorable effects from the use of the potential cash tax savings), with the negative effect on annual revenues and net income relating to each year's election decreasing each year over the tax lives of the assets.

Significant Components of Results of Operations

Revenues

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

Network Revenues are generated from network customers for their use of our electric transmission systems and are based on the actual revenue requirements as a result of our accounting under our cost-based formula rates that contain a true-up mechanism. Refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Revenue Recognition under Cost-Based Formula Rates with True-Up Mechanism" for a discussion of revenue recognition relating to network revenues.

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

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

Regional Cost Sharing Revenues are generated from transmission customers throughout RTO regions for their use of our MISO Regulated Operating Subsidiaries' network upgrade projects that are eligible for regional cost sharing under provisions of the MISO tariff, including MVP projects such as the four North Central MVPs and the Thumb Loop Project in Michigan. Regional cost sharing revenue also includes revenues collected by transmission customers from other RTOs outside of MISO to allocate costs of certain transmission plant investments. Additionally, certain projects at ITC Great Plains are eligible for recovery through a region-wide charge under provisions of the SPP tariff. A portion of regional cost sharing revenues is treated as a revenue credit to regional or network customers and is a reduction to gross revenue requirement when calculating net revenue requirement under our cost-based formula rates.

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

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

Operating Expenses

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

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

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

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

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

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

Other Items of Income or Expense

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

Allowance for Equity Funds Used During Construction ("AFUDC equity") is recorded as an item of other income and is included in property, plant and equipment accounts. The allowance represents a return on equity at our Regulated Operating Subsidiaries used for construction purposes in accordance with the FERC regulations.

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The capitalization rate applied to the construction work in progress balance is based on the proportion of equity to total capital (which currently includes equity and long-term debt) and the allowed return on equity for our Regulated Operating Subsidiaries.

Income Tax Provision

Income tax provision consists of current and deferred federal and state income taxes.

Results of Operations

The following table summarizes historical operating results for the periods indicated:

	Year Ended			Percentage	Year Ended		Percentage
	December 31,		Increase	Increase	December 31,	Increase	Increase
(In millions)	2016	2015	(Decrease)	(Decrease)	2014	(Decrease)	(Decrease)
OPERATING REVENUES	$1,125	$1,045	$ 80	8%	$ 1,023	$ 22	2%
OPERATING EXPENSES							
Operation and maintenance	114	113	1	1%	112	1	1%
General and administrative	239	145	94	65%	115	30	26%
Depreciation and amortization	158	145	13	9%	128	17	13%
Taxes other than income taxes	93	82	11	13%	76	6	8%
Other operating income and expenses — net	(1)	(1)	—	—%	(1)	—	—%
Total operating expenses	603	484	119	25%	430	54	13%
OPERATING INCOME	522	561	(39)	(7)%	593	(32)	(5)%
OTHER EXPENSES (INCOME)							
Interest expense — net	211	204	7	3%	187	17	9%
Allowance for equity funds used during construction	(35)	(28)	(7)	25%	(21)	(7)	33%
Loss on extinguishment of debt	—	—	—	n/a	29	(29)	(100)%
Other income	(2)	(2)	—	—%	(1)	(1)	100%
Other expense	5	3	2	67%	5	(2)	(40)%
Total other expenses (income)	179	177	2	1%	199	(22)	(11)%
INCOME BEFORE INCOME TAXES	343	384	(41)	(11)%	394	(10)	(3)%
INCOME TAX PROVISION	97	142	(45)	(32)%	150	(8)	(5)%
NET INCOME	$246	$242	$ 4	2%	$ 244	$ (2)	(1)%

Operating Revenues

Year ended December 31, 2016 compared to year ended December 31, 2015

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

	2016		2015		Increase	Percentage Increase
(In millions)	Amount	Percentage	Amount	Percentage	(Decrease)	(Decrease)
Network revenues	$814	72 %	$802	77 %	$ 12	1 %
Regional cost sharing revenues	337	30 %	328	31 %	9	3 %
Point-to-point	20	2 %	15	2 %	5	33 %
Scheduling, control and dispatch	14	1 %	13	1 %	1	8 %
Other	20	2 %	12	1 %	8	67 %
Recognition of refund liabilities	(80)	(7)%	(125)	(12)%	45	(36)%
Total	$1,125	100 %	$1,045	100 %	$ 80	8 %

Network revenues increased due primarily to higher net revenue requirements at our Regulated Operating Subsidiaries, partially offset by higher regional revenue requirements, during the year ended December 31, 2016 as compared to 2015. Higher net revenue requirements were due primarily to higher rate bases associated with higher balances of property, plant and equipment in-service in 2016.

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Regional cost sharing revenues increased primarily due to additional capital projects identified by MISO and SPP as eligible for regional cost sharing and these projects being placed in-service, in addition to higher accumulated investment for regional cost sharing projects in northern Michigan and Kansas during the year ended December 31, 2016 as compared to the same period in 2015.
The recognition of the liabilities for the refund relating to the formula rate template modifications and the refund and potential refund relating to the ROE complaints, described in Notes 5 and 15 to the consolidated financial statements, respectively, resulted in a reduction to operating revenues of $80 million and $125 million during the years ended December 31, 2016 and 2015, respectively. We are not able to estimate whether any required refunds would be applied to all components of revenue listed in the table above or only certain components.
Operating revenues for the years ended December 31, 2016 and 2015 include revenue accruals and deferrals as described in Note 5 to the consolidated financial statements.
Year ended December 31, 2015 compared to year ended December 31, 2014
The following table sets forth the components of and changes in operating revenues:

(In millions)	2015 Amount	Percentage		2014 Amount	Percentage		Increase (Decrease)	Percentage Increase (Decrease)	
Network revenues	$802	77	%	$764	75	%	$ 38	5	%
Regional cost sharing revenues	328	31	%	265	26	%	63	24	%
Point-to-point	15	2	%	18	2	%	(3)	(17	)%
Scheduling, control and dispatch	13	1	%	12	1	%	1	8	%
Other	12	1	%	11	1	%	1	9	%
Recognition of refund liabilities	(125)	(12	)%	(47)	(5	)%	(78)	166	%
Total	$1,045	100	%	$1,023	100	%	$ 22	2	%

Network revenues increased due primarily to higher net revenue requirements at our Regulated Operating Subsidiaries, partially offset by higher regional revenue requirements, during the year ended December 31, 2015 as compared to 2014. Higher net revenue requirements were due primarily to higher rate bases associated with higher balances of property, plant and equipment in-service in 2015.
Regional cost sharing revenues increased primarily due to additional capital projects identified by MISO and SPP as eligible for regional cost sharing and these projects being placed in-service, in addition to higher accumulated investment for regional cost sharing projects in northern Michigan and Kansas during the year ended December 31, 2015 as compared to the same period in 2014. We expect to continue to receive regional cost sharing revenues and the amounts could increase in the near future, including revenues associated with projects that have been or are expected to be approved for regional cost sharing.
The recognition of the liabilities for the refund relating to the formula rate template modifications and the refund and potential refund relating to the ROE complaints described in Notes 5 and 15 to the consolidated financial statements, respectively, resulted in a reduction to operating revenues totaling $125 million and $47 million during the years ended December 31, 2015 and 2014, respectively. We are not able to estimate whether any required refunds would be applied to all components of revenue listed in the table above or only certain components.
Operating revenues for the years ended December 31, 2015 and 2014 include revenue accruals and deferrals as described in Note 5 to the consolidated financial statements.
Operating Expenses
Operation and maintenance expenses
Year ended December 31, 2016 and 2015 compared to year ended December 31, 2015 and 2014, respectively
Operation and maintenance expenses were consistent with the respective prior period.

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General and administrative expenses

Year ended December 31, 2016 compared to year ended December 31, 2015

General and administrative expenses increased $59 million related to higher compensation-related expenses due to retention bonuses relating to the Merger, personnel additions and additional stock compensation expense, including approximately $41 million due to the accelerated vesting of the share-based awards that occurred at the completion of the Merger as described in Note 13 to the consolidated financial statements, and increased $55 million due primarily to the external legal, advisory and financial services fees incurred in 2016 related to the Merger. These increases were partially offset by a decrease of $10 million in development bonus expenses as described above under "Recent Developments — Development Bonuses."

Year ended December 31, 2015 compared to year ended December 31, 2014

General and administrative expenses increased due primarily to higher compensation-related expenses of $17 million, mainly due to $8 million additional development bonuses described above under "Recent Developments — Development Bonuses" and $10 million higher professional services such as legal and advisory services fees primarily for various development initiatives.

Depreciation and amortization expenses

Year ended December 31, 2016 and 2015 compared to year ended December 31, 2015 and 2014, respectively

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

Taxes other than income taxes

Year ended December 31, 2016 compared to year ended December 31, 2015

Taxes other than income taxes increased due to higher property tax expenses primarily due to our Regulated Operating Subsidiaries' 2015 capital additions, which are included in the assessments for 2016 property taxes.

Year ended December 31, 2015 compared to year ended December 31, 2014

Taxes other than income taxes increased due to higher property tax expenses primarily due to our Regulated Operating Subsidiaries' 2014 capital additions, which are included in the assessments for 2015 property taxes.

Other expenses (income)

Year ended December 31, 2016 compared to year ended December 31, 2015

Interest expense increased due primarily to the additional interest expense associated with the refund liability relating to the ROE complaints described in Note 15 to the consolidated financial statements and long-term debt issuances subsequent to December 31, 2015, which were used for refinancing of current debt maturities and general corporate purposes.

AFUDC equity increased due primarily to higher balances of construction work in progress eligible for AFUDC equity during the period.

Year ended December 31, 2015 compared to year ended December 31, 2014

Interest expense increased due primarily to additional interest expense associated with the net issuance of $300 million in long-term debt securities subsequent to September 30, 2014 and the refund liabilities described in Notes 5 and 15 to the consolidated financial statements. These increases were partially offset by an increase in the allowance for borrowed funds used during construction ("AFUDC debt"), which is a reduction to interest expense, due primarily to higher balances of construction work in progress eligible for AFUDC debt during the period.

AFUDC equity increased due primarily to higher balances of construction work in progress eligible for AFUDC equity during the period.

The loss on extinguishment of debt represents the tender premium, the write-off of deferred debt issuance costs and other related expenses associated with the partial tender and retirement in 2014 of $116 million of the 5.875% ITC Holdings Senior Notes and $55 million of the 6.375% ITC Holdings Senior Notes.

Income Tax Provision

Year ended December 31, 2016 compared to year ended December 31, 2015

Our effective tax rates for the years ended December 31, 2016 and 2015 are 28.3% and 36.9%, respectively. Our effective tax rate as of December 31, 2016 was less than our 35% statutory federal income tax rate due primarily to us recognizing an income tax benefit of $27 million for excess tax deductions for the year ended December 31, 2016 as a result of adopting the new accounting guidance associated with share-based payments as described in Notes 3 and 10. Our effective tax rate as of December 31, 2015 exceeded our 35% statutory federal income tax rate due primarily to state income taxes, partially offset by the tax effects of AFUDC equity. The amount of income tax expense relating to AFUDC equity was recognized as a regulatory asset and not included in the income tax provision.

Year ended December 31, 2015 compared to year ended December 31, 2014

Our effective tax rates for the years ended December 31, 2015 and 2014 are 36.9% and 38.1%, respectively. Our effective tax rate in both periods exceeded our 35% statutory federal income tax rate due primarily to state income taxes, partially offset by the tax effects of AFUDC equity. The amount of income tax expense relating to AFUDC equity was recognized as a regulatory asset and not included in the income tax provision.

Liquidity and Capital Resources

We expect to maintain our approach to fund our future capital requirements with cash from operations at our Regulated Operating Subsidiaries, our existing cash and cash equivalents, issuances under our commercial paper program and amounts available under our revolving credit agreements (the terms of which are described in Note 9 to the consolidated financial statements). In addition, we may from time to time secure debt funding in the capital markets, although we can provide no assurance that we will be able to obtain financing on favorable terms or at all. As market conditions warrant, we may also from time to time repurchase debt securities issued by us, in the open market, in privately negotiated transactions, by tender offer or otherwise. We expect that our capital requirements will arise principally from our need to:

- Fund capital expenditures at our Regulated Operating Subsidiaries. Our plans with regard to property, plant and equipment investments are described in detail above under “Item 7 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 transmission projects that will continue to result in the incurrence of development expenses and could result in significant capital expenditures.
- Fund working capital requirements.
- Fund our debt service requirements, including principal repayments and periodic interest payments, which are further described in detail below under “Item 7 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 return on equity complaints.
- Fund contributions to our retirement benefit plans, as described in Note 11 to the consolidated financial statements. We expect to contribute up to $12 million to these plans in 2017.

In addition to the expected capital requirements above, any adverse determinations relating to the regulatory matters or contingencies described in Notes 5 and 15 to the consolidated financial statements would result in additional capital requirements.

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

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We expect to continue to utilize our commercial paper program and revolving credit agreements as well as our cash and cash equivalents as needed to meet our short-term cash requirements. As of December 31, 2016, we had consolidated indebtedness under our revolving credit agreements of $334 million, with unused capacity under the revolving credit agreements of $666 million. Additionally, ITC Holdings had $145 million of commercial paper issued and outstanding as of December 31, 2016, with the ability to issue an additional $255 million under the commercial paper program. See Note 9 to the consolidated financial statements for a detailed discussion of the commercial paper program and our revolving credit agreements as well as the debt activity during the years ended December 31, 2016 and 2015.

As of December 31, 2016, we had approximately $90 million of fixed rate debt maturing within one year and a refund obligation of $118 million in connection with the September 2016 Order, which we expect to (1) repay with either borrowings under our revolving credit agreements or commercial paper issued under ITC Holdings' commercial paper program, or (2) refinance with long-term debt. To address our long-term capital requirements, we expect that we will need to obtain additional debt financing. Certain of our capital projects could be delayed if we experience difficulties in accessing capital. We expect to be able to obtain such additional financing as needed, in amounts and upon terms that will be reasonably satisfactory to us due to our strong credit ratings and our historical ability to obtain financing.

Credit Ratings

Credit ratings by nationally recognized statistical rating agencies are an important component of our liquidity profile. Credit ratings relate to our ability to issue debt securities and the cost to borrow money, and should not be viewed as 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	BBB+	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 June 8, 2015, Standard and Poor's Ratings Services ("Standard and Poor's") assigned a short-term issuer credit rating to ITC Holdings, which applies to the commercial paper program discussed in Note 9 to the consolidated financial statements. Additionally, on October 18, 2016, Standard and Poor's reaffirmed the senior unsecured credit rating of ITC Holdings and the secured credit ratings of our MISO Regulated Operating Subsidiaries and ITC Great Plains as well as revised the outlook of the issuer credit ratings of these particular entities to stable from negative, subsequent to the completion of the Merger. Refer to Note 2 to the consolidated financial statements for details on the Merger.

(b) On June 9, 2015, Moody's Investor Service, Inc. ("Moody's") assigned a short-term commercial paper rating to ITC Holdings, which applies to the commercial paper program discussed in Note 9 to the consolidated financial statements. Additionally, on April 15, 2016, Moody's reaffirmed the credit ratings for the associated debt for ITC Holdings, ITCTransmission, ITC Midwest and ITC Great Plains. On April 26, 2016, Moody's assigned a senior secured rating to METC's 3.90% Senior Secured Note issuance described in Note 9 to the consolidated financial statements. All of the credit ratings have a stable outlook.

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 9 to the consolidated financial statements. As of December 31, 2016, 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 would increase.

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Cash Flows

The following table summarizes cash flows for the periods indicated:

(In millions)	Year Ended December 31, 2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$246	$242	$244
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	158	145	128
Recognition, refund and collection of revenue accruals and deferrals — including accrued interest	(2)	(54)	(4)
Deferred income tax expense	219	77	90
Other	66	146	44
Net cash provided by operating activities	687	556	502
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(750)	(701)	(753)
Other	15	1	18
Net cash used in investing activities	(735)	(700)	(735)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net issuance/repayment of debt (including commercial paper and revolving and term loan credit agreements)	161	352	463
Issuance of common stock	13	14	21
Dividends on common and restricted stock	(90)	(108)	(96)
Dividends to Investment Holdings	(33)	—	—
Refundable deposits from and repayments to generators for transmission network upgrades — net	23	1	(23)
Repurchase and retirement of common stock	(9)	(137)	(134)
Settlement of share-based awards associated with the Merger	(137)	—	—
Contribution from Investment Holdings associated with the settlement of share-based awards	137	—	—
Other	(23)	8	(4)
Net cash provided by financing activities	42	130	227
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6)	(14)	(6)
CASH AND CASH EQUIVALENTS — Beginning of period	14	28	34
CASH AND CASH EQUIVALENTS — End of period	$8	$14	$28

Cash Flows From Operating Activities

Year ended December 31, 2016 compared to year ended December 31, 2015

Net cash provided by operating activities increased $131 million in 2016 compared to 2015. The increase in cash provided by operating activities was due primarily to receipt of the federal income tax refund of $128 million in August 2016 and lower income taxes paid of $33 million during 2016 compared to 2015, which both resulted from the election of bonus depreciation as described in Note 5 to the consolidated financial statements. Additionally, the cash received from operating revenues increased by $67 million during 2016 compared to 2015. These increases were partially offset by an increase in payments of operating expenses of $54 million and the regional cost allocation refund of $29 million provided by ITCTransmission to the relevant RTOs in October 2016 as described in Note 5 to the consolidated financial statements.

Year ended December 31, 2015 compared to year ended December 31, 2014

Net cash provided by operating activities increased $54 million in 2015 compared to 2014. The increase in cash provided by operating activities was due primarily to an increase in cash received from operating revenues of $70 million during 2015 compared to 2014. This increase was partially offset by an increase in payments of operating expenses of $25 million.

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Cash Flows From Investing Activities

Year ended December 31, 2016 compared to year ended December 31, 2015

Net cash used in investing activities increased $35 million in 2016 compared to 2015. The increase in cash used in investing activities was due primarily to the timing of payments for investments in property, plant and equipment during the year ended December 31, 2016 compared to the same period in 2015.

Year ended December 31, 2015 compared to year ended December 31, 2014

Net cash used in investing activities decreased $35 million in 2015 compared to 2014. The decrease in cash used in investing activities was due primarily to the timing of payments for investments in property, plant and equipment during the year ended December 31, 2015 compared to the same period in 2014.

Cash Flows From Financing Activities

Year ended December 31, 2016 compared to year ended December 31, 2015

Net cash provided by financing activities decreased $88 million in 2016 compared to 2015. The decrease in cash provided by financing activities was due primarily to a net decrease of $554 million in amounts outstanding under our revolving and term loan credit agreements, the settlement of share-based awards associated with the Merger of $137 million, a decrease of $47 million in net issuances of commercial paper under our commercial paper program and an increase in dividend payments of $15 million during 2016 compared to 2015. These decreases were partially offset by an increase in long-term debt issuances of $374 million, a capital contribution from Investments Holdings of $137 million, a decrease in the repurchase and retirement of common stock of $128 million, a decrease in payments of $36 million to retire long-term debt and higher net proceeds of $22 million associated with refundable deposits for transmission network upgrades. Additionally, during the year ended December 31, 2015, we paid $115 million in connection with an accelerated share repurchase program. See Note 9 to the consolidated financial statements on the issuances and retirement of long-term debt.

Year ended December 31, 2015 compared to year ended December 31, 2014

Net cash provided by financing activities decreased $97 million in 2015 compared to 2014. The decrease in cash provided by financing activities was due primarily to a decrease in long-term debt issuances of $574 million during 2015 compared to 2014. This decrease was partially offset by a net increase of $245 million in amounts outstanding under our revolving and term loan credit agreements, a decrease in payments of $124 million to retire long-term debt, the $95 million in net proceeds from the issuance of commercial paper under our commercial paper program during the year ended December 31, 2015 and lower net payments of $24 million associated with refundable deposits for transmission network upgrades. See Note 9 to the consolidated financial statements for detail on the issuances and retirements of debt.

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Contractual Obligations

The following table details our contractual obligations as of December 31, 2016:

(In millions)	Total	Due within 1 Year	Due in Years 2-3	Due in Years 4-5	Due after 5 years
Debt:					
ITC Holdings Senior Notes	$2,185	$ 50	$385	$200	$1,550
ITC Holdings revolving credit agreement	73	—	73	—	—
ITC Holdings commercial paper program	145	145	—	—	—
ITCTransmission First Mortgage Bonds	585	—	100	—	485
ITCTransmission revolving credit agreement	44	—	44	—	—
METC Senior Secured Notes	475	—	—	—	475
METC revolving credit agreement	31	—	31	—	—
ITC Midwest First Mortgage Bonds	750	40	—	35	675
ITC Midwest revolving credit agreement	127	—	127	—	—
ITC Great Plains First Mortgage Bonds	150	—	—	—	150
ITC Great Plains revolving credit agreement	59	—	59	—	—
Interest payments:					
ITC Holdings Senior Notes	1,033	103	157	133	640
ITCTransmission First Mortgage Bonds	593	29	49	47	468
METC Senior Secured Notes	547	20	40	40	447
ITC Midwest First Mortgage Bonds	736	32	66	63	575
ITC Great Plains First Mortgage Bonds	174	6	12	13	143
Operating leases	5	1	2	2	—
Purchase obligations	44	43	1	—	—
Regulatory liabilities — revenue deferrals, including accrued interest	41	9	32	—	—
Regulatory liabilities — refund related to the formula rate template modifications, including accrued interest	2	2	—	—	—
Regulatory liabilities — refund related to the Initial Complaint, including accrued interest	118	118	—	—	—
METC Easement Agreement	339	10	20	20	289
Other	1	1	—	—	—
Total obligations	$8,257	$ 609	$1,198	$553	$5,897

Interest payments included above relate only to our fixed-rate long-term debt outstanding at December 31, 2016. We also expect to pay interest and commitment fees under our variable-rate revolving credit agreements that have not been included above due to varying amounts of borrowings and interest rates under the facilities. In 2016, we paid $5 million of interest and commitment fees under our revolving credit agreements.

Operating leases include leases for office space, equipment and storage facilities. Purchase obligations represent commitments primarily for materials, services and equipment that had not been received as of December 31, 2016, primarily for construction and maintenance projects for which we have an executed contract. The majority of the items relate to materials and equipment that have long production lead times. See Note 15 to the consolidated financial statement for more information on our operating leases and purchases obligations.

The revenue deferrals, including accrued interest, in the table above represent the over-recovery of revenues resulting from differences between the amounts billed to customers and actual revenue requirement at each of our Regulated Operating Subsidiaries, as described in Note 5 to the consolidated financial statements. These amounts will offset future revenue requirement for purposes of calculating our formula rates as part of the true-up mechanism in our rate construct.

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See Notes 5 and 15 to the consolidated financial statements for information on the refund related to the formula rate template modifications, including accrued interest, and the refund related to the Initial Complaint, including accrued interest, respectively. On February 14, 2017, our MISO Regulated Operating Subsidiaries provided $119 million to MISO to fund the payment of the refund, including interest, pursuant to the September 2016 Order.

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

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

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these consolidated financial statements requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies requires judgments regarding future events.

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

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

Regulation

Our Regulated Operating Subsidiaries are subject to regulation by the FERC. As a result, we apply accounting principles in accordance with the standards set forth by the Financial Accounting Standards Board (“FASB”) for accounting for the effects of certain types of regulation. Use of this accounting guidance results in differences in the application of GAAP between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expense or revenue in non-regulated businesses. As described in Note 6 to the consolidated financial statements, we had regulatory assets and liabilities of $300 million and $378 million, respectively, as of December 31, 2016. Future changes in the regulatory and competitive environments could result in discontinuing the application of the accounting standards for the effects of certain types of regulations. If we were to discontinue the application of this guidance on the operations of our Regulated Operating Subsidiaries, we may be required to record losses relating to certain regulatory assets or gains relating to certain regulatory liabilities. We also may be required to record losses of $43 million relating to intangible assets at December 31, 2016 that are described in Note 7 to the consolidated financial statements.

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

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

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

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

The true-up mechanism under our formula rates meet the GAAP requirements for accounting for rate-regulated utilities and the effects of certain alternative revenue programs. Accordingly, revenue is recognized during each reporting period based on actual revenue requirements calculated using the cost-based formula rates. Our Regulated Operating Subsidiaries accrue or defer revenues to the extent that their actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. The true-up amount is automatically reflected in customer bills within two years under the provisions of the formula rates. See Note 5 to the consolidated financial statements for the regulatory assets and liabilities recorded at our Regulated Operating Subsidiaries' as a result of the formula rate revenue accruals and deferrals.

Valuation of Goodwill

We have goodwill resulting from our acquisitions of ITCTransmission and METC and ITC Midwest's acquisition of the IP&L transmission assets. We perform an impairment test annually at the reporting unit level or whenever events or circumstances indicate that the value of goodwill may be impaired. In order to perform these impairment tests, we compare the fair value of each reporting unit with their respective carrying value. Our reporting units are ITCTransmission, METC and ITC Midwest as each entity represents an individual operating segment to which goodwill has been assigned. We determine fair value using valuation techniques based on discounted future cash flows under various scenarios. We also consider estimates of market-based valuation multiples for companies within the peer group of our reporting units. The market-based multiples involve judgment regarding the appropriate peer group and the appropriate multiple to apply in the valuation and the cash flow estimates involve judgments based on a broad range of assumptions, information and historical results. To the extent estimated market-based valuation multiples and/or discounted cash flows are revised downward, we may be required to write down all or a portion of goodwill, which would adversely impact earnings.

As of December 31, 2016 and 2015, consolidated goodwill totaled $950 million. We completed our annual goodwill impairment test for our reporting units as of October 1, 2016 using a qualitative assessment and determined that no impairment exists. There were no events subsequent to October 1, 2016, including the Merger consummated on October 14, 2016, that indicated impairment of our goodwill. We do not believe there is a material risk of our goodwill being impaired in the near term for any of our reporting units.

Contingent Obligations

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

- Changes in existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances, hazardous and solid wastes and other environmental matters.
- Changes in existing federal income tax laws or Internal Revenue Service ("IRS") regulations.
- Identification and evaluation of lawsuits or complaints in which we may be or have been named as a defendant.
- Resolution or progression of existing matters through the legislative process, the courts, the FERC, the NERC, the IRS or the Environmental Protection Agency.

• Completion of certain milestones relating to development initiatives.

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Refer to Note 15 to the consolidated financial statements for discussion on contingencies, including the ROE complaints.

Pension and Postretirement Costs

We sponsor certain retirement benefits for our employees, which include retirement pension plans and certain postretirement health care, dental and life insurance benefits. Our periodic costs and obligations associated with these plans are developed from actuarial valuations derived from a number of assumptions, including rates of return on plan assets, the discount rates, the rate of increase in health care costs, the amount and timing of plan sponsor contributions and demographic factors such as retirements, mortality and turnover, among others. We evaluate these assumptions annually and update them periodically to reflect our actual experience. Three critical assumptions in determining our periodic costs and obligations are discount rate, expected long-term return on plan assets and the rate of increases in health care costs. The discount rate represents the market rate for synthesized AA-rated zero-coupon bonds with durations corresponding to the expected durations of the benefit obligations and is used to calculate the present value of the expected future cash flows for benefit obligations under our plans. In determining our long-term rate of return on plan assets, we consider the current and expected asset allocations, as well as historical and expected long-term rates of return on those types of asset classes. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans as described in Note 11 to the consolidated financial statements.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

See Note 3 to the consolidated financial statements.

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

Commodity Price Risk

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

Interest Rate Risk

Fixed Rate Debt

Based on the borrowing rates currently available for bank loans with similar terms and average maturities, the fair value of our consolidated long-term debt and debt maturing within one year, excluding revolving credit agreements and commercial paper, was $4,306 million at December 31, 2016. 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 credit agreements and commercial paper, was $4,112 million at December 31, 2016. 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 and commercial paper, at December 31, 2016. An increase in interest rates of 10% (from 5.0% to 5.5%, for example) at December 31, 2016 would decrease the fair value of debt by $177 million, and a decrease in interest rates of 10% at December 31, 2016 would increase the fair value of debt by $192 million at that date.

Revolving Credit Agreements

At December 31, 2016, we had a consolidated total of $334 million outstanding under our revolving 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 December 31, 2016 would increase or decrease interest expense by $1 million, respectively, for an annual period with a constant borrowing level of $334 million.

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Commercial Paper

At December 31, 2016, ITC Holdings had $145 million of commercial paper issued and outstanding, net of discount, under the commercial paper program. Due to the short-term nature of these financial instruments, the carrying value approximates fair value. A 10% increase or decrease in interest rates for commercial paper would increase or decrease interest expense by less than $1 million for an annual period with a continuous level of commercial paper outstanding of $145 million.

Derivative Instruments and Hedging Activities

We use derivative financial instruments, including interest rate swap contracts, to manage our exposure to fluctuations in interest rates. The use of these financial instruments mitigates exposure to these risks and the variability of our operating results. We are not a party to leveraged derivatives and do not enter into derivative financial instruments for trading or speculative purposes. In June 2016, we terminated $300 million of 10-year interest rate swap contracts that managed the interest rate risk associated with the unsecured Notes issued by ITC Holdings described in Note 9 to the consolidated financial statements.

As of December 31, 2016, we held 10-year interest rate swap contracts with a notional amount of $100 million, which manage interest rate risk associated with the forecasted future issuance of fixed-rate debt related to the expected refinancing of the maturing ITC Holdings 6.05% Senior Notes, due January 31, 2018. As of December 31, 2016, ITC Holdings had $385 million outstanding under the 6.05% Senior Notes. See Note 9 to the consolidated financial statements for further discussion on these interest rate swaps.

Credit Risk

Our credit risk is primarily with DTE Electric, Consumers Energy and IP&L, which were responsible for 20.7%, 21.7% and 25.5%, respectively, or $254 million, $267 million and $314 million, respectively, of our consolidated billed revenues for 2016. These percentages of total billed revenues of DTE Electric, Consumers Energy and IP&L include the collection of 2014 revenue accruals and deferrals and exclude any amounts for the 2016 revenue accruals and deferrals that were included in our 2016 operating revenues, but will not be billed to our customers until 2018. Refer to “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cost-Based Formula Rates with True-Up Mechanism” for a discussion on the difference between billed revenues and operating revenues. Under DTE Electric’s and Consumers Energy’s current rate structure, DTE Electric and Consumers Energy include in their retail rates the actual cost of transmission services provided by ITCTransmission and METC, respectively, in their billings to their customers, effectively passing through to end-use consumers the total cost of transmission service. IP&L currently includes in their retail rates an allowance for transmission services provided by ITC Midwest in their billings to their customers. However, any financial difficulties experienced by DTE Electric, Consumers Energy or IP&L may affect their ability to make payments for transmission service to ITCTransmission, METC and ITC Midwest, which could negatively impact our business. MISO, as our MISO Regulated Operating Subsidiaries’ billing agent, bills DTE Electric, Consumers Energy, IP&L and other customers on a monthly basis and collects fees for the use of the MISO Regulated Operating Subsidiaries’ transmission systems. SPP is the billing agent for ITC Great Plains and bills transmission customers for the use of ITC Great Plains transmission systems. MISO and SPP have implemented strict credit policies for its members’ customers, which include customers using our transmission systems. Specifically, MISO and SPP require a letter of credit or cash deposit equal to the credit exposure, which is determined by a credit scoring model and other factors, from any customer using a member’s transmission system.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The following financial statements and schedules are included herein:

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Under management's supervision, an evaluation of the design and effectiveness of our internal control over financial reporting was conducted based on the criteria set forth in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our assessment included extensive documenting, evaluating and testing of the design and operating effectiveness of our internal control over financial reporting. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Deloitte & Touche LLP, an independent registered public accounting firm, as auditors of our consolidated financial statements, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2016. Deloitte & Touche LLP's report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting, is included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholder of
ITC Holdings Corp.:
Novi, Michigan
We have audited the accompanying consolidated statements of financial position of ITC Holdings Corp. and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ITC Holdings Corp. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.
As discussed in Note 3 to the financial statements, the Company has changed its method of accounting for share-based payment accounting in 2016 due to the adoption of Accounting Standards Update 2016-09 Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on criteria established in the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.
/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan
February 16, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of ITC Holdings Corp. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in the Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016 of the Company and our report dated February 16, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company's adoption of Accounting Standards Update 2016-09 Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.

/s/ DELOITTE & TOUCHE LLP

Detroit, Michigan
February 16, 2017

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In millions, except share data)	December 31, 2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$8	$14
Accounts receivable	108	104
Inventory	29	26
Regulatory assets	53	15
Income tax receivable	17	—
Prepaid and other current assets	18	10
Total current assets	233	169
Property, plant and equipment (net of accumulated depreciation and amortization of $1,575 and $1,488, respectively)	6,698	6,110
Other assets		
Goodwill	950	950
Intangible assets (net of accumulated amortization of $32 and $28, respectively)	43	46
Regulatory assets	247	233
Deferred financing fees (net of accumulated amortization of $2 and $1, respectively)	2	2
Other	50	45
Total other assets	1,292	1,276
TOTAL ASSETS	$8,223	$7,555
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$100	$124
Accrued compensation	14	24
Accrued interest	54	53
Accrued taxes	49	44
Regulatory liabilities	129	45
Refundable deposits from generators for transmission network upgrades	17	3
Debt maturing within one year	235	395
Other	35	31
Total current liabilities	633	719
Accrued pension and postretirement liabilities	68	62
Deferred income taxes	964	735
Regulatory liabilities	249	255
Refundable deposits from generators for transmission network upgrades	27	18
Other	26	23
Long-term debt	4,355	4,034
Commitments and contingent liabilities (Notes 5 and 15)		
STOCKHOLDERS' EQUITY		
Common stock, without par value, 235,000,000 shares authorized as of December 31, 2016, and 224,203,112 and 152,699,077 shares issued and outstanding at December 31, 2016 and 2015, respectively	892	829
Retained earnings	1,007	876
Accumulated other comprehensive income	2	4
Total stockholders' equity	1,901	1,709
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$8,223	$7,555

See notes to consolidated financial statements.

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
(In millions)	2016	2015	2014
OPERATING REVENUES	$1,125	$1,045	$1,023
OPERATING EXPENSES			
Operation and maintenance	114	113	112
General and administrative	239	145	115
Depreciation and amortization	158	145	128
Taxes other than income taxes	93	82	76
Other operating income and expense — net	(1)	(1)	(1)
Total operating expenses	603	484	430
OPERATING INCOME	522	561	593
OTHER EXPENSES (INCOME)			
Interest expense — net	211	204	187
Allowance for equity funds used during construction	(35)	(28)	(21)
Loss on extinguishment of debt	—	—	29
Other income	(2)	(2)	(1)
Other expense	5	3	5
Total other expenses (income)	179	177	199
INCOME BEFORE INCOME TAXES	343	384	394
INCOME TAX PROVISION	97	142	150
NET INCOME	$246	$242	$244

See notes to consolidated financial statements.

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(In millions)	2016	2015	2014
NET INCOME	$246	$242	$244
OTHER COMPREHENSIVE LOSS			
Derivative instruments, net of tax (Note 13)	(2)	(1)	(2)
TOTAL OTHER COMPREHENSIVE LOSS, NET OF TAX (NOTE 13)	(2)	(1)	(2)
TOTAL COMPREHENSIVE INCOME	$244	$241	$242

See notes to consolidated financial statements.

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, DECEMBER 31, 2013	$ 1,014	$ 593	$ 7	$ 1,614
Net income	—	244	—	244
Repurchase and retirement of common stock	(134)	—	—	(134)
Dividends declared on common stock	—	(96)	—	(96)
Stock option exercises	19	—	—	19
Share-based compensation, net of forfeitures	15	—	—	15
Tax benefit for excess tax deductions of share-based compensation	8	—	—	8
Other comprehensive loss, net of tax (Note 13)	—	—	(2)	(2)
Other	2	—	—	2
BALANCE, DECEMBER 31, 2014	$ 924	$ 741	$ 5	$ 1,670
Net income	—	242	—	242
Repurchase and retirement of common stock	(137)	—	—	(137)
Dividends declared on common stock	—	(108)	—	(108)
Stock option exercises	11	—	—	11
Share-based compensation, net of forfeitures	18	—	—	18
Tax benefit for excess tax deductions of share-based compensation	12	—	—	12
Other comprehensive loss, net of tax (Note 13)	—	—	(1)	(1)
Other	1	1	—	2
BALANCE, DECEMBER 31, 2015	$ 829	$ 876	$ 4	$ 1,709
Net income	—	246	—	246
Repurchase and retirement of common stock	(9)	—	—	(9)
Dividends declared on common stock	—	(90)	—	(90)
Dividends to ITC Investment Holdings Inc.	—	(33)	—	(33)
Stock option exercises	11	—	—	11
Share-based compensation, net of forfeitures	18	—	—	18
Share-based compensation associated with the Merger (Note 13)	41	—	—	41
Settlement of share-based awards associated with the Merger (Note 13)	(137)	(1)	—	(138)
Contribution from ITC Investment Holdings Inc. for the settlement of shared-based awards associated with the Merger (Note 13)	137	—	—	137
Tax benefit for excess tax deductions of share-based compensation (Note 3)	—	9	—	9
Other comprehensive loss, net of tax (Note 13)	—	—	(2)	(2)
Other	2	—	—	2
BALANCE, DECEMBER 31, 2016	$ 892	$ 1,007	$ 2	$ 1,901

See notes to consolidated financial statements.

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ITC HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In millions)	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$246	$242	$244
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	158	145	128
Recognition, refund and collection of revenue accruals and deferrals — including accrued interest	(2)	(54)	(4)
Deferred income tax expense	219	77	90
Allowance for equity funds used during construction	(35)	(28)	(21)
Expense for the accelerated vesting of share-based awards associated with the Merger	41	—	—
Loss on extinguishment of debt	—	—	29
Other	30	22	18
Changes in assets and liabilities, exclusive of changes shown separately:			
Accounts receivable	(2)	(1)	(12)
Current regulatory assets	(29)	—	—
Income tax receivable	(17)	—	—
Other current assets	(4)	2	6
Accounts payable	5	(7)	(19)
Accrued compensation	(11)	—	1
Accrued taxes	4	15	20
Tax benefit on the excess tax deduction of share-based compensation	—	(12)	(8)
Other current liabilities	3	9	(5)
Estimated refund related to return on equity complaints	90	120	48
Other non-current assets and liabilities, net	(9)	26	(13)
Net cash provided by operating activities	687	556	502
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(750)	(701)	(753)
Contributions in aid of construction	11	17	20
Other	4	(16)	(2)
Net cash used in investing activities	(735)	(700)	(735)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt, net of discount	599	225	799
Borrowings under revolving credit agreements	1,042	2,832	1,660
Borrowings under term loan credit agreements	—	200	110
Net issuance of commercial paper, net of discount	48	95	—
Retirement of long-term debt — including extinguishment of debt costs	(139)	(175)	(299)
Repayments of revolving credit agreements	(1,028)	(2,825)	(1,618)
Repayments of term loan credit agreements	(361)	—	(189)
Issuance of common stock	13	14	21
Dividends on common and restricted stock	(90)	(108)	(96)
Dividends to ITC Investment Holdings Inc.	(33)	—	—
Refundable deposits from generators for transmission network upgrades	33	13	6
Repayment of refundable deposits from generators for transmission network upgrades	(10)	(12)	(29)
Repurchase and retirement of common stock	(9)	(137)	(134)
Settlement of share-based awards associated with the Merger — including cost of accelerated share-based awards	(137)	—	—

Contribution from ITC Investment Holdings Inc. for the settlement of share-based awards associated with the Merger	137	—	—
Tax benefit on the excess tax deduction of share-based compensation	—	12	8
Advance for forward contract of accelerated share repurchase program	—	—	(20)
Return of unused advance for forward contract of accelerated share repurchase program	—	—	20
Other	(23)	(4)	(12)
Net cash provided by financing activities	42	130	227
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6)	(14)	(6)
CASH AND CASH EQUIVALENTS — Beginning of period	14	28	34
CASH AND CASH EQUIVALENTS — End of period	$8	$14	$28

See notes to consolidated financial statements.

ITC HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

ITC Holdings Corp. (“ITC Holdings,” and together with its subsidiaries, “we,” “our” or “us”) and its subsidiaries are engaged in the transmission of electricity in the United States. Through our operating subsidiaries, ITCTransmission, METC, ITC Midwest, ITC Great Plains and ITC Interconnection (together, our “Regulated Operating Subsidiaries”), we operate high-voltage systems in Michigan 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 operate, maintain and invest in transmission infrastructure in order to enhance system integrity and reliability, reduce transmission constraints and allow new generating resources to interconnect to our transmission systems. We also are pursuing transmission development projects not within our existing systems, which are intended to improve overall grid reliability, lower electricity congestion and facilitate interconnections of new generating resources, as well as enhance competitive wholesale electricity markets.

Our Regulated Operating Subsidiaries are independent electric transmission utilities, with rates regulated by the FERC and established on a cost-of-service model. ITCTransmission’s service area is located in southeastern Michigan, while METC’s service area covers approximately two-thirds of Michigan’s Lower Peninsula and is contiguous with ITCTransmission’s service area. ITC Midwest’s service area is located in portions of Iowa, Minnesota, Illinois and Missouri and ITC Great Plains currently owns assets located in Kansas and Oklahoma. The Midcontinent Independent System Operator, Inc. (“MISO”) bills and collects revenues from ITCTransmission, METC and ITC Midwest (“MISO Regulated Operating Subsidiaries”) customers. The Southwest Power Pool, Inc. (“SPP”) bills and collects revenue from ITC Great Plains customers. ITC Interconnection currently owns assets in Michigan and earns revenues based on its facilities reimbursement agreement with a merchant generating company.

2. THE MERGER

On February 9, 2016, Fortis Inc. (“Fortis”), FortisUS Inc. (“FortisUS”), Element Acquisition Sub Inc. (“Merger Sub”) and ITC Holdings entered into an agreement and plan of merger (the “Merger Agreement”), pursuant to which Merger Sub would merge with and into ITC Holdings with ITC Holdings continuing as a surviving corporation and becoming a majority owned indirect subsidiary of Fortis (the “Merger”). On April 20, 2016, FortisUS assigned its rights, interest, duties and obligations under the Merger Agreement to ITC Investment Holdings Inc. (“Investment Holdings”), a subsidiary of FortisUS formed to complete the Merger. On the same date, Fortis reached a definitive agreement with a subsidiary of GIC Private Limited (“GIC”) for GIC to acquire an indirect 19.9% equity interest in ITC Holdings and debt securities to be issued by Investment Holdings for aggregate consideration of $1.228 billion in cash upon completion of the Merger. On October 14, 2016, ITC Holdings and Fortis completed the Merger contemplated by the Merger Agreement consistent with the terms described above. On the same date, the common shares of ITC Holdings were delisted from the New York Stock Exchange (“NYSE”) and the common shares of Fortis were listed and began trading on the NYSE. Fortis continues to have its shares listed on the Toronto Stock Exchange.

In the Merger, ITC Holdings shareholders received $22.57 in cash and 0.7520 Fortis common shares for each share of common stock of ITC Holdings (the “Merger consideration”). Upon completion of the Merger, ITC Holdings shareholders held approximately 27% of the common shares of Fortis. Under the Merger Agreement, outstanding share-based awards vested as described in Note 13. The per share amount of Merger consideration determined in accordance with the Merger Agreement and used for purposes of settling the share-based awards was $45.72. We elected not to apply pushdown accounting to ITC Holdings or its subsidiaries in connection with the Merger.

For the year ended December 31, 2016, we expensed external legal, advisory and financial services fees related to the Merger of $55 million and certain internal labor and associated costs related to the Merger of approximately $58 million, including approximately $41 million of expense recognized due to the accelerated vesting of the share-based awards described in Note 13. These merger-related costs were recorded within general and administrative expenses. The external and internal costs related to the Merger were recorded at ITC Holdings and have not been included as components of revenue requirement at our Regulated Operating Subsidiaries.

See Note 15 for legal matters associated with the Merger with Fortis.

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3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

Amendment to the Balance Sheet Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that amends the balance sheet presentation of debt issuance costs. This new standard requires debt issuance costs to be shown as a direct deduction from the carrying amount of the related debt, consistent with debt discounts. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. On January 1, 2016, we adopted this guidance retrospectively and have applied this change to all amounts presented in our consolidated statements of financial position. The following shows the impact of this adoption on our previously reported consolidated statement of financial position as of December 31, 2015:

(in millions)	Reported	Adjustment	Adjusted
Deferred financing fees (net of accumulated amortization)	$ 29	$ (27)	$ 2
Debt maturing within one year	395	—	395
Long-term debt	4,061	(27)	4,034

We have accounted for this adoption as a change in accounting principle that is required due to a change in the authoritative accounting guidance. In connection with implementing this guidance, we adopted an accounting policy to present unamortized debt issuance costs associated with revolving credit agreements, commercial paper and other similar arrangements as an asset that is amortized over the life of the particular arrangement. In addition, we present debt issuance costs incurred prior to the associated debt funding as an asset for all other debt arrangements. This standard did not impact our consolidated statements of operations or cash flows.

Simplification of Employee Share-Based Payment Accounting

In March 2016, the FASB issued authoritative guidance that simplifies several aspects of the accounting for employee share-based payment transactions. The new guidance (1) requires that an entity recognize all excess tax benefits and tax deficiencies as income tax benefit or expense in the income statement, (2) allows an entity to elect as an accounting policy to either estimate forfeitures or account for forfeitures when they occur, (3) modifies the current exception to liability classification of an award when an employer uses a net-settlement feature to withhold shares to meet the employer's minimum statutory tax withholding requirement to apply if the withholding amount does not exceed the maximum statutory tax rate and (4) specifies the statement of cash flow presentation for excess tax benefits and cash payments to taxing authorities when shares are withheld to meet tax withholding requirements.

We elected to early adopt the guidance during the fourth quarter of 2016. Upon adoption, we elected an accounting policy of recognizing forfeitures as they occur. The impact of this change was not material. In addition, we recorded a deferred tax asset through an adjustment to retained earnings of $9 million for state income tax net operating losses, related to excess tax benefits generated in periods prior to 2016 that had not been previously recognized in the consolidated statements of financial position. These aspects were adopted on a modified retrospective basis as of January 1, 2016. We also recorded an increase in deferred tax assets and a credit to income tax expense in 2016 for a total of $27 million for excess tax benefits generated during the year ended December 31, 2016; this change was adopted on a prospective basis as of January 1, 2016.

As a result of adoption, we began presenting excess tax benefits and deficiencies within operating activities on the statement of cash flows and adopted this change prospectively as of January 1, 2016; previously, such amounts were presented within financing activities. Therefore, the statements of cash flows for prior periods have not been adjusted. There were no other material impacts to our consolidated financial statements as a result of the other aspects of the guidance.

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.

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Revenue Recognition

In May 2014, the FASB issued authoritative guidance requiring entities to apply a new model for recognizing revenue from contracts with customers. The guidance will supersede the current revenue recognition guidance and 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 majority of our revenue is generated from sales based on tariff rates, as approved by FERC, and is considered to be in the scope of the new guidance. However, we do not expect that the adoption of this guidance will have a material impact on our consolidated results of operations, cash flows or financial position. We continue to closely monitor outstanding industry specific interpretative issues, including contributions in aid of construction.

The guidance is effective for annual reporting periods beginning after December 15, 2017 and 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 effective 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 effective of applying the standard would be recognized at the date of initial adoption, January 1, 2018. While we expect to use the modified retrospective approach, we continue to monitor industry developments and the outcome of those matters may impact our ultimate decision regarding transition method.

Classification 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 effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The guidance is required to be adopted using a modified retrospective approach, with limited exceptions. We are currently assessing the impacts this guidance will have on our consolidated financial statements, including our disclosures.

Accounting for Leases

In February 2016, the FASB issued authoritative guidance on accounting for leases, which impacts accounting by lessees as well as lessors. The new guidance creates a dual approach for lessee accounting, with lease classification determined in accordance with principles in existing lease guidance. Income statement 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. Early adoption is permitted. We are currently assessing the impacts this guidance will have on our consolidated financial statements, including our disclosures.

4. SIGNIFICANT ACCOUNTING POLICIES

A summary of the major accounting policies followed in the preparation of the accompanying consolidated financial statements, which conform to accounting principles generally accepted in the United States of America (“GAAP”), is presented below:

Principles of Consolidation — ITC Holdings consolidates its majority owned subsidiaries. We eliminate all intercompany balances and transactions.

Use of Estimates — The preparation of the consolidated financial statements in accordance with GAAP requires 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.

Regulation — Our Regulated Operating Subsidiaries are subject to the regulatory jurisdiction of the FERC, which issues orders pertaining to rates, recovery of certain costs, including the costs of transmission assets and regulatory assets, conditions of service, accounting, financing authorization and operating-related matters. The utility operations of our Regulated Operating Subsidiaries meet the accounting standards set

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forth by the FASB for the accounting effects of certain types of regulation. These accounting standards recognize the cost based rate setting process, which results in differences in the application of GAAP between regulated and non-regulated businesses. These standards require the recording of regulatory assets and liabilities for certain transactions that would have been recorded as revenue and expense in non-regulated businesses. Regulatory assets represent costs that will be included as a component of future tariff rates and regulatory liabilities represent amounts provided in the current tariff rates that are intended to recover costs expected to be incurred in the future or amounts to be refunded to customers.

Cash and Cash Equivalents — We consider all unrestricted highly-liquid temporary investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Consolidated Statements of Cash Flows — The following table presents certain supplementary cash flows information for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
(In millions)	2016	2015	2014
Supplementary cash flows information:			
Interest paid (net of interest capitalized)	$190	$191	$185
Income taxes paid (a)	23	56	45
Supplementary non-cash investing and financing activities:			
Additions to property, plant and equipment and other long-lived assets (b)	$93	$110	$91
Allowance for equity funds used during construction	35	28	21

(a) Amount for the year ended December 31, 2016 does not include the income tax refund of $128 million received from the Internal Revenue Service (“IRS”) in August 2016, which resulted from the election of bonus depreciation as described in Note 5.

(b) Amounts consist of current liabilities for construction labor and materials that have not been included in investing activities. These amounts have not been paid for as of December 31, 2016, 2015 or 2014, respectively, but have been or will be included as a cash outflow from investing activities for expenditures for property, plant and equipment when paid.

Excess tax benefits are recognized as an adjustment to income tax expense in the statement of operations. Cash retained as a result of those excess tax benefits is presented in the statement of cash flows as cash inflows from operating activities.

Accounts Receivable — We recognize losses for uncollectible accounts based on specific identification of any such items. As of December 31, 2016 and 2015, we did not have an accounts receivable reserve.

Inventories — Materials and supplies inventories are valued at average cost. Additionally, the costs of warehousing activities are recorded here and included in the cost of materials when requisitioned.

Property, Plant and Equipment — Depreciation and amortization expense on property, plant and equipment was $149 million, $136 million and $119 million for 2016, 2015 and 2014, respectively.

Property, plant and equipment in service at our Regulated Operating Subsidiaries is stated at its original cost when first devoted to utility service. The gross book value of assets retired less salvage proceeds is charged to accumulated depreciation. The provision for depreciation of transmission assets is a significant component of our Regulated Operating Subsidiaries’ cost of service under FERC-approved rates. Depreciation is computed over the estimated useful lives of the assets using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes. The composite depreciation rate for our Regulated Operating Subsidiaries included in our consolidated statements of operations was 2.0%, 2.1% and 2.1% for 2016, 2015 and 2014, respectively. The composite depreciation rates include depreciation primarily on transmission station equipment, towers, poles and overhead and underground lines that have a useful life ranging from 48 to 60 years. The portion of depreciation expense related to asset removal costs is added to regulatory liabilities or deducted from regulatory assets and removal costs incurred are deducted from regulatory liabilities or added to regulatory assets. Certain of our Regulated Operating Subsidiaries capitalize to property, plant and equipment an allowance for the cost of equity and

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borrowings used during construction (“AFUDC”) in accordance with the FERC regulations. AFUDC represents the composite cost incurred to fund the construction of assets, including interest expense and a return on equity capital devoted to construction of assets. The interest component of AFUDC of $9 million, $7 million and $5 million was a reduction to interest expense for 2016, 2015 and 2014, respectively. Certain projects at ITC Great Plains have been granted an incentive to include construction work in progress balances in rate base and we do not record AFUDC on those projects.

For acquisitions of property, plant and equipment greater than the net book value (other than asset acquisitions accounted for under the purchase method of accounting that result in goodwill), the acquisition premium is recorded to property, plant and equipment and amortized over the estimated remaining useful lives of the assets using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes.

Property, plant and equipment includes capital equipment inventory stated at original cost consisting of items that are expected to be used exclusively for capital projects.

Property, plant and equipment at ITC Holdings and non-regulated subsidiaries is stated at its acquired cost. Proceeds from salvage less the net book value of the disposed assets is recognized as a gain or loss on disposal. Depreciation is computed based on the acquired cost less expected residual value and is recognized over the estimated useful lives of the assets on a straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes.

Generator Interconnection Projects and Contributions in Aid of Construction — Certain capital investment at our Regulated Operating Subsidiaries relates to investments made under generator interconnection agreements. The generator interconnection agreements typically consist of both transmission network upgrades, which are a category of upgrades deemed by the FERC to benefit the transmission system as a whole, as well as direct connection facilities, which are necessary to interconnect the generating facility to the transmission system and primarily benefit the generating facility.

Our investments in transmission facilities are recorded to property, plant and equipment, and are recorded net of any contribution in aid of construction. Contributions in aid of construction of $11 million, $17 million and $20 million were recorded as reductions to property, plant and equipment during the years ended December 31, 2016, 2015 or 2014, respectively, and are included as cash inflows provided by investing activities in our consolidated statements of cash flows when received. We also receive refundable deposits from the generator for certain investment in network upgrade facilities in advance of construction, which are recorded to current or non-current liabilities depending on the expected refund date.

Available-For-Sale Securities — We have certain investments in debt and equity securities that are classified as available-for-sale securities. These investments currently fund our two supplemental nonqualified, noncontributory, retirement benefit plans for selected management employees as described in Note 11. Unrealized gains recorded for the investments are recognized, net of tax, in the accumulated other comprehensive income component of equity. Any unrealized losses (where cost exceeds fair market value) on the investments will also be recorded in the accumulated other comprehensive income component of equity, unless the unrealized loss is other than temporary, in which case it would be recorded as an investment loss in the consolidated statements of operations.

Impairment of Long-Lived Assets — Other than goodwill, our long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the asset exceeds the expected undiscounted future cash flows generated by the asset, the asset is written down to its estimated fair value and an impairment loss is recognized in our consolidated statements of operations.

Goodwill — Goodwill is not subject to amortization; however, goodwill is required to be assessed for impairment, and a resulting write-down, if any, is to be reflected in operating expense. We have goodwill recorded relating to our acquisitions of ITCTransmission and METC and ITC Midwest’s acquisition of the Interstate Power and Light Company (“IP&L”) transmission assets. Goodwill is reviewed at the reporting unit level at least annually for impairment and whenever facts or circumstances indicate that the value of goodwill may be impaired. Our reporting units are ITCTransmission, METC and ITC Midwest as each entity represents an individual operating segment to which goodwill has been assigned. In order to perform an impairment analysis, we have the option of performing a qualitative assessment to determine whether it is more likely

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than not that the fair value of a reporting unit is greater than its carrying amount, in which case no further testing is required. If an entity bypasses the qualitative assessment or performs a qualitative assessment but determines that it is more likely than not that a reporting unit's fair value is less than its carrying amount, a quantitative two-step, fair value-based test is performed to assess and measure goodwill impairment, if any. If a quantitative assessment is performed, we determine the fair value of our reporting units using valuation techniques based on discounted future cash flows under various scenarios and consider estimates of market-based valuation multiples for companies within the peer group of our reporting units.

We completed our annual goodwill impairment test for our reporting units as of October 1, 2016 and determined that no impairment exists. There were no events subsequent to October 1, 2016, including the Merger consummated on October 14, 2016, that indicated impairment of our goodwill. Our intangible assets other than goodwill have finite lives and are amortized over their useful lives. Refer to Note 7 for additional discussion on our goodwill and intangible assets.

Deferred Financing Fees and Discount or Premium on Debt — Costs related to the issuance of long-term debt are generally recorded as a direct deduction from the carrying amount of the related debt and amortized over the life of the debt issue. Debt issuance costs incurred prior to the associated debt funding are presented as an asset. Unamortized debt issuance costs associated with the revolving credit agreements, commercial paper and other similar arrangements are presented as an asset (regardless of whether there are any amounts outstanding under those credit facilities) and amortized over the life of the particular arrangement. The debt discount or premium related to the issuance of long-term debt is recorded to long-term debt and amortized over the life of the debt issue. We recorded $4 million to interest expense for the amortization of deferred financing fees and debt discounts during each of the years ended December 31, 2016, 2015 and 2014.

Asset Retirement Obligations — A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within our control. We have identified conditional asset retirement obligations primarily associated with the removal of equipment containing polychlorinated biphenyls (“PCBs”) and asbestos. We record a liability at fair value for a legal asset retirement obligation in the period in which it is incurred. When a new legal obligation is recorded, we capitalize the costs of the liability by increasing the carrying amount of the related long-lived asset. We accrete the liability to its present value each period and depreciate the capitalized cost over the useful life of the related asset. At the end of the asset's useful life, we settle the obligation for its recorded amount. The standards for asset retirement obligations applied to our Regulated Operating Subsidiaries require us to recognize regulatory assets for the timing differences between the incurred costs to settle our legal asset retirement obligations and the recognition of such obligations under the standards set forth by the FASB. There were no significant changes to our asset retirement obligations in 2016. Our asset retirement obligations as of December 31, 2016 and 2015 of $5 million are included in other liabilities.

Financial Instruments — For derivative instruments that have been designated and qualify as cash flow hedges of the exposure to variability in expected future cash flows, the gain or loss on the derivative is initially reported as a component of other comprehensive income (loss) and reclassified to the consolidated statement of operations when the underlying hedged transaction affects net income. Any hedge ineffectiveness is recognized in net income immediately at the time the gain or loss on the derivative instruments is calculated. Refer to Note 9 for additional discussion regarding derivative instruments. Cash flows related to derivative instruments that are designated in hedging relationships are generally classified on the statement of cash flows in the same category as the cash flows from the associated hedged item.

Contingent Obligations — We are subject to a number of federal and state laws and regulations, as well as other factors and conditions that potentially subject us to environmental, litigation and other risks. We periodically evaluate our exposure to such risks and record liabilities for those matters when a loss is considered probable and reasonably estimable in accordance with GAAP. Our liabilities exclude any estimates for legal costs not yet incurred associated with handling these matters. The adequacy of liabilities can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect our consolidated financial statements.

Revenues — Revenues from the transmission of electricity are recognized as services are provided based on FERC-approved cost-based formula rates. We record a reserve for revenue subject to refund when such

refund is probable and can be reasonably estimated. This reserve is recorded as a reduction to operating revenues.
The cost-based formula rates at our Regulated Operating Subsidiaries include a true-up mechanism, whereby they compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue requirements and record a revenue accrual or deferral for the difference. Refer to Note 5 under "Cost-Based Formula Rates with True-Up Mechanism" for a discussion of our revenue accounting under our cost-based formula rates.

Comprehensive Income (Loss) — Comprehensive income (loss) is the change in common stockholders' equity during a period arising from transactions and events from non-owner sources, including net income, any gain or loss recognized for the effective portion of our interest rate swaps and any unrealized gain or loss associated with our available-for-sale securities.

Income Taxes — Deferred income taxes are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statements and the tax bases of various assets and liabilities, using the tax rates expected to be in effect for the year in which the differences are expected to reverse, and classified as non-current in our consolidated statement of financial position.

The accounting standards for uncertainty in income taxes prescribe a recognition threshold and a measurement attribute for tax positions taken, or expected to be taken, in a tax return that may not be sustainable. As of December 31, 2016, we have not recognized any uncertain income tax positions.

We file income tax returns with the Internal Revenue Service and with various state and city jurisdictions. We are no longer subject to U.S. federal tax examinations for tax years 2012 and earlier. State and city jurisdictions that remain subject to examination range from tax years 2012 to 2015. In the event we are assessed interest or penalties by any income tax jurisdictions, interest and penalties would be recorded as interest expense and other expense, respectively, in our consolidated statements of operations.

5. REGULATORY MATTERS

Rate of Return on Equity Complaints

See "Rate of Return on Equity Complaints" in Note 15 for a discussion of the complaints.

Cost-Based Formula Rates with True-Up Mechanism

The transmission revenue requirements at our Regulated Operating Subsidiaries are set annually, using FERC-approved formula rates ("formula rates"), and remain in effect for a one-year period. By updating their formula 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 rates do not require further action or FERC filings each year, although the template inputs remain subject to legal challenge at the FERC. Our Regulated Operating Subsidiaries will continue to use formula rates to calculate their respective annual revenue requirements unless the FERC determines the rates to be unjust and unreasonable or another mechanism is determined by the FERC to be just and reasonable. See "Rate of Return on Equity Complaints" in Note 15 for detail on return on equity ("ROE") matters.

Our formula rates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue requirements. Revenue is recognized for services provided during each reporting period based on actual revenue requirements calculated using the formula rates. 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 the formula rates.

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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 year ended December 31, 2016:

(In millions)	Total
Net regulatory liability as of December 31, 2015	$ (3)
Net refund of 2014 revenue deferrals and accruals, including accrued interest	23
Net revenue deferral for the year ended December 31, 2016	(20)
Net accrued interest payable for the year ended December 31, 2016	(1)
Net regulatory liability as of December 31, 2016	$ (1)

Regulatory assets and liabilities associated with our Regulated Operating Subsidiaries' formula rate revenue accruals and deferrals, including accrued interest, are recorded in the consolidated statements of financial position at December 31, 2016 as follows:

(In millions)	Total
Current regulatory assets	$ 24
Non-current regulatory assets	16
Current regulatory liabilities	(9)
Non-current regulatory liabilities	(32)
Net regulatory liability as of December 31, 2016	$ (1)

ITCTransmission Regional Cost Allocation Refund

In October 2010, MISO and ITCTransmission made a filing with the FERC under Section 205 of the FPA to revise the MISO tariff to establish a methodology to allocate and recover costs of ITCTransmission's Phase Angle Regulating Transformers ("PARs") among MISO and other FERC-approved Regional Transmission Organizations ("RTOs") — the New York Independent System Operator and PJM Interconnection ("other RTOs"). In December 2010, the FERC accepted the proposed revisions, subject to refund, while setting them for hearing and settlement procedures. On September 22, 2016, the FERC issued an order largely affirming the presiding administrative law judge's initial decision issued in December 2012, which stated, among other things, that MISO and ITCTransmission failed to show that the other RTOs will benefit from the operation of ITCTransmission's PARs. The FERC order required ITCTransmission to provide refunds within 30 days for excess amounts collected from customers of the other RTOs. The refunds, including interest, were provided to the other RTOs in October 2016. As a result of the FERC order, ITCTransmission will collect the amounts refunded, plus interest, from network customers. On December 6, 2016, ITCTransmission made a filing with the FERC, under Section 205 of the FPA, requesting to recover the amount refunded to the other RTOs ("regional cost allocation recovery") in network rates during the next calendar year, beginning January 1, 2017. On January 30, 2017, the FERC issued an order approving collection of the regional cost allocation recovery in 2017. ITCTransmission has recorded $29 million for the regional cost allocation recovery, including interest, in current regulatory assets on the consolidated statement of financial position as of December 31, 2016.

ITC Interconnection

ITC Interconnection was formed in 2014 by ITC Holdings to pursue transmission investment opportunities. On June 1, 2016, ITC Interconnection acquired certain transmission assets from a merchant generating company and placed a newly constructed 345 kV transmission line in service. As a result, ITC Interconnection became a transmission owner in PJM Interconnection, and is subject to rate regulation by the FERC. The revenues earned by ITC Interconnection are based on its facilities reimbursement agreement with the merchant generating company. The financial results of ITC Interconnection are currently not material to our consolidated financial statements.

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 allows a transmission owner to unilaterally elect to fund network upgrades and recover such costs from the interconnection customer. In this order, the FERC

suggested the MISO funding policy be revised to require mutual agreement between the interconnection customer and transmission owner to utilize the election to fund network upgrades. 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. ITCTransmission, METC and ITC Midwest, along with another MISO TO, are currently appealing the FERC’s orders on this issue. 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.

MISO Formula Rate Template Modifications Filing

On October 30, 2015, our MISO Regulated Operating Subsidiaries requested modifications, pursuant to Section 205 of the FPA, to certain aspects of their respective FERC-approved formula rate templates which included, among other things, changes to ensure that various income tax items are computed correctly for purposes of determining their revenue requirements. Our MISO Regulated Operating Subsidiaries requested an effective date of January 1, 2016 for the proposed template changes. On December 30, 2015, the FERC conditionally accepted the formula rate template modifications and required a further compliance filing, which was made on February 8, 2016. On April 14, 2016, the FERC issued an order accepting the February 8, 2016 compliance filing, effective January 1, 2016. The formula rate templates, prior to any proposed modifications, include certain deferred income taxes on contributions in aid of construction in rate base that resulted in recovery of excess amounts from customers. As of December 31, 2016 and 2015, our MISO Regulated Operating Subsidiaries had recorded an aggregate refund liability of $2 million and $10 million, respectively.

Challenges Regarding Bonus Depreciation

On December 18, 2015, IP&L filed a formal challenge (“IP&L challenge”) with the FERC against ITC Midwest on certain inputs to ITC Midwest’s formula rates. The IP&L challenge alleged that ITC Midwest has unreasonably and imprudently opted out of using bonus depreciation in the calculation of its federal income tax expense and thereby unduly increased the transmission charges for transmission service to customers. On March 11, 2016, the FERC granted the IP&L challenge in part by requiring ITC Midwest to recalculate its revenue requirements, effective January 1, 2015, to simulate the election of bonus depreciation for 2015. The FERC denied IP&L’s request that ITC Midwest be required to elect bonus depreciation in any past or future years; however, stakeholders will be able to challenge any decision by ITC Midwest not to take bonus depreciation in future years. On June 8, 2016, the FERC denied ITC Midwest’s request for rehearing of the March 11, 2016 order. On August 3, 2016, ITC Midwest filed a petition for review of the FERC’s March 11, 2016 and June 8, 2016 orders in the United States Court of Appeals, District of Columbia Circuit. On September 8, 2016, ITC Midwest filed a motion to defer the petition pending the resolution of a private letter ruling matter from the IRS. In a separate but related matter, on April 15, 2016, Consumers Energy filed a formal challenge, or in the alternative, a complaint under Section 206 of the FPA, with the FERC against METC relating to METC’s historical practice of opting out of using bonus depreciation. On July 8, 2016, the FERC denied Consumers Energy’s formal challenge and dismissed the complaint without prejudice.

These consolidated financial statements reflect the election of bonus depreciation for tax years 2015 and 2016 and the corresponding effects on 2016 revenue requirements for our Regulated Operating Subsidiaries. Additionally, as required by the March 11, 2016 FERC order, we have simulated the election of bonus depreciation for ITC Midwest’s 2015 revenue requirement and included the impact of the corresponding refund obligation in these consolidated financial statements. The total impact from reflecting the election of bonus depreciation as described above was lower revenues of $20 million and lower net income of approximately $12 million for the year ended December 31, 2016 as compared to the same period if bonus depreciation was not reflected. These matters also resulted in additional net deferred income tax liabilities of approximately $109 million and a corresponding income tax receivable of $12 million as of December 31, 2016, and income tax refunds of $128 million, which were received from the IRS in August 2016. We are unable to predict the final outcome of this matter; however, the election of bonus depreciation will result in higher cash flows in the year of the election and reduce our rate base and therefore decrease our revenues and net income over the tax lives of the eligible assets.

ITC Midwest’s Rate Discount

As part of the orders by the Iowa Utility Board and the Minnesota Public Utilities Commission approving ITC Midwest’s acquisition of the IP&L transmission assets, ITC Midwest agreed to provide a rate discount of $4 million per year to its customers for eight years, beginning in the first year customers experience an increase in transmission

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charges following the consummation of the ITC Midwest asset acquisition. From 2009 through 2016, ITC Midwest's net revenue requirement was reduced by $4 million for each year. The rate discount is recognized in revenues when we provide the service and charge the reduced rate that includes the rate discount.

6. REGULATORY ASSETS AND LIABILITIES

Regulatory Assets

The following table summarizes the regulatory asset balances at December 31, 2016 and 2015:

(In millions)	2016	2015
Regulatory Assets:		
Current:		
Revenue accruals (including accrued interest of less than $1 as of December 31, 2016 and 2015) (a)	$24	$15
ITCTransmission regional cost allocation recovery (including accrued interest of less than $1 as of December 31, 2016) (b)	29	—
Total current	53	15
Non-current:		
Revenue accruals (including accrued interest of less than $1 as of December 31, 2016 and 2015) (a)	16	26
ITCTransmission ADIT Deferral (net of accumulated amortization of $42 and $39 as of December 31, 2016 and 2015, respectively)	19	22
METC ADIT Deferral (net of accumulated amortization of $24 and $22 as of December 31, 2016 and 2015, respectively)	19	21
METC Regulatory Deferrals (net of accumulated amortization of $7 as of December 31, 2016 and 2015)	8	8
Income taxes recoverable related to AFUDC equity	124	103
ITC Great Plains start-up, development and pre-construction	11	13
Pensions and postretirement	25	19
Income taxes recoverable related to implementation of the Michigan Corporate Income Tax	9	9
Accrued asset removal costs	16	12
Total non-current	247	233
Total	$300	$248

(a) Refer to discussion of revenue accruals in Note 5 under "Cost-Based Formula Rates with True-Up Mechanism." Our Regulated Operating Subsidiaries do not earn a return on the balance of these regulatory assets, but do accrue interest carrying costs, which are subject to rate recovery along with the principal amount of the revenue accrual.

(b) Refer to discussion of ITCTransmission regional cost allocation recovery in Note 5 under "ITCTransmission Regional Cost Allocation Refund."

ITCTransmission ADIT Deferral

The carrying amount of the ITCTransmission Accumulated Deferred Income Tax ("ADIT") Deferral is the remaining unamortized balance of the portion of ITCTransmission's purchase price in excess of the fair value of net assets acquired approved for inclusion in future rates by the FERC. ITCTransmission earns a return on the remaining unamortized balance of this regulatory asset that is included in rate base. The original amount recorded for this regulatory asset of $61 million is recognized in rates and amortized on a straight-line basis over 20 years. ITCTransmission recorded amortization expense of $3 million annually during 2016, 2015 and 2014, which is included in depreciation and amortization and recovered through ITCTransmission's cost-based formula rate template.

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METC ADIT Deferral

The carrying amount of the METC ADIT Deferral is the remaining unamortized balance of the portion of METC's purchase price in excess of the fair value of net assets acquired from Consumers Energy approved for inclusion in future rates by the FERC. The original amount recorded for this regulatory asset of $43 million is recognized in rates and amortized on a straight-line basis over 18 years beginning January 1, 2007. METC earns a return on the remaining unamortized balance of this regulatory asset that is included in rate base. METC recorded amortization expense of $2 million annually during 2016, 2015 and 2014, which is included in depreciation and amortization and recovered through METC's cost-based formula rate template.

METC Regulatory Deferrals

METC has deferred, as a regulatory asset, depreciation and related interest expense associated with new transmission assets placed in service from January 1, 2001 through December 31, 2005 that were included on METC's balance sheet at the time Michigan Transco Holdings, LLC ("MTH") acquired METC from Consumers Energy (the "METC Regulatory Deferrals"). The original amount recorded for this regulatory asset of $15 million is recognized in rates and amortized over 20 years beginning January 1, 2007. METC earns a return on the remaining unamortized balance of this regulatory asset that is included in rate base. METC recorded amortization expense of $1 million annually during 2016, 2015 and 2014, which is included in depreciation and amortization and recovered through METC's cost-based formula rate template.

Income Taxes Recoverable Related to AFUDC Equity

Accounting standards for income taxes provide that a regulatory asset be recorded if it is probable that a future increase in taxes payable, relating to the book depreciation of AFUDC equity that has been capitalized to property, plant and equipment, will be recovered from customers through future rates. The regulatory asset for the tax effects of AFUDC equity is recovered over the life of the underlying book asset in a manner that is consistent with the depreciation of the AFUDC equity that has been capitalized to property, plant and equipment. We do not earn a return on this regulatory asset and the related deferred tax liabilities do not reduce rate base.

ITC Great Plains Start-Up, Development and Pre-Construction

In 2013, ITC Great Plains made a filing with the FERC, under Section 205 of the FPA, to recover start-up, development and pre-construction expenses in future rates. These expenses included certain costs incurred by ITC Great Plains for two regional cost sharing projects in Kansas prior to construction. In March 2015, FERC accepted ITC Great Plains' request to commence amortization of the authorized regulatory assets, subject to refund, and set the matter for hearing and settlement judge procedures. In December 2015, the FERC issued an order accepting an uncontested settlement agreement establishing the amounts of the regulatory assets and associated carrying charges to be recovered. The unamortized balance of these regulatory assets is included in rate base and amortized over a 10-year period, beginning in the second quarter of 2015. The amortization expense is recorded to general and administrative expenses and recovered through ITC Great Plains' cost-based formula rate.

Pensions and Postretirement

Accounting standards for defined benefit pension and other postretirement plans for rate-regulated entities allow for amounts that otherwise would have been charged and/or credited to accumulated other comprehensive income ("AOCI") to be recorded as a regulatory asset or liability. As the unrecognized amounts recorded to this regulatory asset are recognized, expenses will be recovered from customers in future rates under our cost based formula rates. Our Regulated Operating Subsidiaries do not earn a return on the balance of this regulatory asset.

Income Taxes Recoverable Related to Implementation of the Michigan Corporate Income Tax

In May 2011, the Michigan Business Tax ("MBT") was repealed and replaced with the Michigan Corporate Income Tax ("CIT"), effective January 1, 2012. Under the CIT, we are taxed at a rate of 6.0% on federal taxable income attributable to our operations in the state of Michigan, subject to certain adjustments. In addition to the traditional income tax, the MBT had also included a modified gross receipts tax that allowed for deductions and credits for certain activities, none of which are part of the CIT. The change in Michigan tax law required us in 2011 to remove deferred income tax balances recognized under the MBT and establish new deferred income tax balances under the CIT, and the net result was incremental deferred state income tax liabilities at both ITCTransmission and METC. Under our cost-based formula rate, the future taxes receivable as a result of the tax law change has resulted

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in the recognition of a regulatory asset, which will be collected from customers for the 23-year period and the 32-year period for ITCTransmission and METC, respectively, beginning in 2016. ITCTransmission and METC do not earn a return on the balance of this regulatory asset and the related net deferred tax liabilities do not reduce rate base.

Accrued Asset Removal Costs

The carrying amount of the accrued asset removal costs represents the difference between incurred costs to remove property, plant and equipment and the estimated removal costs included in rates. The portion of depreciation expense included in our depreciation rates related to asset removal costs reduces this regulatory asset and removal costs incurred are added to this regulatory asset. In addition, this regulatory asset has also been adjusted for timing differences between incurred costs to settle legal asset retirement obligations and the recognition of such obligations under the standards set forth by the FASB. Our Regulated Operating Subsidiaries include this item, excluding the cost component related to the recognition of our legal asset retirement obligations under the standards set forth by the FASB, as a reduction to accumulated depreciation for rate-making purposes, which is an increase to rate base.

Regulatory Liabilities

The following table summarizes the regulatory liability balances at December 31, 2016 and 2015:

(In millions)	2016	2015
Regulatory Liabilities:		
Current:		
Revenue deferrals (including accrued interest of less than $1 and $2 as of December 31, 2016 and 2015, respectively) (a)	$9	$37
Refund related to the formula rate template modifications (including accrued interest of $1 and less than $1 as of December 31, 2016 and 2015, respectively) (b)	2	8
Estimated refund related to return on equity complaint (including accrued interest of $9 as of December 31, 2016) (c)	118	—
Total current	129	45
Non-current:		
Revenue deferrals (including accrued interest of $1 and less than $1 as of December 31, 2016 and 2015, respectively) (a)	32	6
Accrued asset removal costs	68	70
Refund related to the formula rate template modifications (including accrued interest of less than $1 as of December 31, 2015) (b)	—	2
Estimated potential refund related to return on equity complaints (including accrued interest of $6 as of December 31, 2016 and 2015) (c)	140	168
Excess state income tax deductions	9	9
Total non-current	249	255
Total	$378	$300

(a) Refer to discussion of revenue deferrals in Note 5 under “Cost-Based Formula Rates with True-Up Mechanism.” Our Regulated Operating Subsidiaries accrue interest on the true-up amounts which will be refunded through rates along with the principal amount of revenue deferrals in future periods.
(b) Refer to discussion of the refund in Note 5 under “MISO Formula Rate Template Modifications Filing.”
(c) Refer to discussion of the estimated refund and potential refund in Note 15 under “Rate of Return on Equity Complaints.”

Accrued Asset Removal Costs

The carrying amount of the accrued asset removal costs represents the difference between incurred costs to remove property, plant and equipment and the estimated removal costs included in rates. The portion of depreciation expense included in our depreciation rates related to asset removal costs is added to this regulatory liability and

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removal expenditures incurred are charged to this regulatory liability. Our Regulated Operating Subsidiaries include this item within accumulated depreciation for rate-making purposes, which is a reduction to rate base.

Excess State Income Tax Deductions

We have taken income tax deductions associated with property additions that exceed the tax basis of property, and the unrealized income tax benefits resulting from these deductions are expected to be refunded to customers through future rates when the income tax benefits are realized. This regulatory liability and the related deferred tax assets do not affect rate base.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

At December 31, 2016 and 2015, 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

Pursuant to the METC acquisition in October 2006, we have identified intangible assets with finite lives derived from the portion of regulatory assets recorded on METC's historical FERC financial statements that were not recorded on METC's historical GAAP financial statements associated with the METC Regulatory Deferrals and the METC ADIT Deferral. The carrying amounts of the intangible asset for the METC Regulatory Deferrals and the METC ADIT Deferral were $20 million and $8 million, respectively, as of December 31, 2016, and $22 million and $9 million, respectively, as of December 31, 2015. The amortization periods for the METC Regulatory Deferrals and the METC ADIT Deferral are 20 years and 18 years, respectively, beginning January 1, 2007. METC earns an equity return on the remaining unamortized balance of both intangible assets and recovers the amortization expense through METC's cost-based formula rate template.

ITC Great Plains has 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 $15 million and $14 million (net of accumulated amortization of $1 million and $1 million, respectively) as of December 31, 2016 and 2015, respectively. The amortization period for these intangible assets is 50 years.

During each of the years ended December 31, 2016, 2015 and 2014, we recognized $3 million of amortization expense of our intangible assets. We expect the annual amortization of our intangible assets that have been recorded as of December 31, 2016 to be as follows:

(In millions)	
2017	$3
2018	3
2019	3
2020	3
2021	3
2022 and thereafter	28
Total	$43

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8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment — net consisted of the following at December 31, 2016 and 2015:

(In millions)	2016	2015
Property, plant and equipment		
Regulated Operating Subsidiaries:		
Property, plant and equipment in service	$7,715	$7,086
Construction work in progress	455	426
Capital equipment inventory	74	55
Other	15	13
ITC Holdings and other	14	18
Total	8,273	7,598
Less: Accumulated depreciation and amortization	(1,575)	(1,488)
Property, plant and equipment — net	$6,698	$6,110

Additions to property, plant and equipment in service and construction work in progress during 2016 and 2015 were due primarily for projects to upgrade or replace existing transmission plant to improve the reliability of our transmission systems as well as transmission infrastructure to support generator interconnections and investments that provide regional benefits such as our Multi-Value Projects.

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9. DEBT

The following amounts were outstanding at December 31, 2016 and 2015:

(Amounts in millions)	2016	2015
ITC Holdings 5.875% Senior Notes, due September 30, 2016 (a)	$—	$139
ITC Holdings 6.23% Senior Notes, Series B, due September 20, 2017 (a)	50	50
ITC Holdings 6.375% Senior Notes, due September 30, 2036	200	200
ITC Holdings 6.05% Senior Notes, due January 31, 2018	385	385
ITC Holdings 5.50% Senior Notes, due January 15, 2020	200	200
ITC Holdings 4.05% Senior Notes, due July 1, 2023	250	250
ITC Holdings 3.65% Senior Notes, due June 15, 2024	400	400
ITC Holdings 5.30% Senior Notes, due July 1, 2043	300	300
ITC Holdings 3.25% Notes, due June 30, 2026	400	—
ITC Holdings Term Loan Credit Agreement, due September 30, 2016 (a)	—	161
ITC Holdings Revolving Credit Agreement, due March 28, 2019	73	138
ITC Holdings Commercial Paper Program (a)	145	95
ITCTransmission 6.125% First Mortgage Bonds, Series C, due March 31, 2036	100	100
ITCTransmission 5.75% First Mortgage Bonds, Series D, due April 1, 2018	100	100
ITCTransmission 4.625% First Mortgage Bonds, Series E, due August 15, 2043	285	285
ITCTransmission 4.27% First Mortgage Bonds, Series F, due June 10, 2044	100	100
ITCTransmission Revolving Credit Agreement, due March 28, 2019	44	48
METC 5.64% Senior Secured Notes, due May 6, 2040	50	50
METC 3.98% Senior Secured Notes, due October 26, 2042	75	75
METC 4.19% Senior Secured Notes, due December 15, 2044	150	150
METC 3.90% Senior Secured Notes, due April 26, 2046	200	—
METC Term Loan Credit Agreement, due December 7, 2018	—	200
METC Revolving Credit Agreement, due March 28, 2019	31	3
ITC Midwest 6.15% First Mortgage Bonds, Series A, due January 31, 2038	175	175
ITC Midwest 7.12% First Mortgage Bonds, Series B, due December 22, 2017 (a)	40	40
ITC Midwest 7.27% First Mortgage Bonds, Series C, due December 22, 2020	35	35
ITC Midwest 4.60% First Mortgage Bonds, Series D, due December 17, 2024	75	75
ITC Midwest 3.50% First Mortgage Bonds, Series E, due January 19, 2027	100	100
ITC Midwest 4.09% First Mortgage Bonds, Series F, due April 30, 2043	100	100
ITC Midwest 3.83% First Mortgage Bonds, Series G, due April 7, 2055	225	225
ITC Midwest Revolving Credit Agreement, due March 28, 2019	127	72
ITC Great Plains 4.16% First Mortgage Bonds, Series A, due November 26, 2044	150	150
ITC Great Plains Revolving Credit Agreement, due March 28, 2019	59	59
Total principal	4,624	4,460
Unamortized deferred financing fees and discount	(34)	(31)
Total debt	$4,590	$4,429

(a) As of December 31, 2016 and 2015, there was $235 million and $395 million, respectively, of debt included within debt maturing within one year that is classified as a current liability in the consolidated statements of financial position.

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The annual maturities of debt as of December 31, 2016 are as follows:

(In millions)	
2017	$235
2018	485
2019	334
2020	235
2021	—
2022 and thereafter	3,335
Total	$4,624

ITC Holdings

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 December 31, 2016, ITC Holdings had approximately $145 million of commercial paper issued and outstanding under the program, with a weighted-average interest rate of 1.0% and weighted average remaining days to maturity of 7 days. The proceeds from issuances under the program during the year ended December 31, 2016 were used to repay and retire the $139 million of ITC Holdings' 5.875% Senior Notes, due September 30, 2016, and for general corporate purposes, including the repayment of borrowings under ITC Holdings' revolving credit agreement. The amount outstanding as of December 31, 2016 was classified as debt maturing within one year in the consolidated statements of financial position.

Unsecured Notes

On July 5, 2016, ITC Holdings issued $400 million aggregate principal amount of unsecured 3.25% Notes, due June 30, 2026. The proceeds from the issuance were used to repay the $161 million outstanding under ITC Holdings' term loan credit agreement and for general corporate purposes, primarily the repayment of indebtedness outstanding under ITC Holdings' commercial paper program discussed above. These Notes were issued under ITC Holdings' indenture, dated April 18, 2013.

METC

Senior Secured Notes

On April 26, 2016, METC issued $200 million of 3.90% Senior Secured Notes, due April 26, 2046. The proceeds were used to repay the $200 million borrowed under METC's term loan credit agreement discussed below. The METC Senior Secured Notes were issued under its first mortgage indenture and secured by a first mortgage lien on substantially all of its real property and tangible personal property.

Term Loan Credit Agreement

On December 8, 2015, METC entered into an unsecured, unguaranteed term loan credit agreement due December 7, 2018, under which METC borrowed $200 million. The proceeds were used to repay the $175 million of 5.75% Senior Secured Notes, due December 10, 2015, and for general corporate purposes. This borrowing was repaid in full as of December 31, 2016. The weighted-average interest rate throughout the life of the loan was 1.4%.

ITC Midwest

On April 7, 2015, ITC Midwest issued $225 million aggregate principal amount of 3.83% First Mortgage Bonds, Series G, due April 7, 2055. The proceeds from the issuance were used for general corporate purposes, including the repayment of borrowings under ITC Midwest's revolving credit agreement. ITC Midwest's First Mortgage Bonds are issued under its first mortgage and deed of trust and secured by a first mortgage lien on substantially all of its 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

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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. The interest rate swaps listed below manage interest rate risk associated with the forecasted future issuance of fixed-rate debt related to the expected refinancing of the maturing ITC Holdings 6.05% Senior Notes, due January 31, 2018. As of December 31, 2016, ITC Holdings had $385 million outstanding under the 6.05% Senior Notes.

Interest Rate Swaps (In millions, except percentages)	Notional Amount	Weighted Average Fixed Rate		Original Term	Effective Date
July 2016 swaps	$ 75	1.616	%	10 years	January 2018
August 2016 swap	25	1.599	%	10 years	January 2018
Total	$ 100				

The 10-year term interest rate swaps call for ITC Holdings to receive interest quarterly at a variable rate equal to LIBOR and pay interest semi-annually at various fixed rates effective for the 10-year period beginning January 31, 2018, after the agreements have been terminated. The agreements include a mandatory early termination provision and will be terminated no later than the effective date of the interest rate swaps of January 31, 2018. The interest rate swaps have been determined to be highly effective at offsetting changes in the fair value of the forecasted interest cash flows associated with the expected debt issuance, resulting from changes in benchmark interest rates from the trade date of the interest rate swaps to the issuance date of the debt obligation.

The interest rate swaps qualify for cash flow hedge accounting treatment, whereby any gain or loss recognized from the trade date to the effective date for the effective portion of the hedge is recorded net of tax in AOCI. This amount will be accumulated and amortized as a component of interest expense over the life of the forecasted debt. As of December 31, 2016, the fair value of the derivative instruments was an asset of $8 million. None of the interest rate swaps contain credit-risk-related contingent features. Refer to Note 12 for additional fair value information.

In June 2016, we terminated $300 million of 10-year interest rate swap contracts that managed the interest rate risk associated with the unsecured Notes issued by ITC Holdings described below. A summary of the terminated interest rate swaps is provided below:

Interest Rate Swaps (In millions, except percentages)	Amount	Weighted Average Fixed Rate of Interest Rate Swaps	Comparable Reference Rate of Notes	Loss on Derivatives	Settlement Date
10-year interest rate swaps	$ 300	1.99%	1.37%	$ 17	June 2016

The interest rate swaps qualified for cash flow hedge accounting treatment and the loss of $17 million was recognized in June 2016 for the effective portion of the hedges and recorded net of tax in AOCI. This amount is being amortized as a component of interest expense over the life of the related debt. The ineffective portion of the hedges was recognized in the consolidated statement of operations for the year ended December 31, 2016 and was not material.

Revolving Credit Agreements

At December 31, 2016, ITC Holdings and certain of its Regulated Operating Subsidiaries had the following unsecured revolving credit facilities available:

(Amounts in millions, except percentages)	Total Available Capacity	Outstanding Balance (a)	Unused Capacity	Weighted Average Interest Rate on Outstanding Balance		Commitment Fee Rate (b)	
ITC Holdings	$ 400	$ 73	$ 327 (c)	2.0%	(d)	0.175	%
ITCTransmission	100	44	56	1.7%	(e)	0.10	%
METC	100	31	69	1.7%	(e)	0.10	%
ITC Midwest	250	127	123	1.7%	(e)	0.10	%

ITC Great Plains	150	59	91	1.7%	(e)	0.10	%
Total	$ 1,000	$ 334	$ 666				

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(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 $182 million as of December 31, 2016.
(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.

On April 7, 2016, each of the unsecured revolving credit agreements described above was amended to allow for the consummation of the Merger.

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, selling or otherwise disposing of all or substantially all of our assets and paying dividends. In addition, the covenants require us to meet certain financial ratios, such as maintaining certain debt to capitalization ratios and maintaining certain interest coverage ratios. As of December 31, 2016, we were not in violation of any debt covenant.

10. INCOME TAXES

Our effective tax rate varied from the statutory federal income tax rate due to differences between the book and tax treatment of various transactions as follows:

(In millions)	2016	2015	2014
Income tax expense at 35% statutory rate	$120	$134	$138
State income taxes (net of federal benefit)	3	14	16
AFUDC equity	(11)	(8)	(6)
Excess tax deductions for share-based compensation (a)	(23)	—	—
Other — net	8	2	2
Total income tax provision	$97	$142	$150

(a) Amount relates to a federal income tax benefit for excess tax deductions generated in 2016 as a result of adopting the new accounting guidance associated with share-based payments as described in Note 3.

Components of the income tax provision were as follows:

(In millions)	2016	2015	2014
Current income tax (benefit) expense (a)	$(122)	$65	$60
Deferred income tax expense (b)(c)	219	77	90
Total income tax provision	$97	$142	$150

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(a) Amount for the year ended December 31, 2016 primarily relates to the cash benefit that resulted from the election of bonus depreciation as described in Note 5.

(b) During the fourth quarter of 2016, we recognized total income tax benefits of $27 million for excess tax deductions for the year ended December 31, 2016 as a result of adopting the new accounting guidance associated with share-based payments as described in Note 3.

(c) Amount for the year ended December 31, 2016 includes utilization of $126 million of net operating losses, primarily resulting from the election of bonus depreciation as described in Note 5.

Deferred tax assets and liabilities are recognized for the estimated future tax effect of temporary differences between the tax basis of assets or liabilities and the reported amounts in the financial statements.

Deferred income tax assets (liabilities) consisted of the following at December 31:

(In millions)	2016	2015
Property, plant and equipment	$(1,026)	$(679)
Federal income tax NOLs and other credits	140	1
METC regulatory deferral (a)	(11)	(12)
Acquisition adjustments — ADIT deferrals (a)	(15)	(15)
Goodwill	(163)	(148)
ITCTransmission regional cost allocation recovery (a)	(11)	—
Refund liabilities (a)	56	70
Pension and postretirement liabilities	23	19
State income tax NOLs (net of federal benefit) (b)	47	20
Share-based compensation	—	14
Other — net (c)	(4)	(5)
Net deferred tax liabilities	$(964)	$(735)
Gross deferred income tax liabilities	$(1,252)	$(888)
Gross deferred income tax assets	288	153
Net deferred tax liabilities	$(964)	$(735)

(a) Described in Note 6.

(b) During the fourth quarter of 2016, we recorded a deferred tax asset of $9 million for state income tax net operating losses, related to excess tax benefits generated in periods prior to 2016 that had not been previously recognized in the consolidated statements of financial position, upon adoption of the accounting guidance associated with share-based payments as described in Note 3.

(c) Includes net revenue accruals and deferrals, including accrued interest, of $1 million as of December 31, 2016 and 2015.

We have federal income tax net operating losses (“NOLs”) and capital losses as of December 31, 2016, both of which we expect to use prior to their expirations starting in 2036 and 2018, respectively. We also have state income tax NOLs as of December 31, 2016, all of which we expect to use prior to their expiration starting in 2022.

11. 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. 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

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Retirement Income Security Act of 1974, plus additional amounts as we determine appropriate. We made contributions of $3 million, $4 million and $4 million to the retirement plan in 2016, 2015 and 2014, respectively. We expect to contribute $3 million to the retirement plan in 2017.

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. The obligations under these supplemental benefit plans are included in the pension benefit obligation calculations below. The investments held in trust for the supplemental benefit plans of $42 million and $36 million at December 31, 2016 and 2015, respectively, are not included in the plan asset amounts presented below, but are included in other assets on our consolidated statement of financial position. For the years ended December 31, 2016, 2015 and 2014, we contributed $5 million, $9 million and $5 million, respectively, to these supplemental benefit plans.

Our investments held for the supplemental benefit plans are classified as available-for-sale securities and the life-to-date net unrealized loss of less than $1 million as of December 31, 2016 and December 31, 2015 was recognized in AOCI.

The plan assets of the retirement plan consisted of the following assets by category:

Asset Category	2016	2015
Fixed income securities	50.3 %	50.4 %
Equity securities	49.7 %	49.6 %
Total	100.0%	100.0%

Net periodic benefit cost for the pension plans during 2016, 2015 and 2014 was as follows by component:

(In millions)	2016	2015	2014
Service cost	$6	$6	$ 5
Interest cost	4	4	4
Expected return on plan assets	(4)	(3)	(4)
Amortization of unrecognized loss	4	4	2
Net pension cost	$10	$11	$ 7

Prior to 2016, we measured service and interest costs for all pension plans utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. Beginning in 2016, we adopted a spot rate approach for measuring service and interest costs for all our pension plans whereby specific spot rates along the yield curve used to determine the benefit obligations are applied to the relevant projected cash flows. We believe the new approach provides a more precise measurement of our service and interest costs; therefore, we have accounted for this change prospectively as a change in accounting estimate. This change does not affect the measurement of our total benefit obligation and it did not have a material impact on 2016 net pension cost.

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The following table reconciles the obligations, assets and funded status of the pension plans as well as the presentation of the funded status of the pension plans in the consolidated statements of financial position as of December 31, 2016 and 2015:

(In millions)	2016	2015
Change in Benefit Obligation:		
Beginning projected benefit obligation	$(97)	$(96)
Service cost	(6)	(6)
Interest cost	(4)	(4)
Actuarial net (loss) gain	(11)	6
Benefits paid	2	3
Ending projected benefit obligation	$(116)	$(97)
Change in Plan Assets:		
Beginning plan assets at fair value	$58	$56
Actual return on plan assets	5	—
Employer contributions	3	4
Benefits paid	(2)	(2)
Ending plan assets at fair value	$64	$58
Funded status, underfunded	$(52)	$(39)
Accumulated benefit obligation:		
Retirement plan	$(56)	$(49)
Supplemental benefit plans	(55)	(41)
Total accumulated benefit obligation	$(111)	$(90)
Amounts recorded as:		
Funded Status:		
Accrued pension liabilities	$(52)	$(45)
Other non-current assets	4	6
Other current liabilities	(4)	—
Total	$(52)	$(39)
Unrecognized Amounts in Non-current Regulatory Assets:		
Net actuarial loss	$25	$19
Total	$25	$19

The unrecognized amounts that otherwise would have been charged and/or credited to AOCI in accordance with the FASB guidance on accounting for retirement benefits are recorded as a regulatory asset on our consolidated statements of financial position as discussed in Note 6. The amounts recorded as a regulatory asset represent a net periodic benefit cost to be recognized in our operating income in future periods.

Actuarial assumptions used to determine the benefit obligation for the pension plans at December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Weighted average discount rate (a)	4.00%	4.26%	3.95%
Annual rate of salary increases	4.00%	4.00%	4.00%

(a) The prior year discount rate assumptions have been presented to conform to current year weighted average presentation.

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Actuarial assumptions used to determine the benefit cost for the pension plans for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Weighted average discount rate — service cost (a)	4.46%	3.95%	4.80%
Weighted average discount rate — interest cost (a)	3.62%	3.95%	4.80%
Annual rate of salary increases	4.00%	4.00%	4.00 - 6.00%
Expected long-term rate of return on plan assets	6.40%	6.70%	6.75%

(a) The prior year discount rate assumptions have been presented to conform to current year weighted average presentation.

At December 31, 2016, the projected benefit payments for the pension plans calculated using the same assumptions as those used to calculate the benefit obligation described above are as follows:

(In millions	
2017	$6
2018	6
2019	6
2020	7
2021	7
2022 through 2026	45

Investment Objectives and Fair Value Measurement

The general investment objectives of the retirement plan include maximizing the return within reasonable and prudent levels of risk and controlling administrative and management costs. The targeted asset allocation is weighted equally between equity and fixed income investments. Investment decisions are made by our retirement benefits board as delegated by our board of directors. Equity investments may include various types of U.S. and international equity securities, such as large-cap, mid-cap and small-cap stocks. Fixed income investments may include cash and short-term instruments, U.S. Government securities, corporate bonds, mortgages and other fixed income investments. No investments are prohibited for use in the retirement plan, including derivatives, but our exposure to derivatives currently is not material. We intend that the long-term capital growth of the retirement plan, together with employer contributions, will provide for the payment of the benefit obligations.

We determine our expected long-term rate of return on plan assets based on the current and expected target allocations of the retirement plan investments and considering historical and expected long-term rates of returns on comparable fixed income investments and equity investments.

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 years ended December 31, 2016 and 2015, there were no transfers between levels.

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The fair value measurement of the retirement plan assets as of December 31, 2016, was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using 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 — U.S. equity securities	$ 25	$ —	$ —
Mutual funds — international equity securities	7	—	—
Mutual funds — fixed income securities	32	—	—
Total	$ 64	$ —	$ —

The fair value measurement of the retirement plan assets as of December 31, 2015, was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using 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 — U.S. equity securities	$ 24	$ —	$ —
Mutual funds — international equity securities	5	—	—
Mutual funds — fixed income securities	29	—	—
Total	$ 58	$ —	$ —

The mutual funds consist primarily of publicly traded mutual funds and are recorded at fair value based on observable trades for identical securities in an active market.

Other Postretirement Benefits

We provide certain postretirement health care, dental and life insurance benefits for eligible employees. We contributed $7 million, $9 million and $6 million to the postretirement benefit plan in 2016, 2015 and 2014, respectively. We expect to contribute $9 million to the plan in 2017.

The plan assets consisted of the following assets by category:

Asset Category	2016	2015
Fixed income securities	50.3 %	50.0 %
Equity securities	49.7 %	50.0 %
Total	100.0%	100.0%

Net postretirement benefit plan cost for 2016, 2015 and 2014 was as follows by component:

(In millions)	2016	2015	2014
Service cost	$ 7	$ 8	$ 6
Interest cost	3	3	2
Expected return on plan assets	(2)	(2)	(1)
Amortization of unrecognized loss	—	1	—
Net postretirement cost	$ 8	$ 10	$ 7

Prior to 2016, we measured service and interest costs for the postretirement benefit plan utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligation. Beginning in 2016, we adopted a spot rate approach for measuring service and interest costs for the postretirement benefit plan whereby specific spot rates along the yield curve used to determine the benefit obligation are applied to the relevant projected cash flows. We believe the new approach provides a more precise measurement of our service and interest costs; therefore, we have accounted for this change prospectively as a change in accounting estimate. This change does

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not affect the measurement of our total benefit obligation and it did not have a material impact on 2016 net postretirement benefit cost.

The following table reconciles the obligations, assets and funded status of the plan as well as the amounts recognized as accrued postretirement liability in the consolidated statements of financial position as of December 31, 2016 and 2015:

(In millions)	2016	2015
Change in Benefit Obligation:		
Beginning accumulated postretirement obligation	$(58)	$(58)
Service cost	(7)	(8)
Interest cost	(3)	(3)
Actuarial net (loss) gain	(1)	10
Benefits paid	1	1
Ending accumulated postretirement obligation	$(68)	$(58)
Change in Plan Assets:		
Beginning plan assets at fair value	$42	$33
Actual return on plan assets	4	—
Employer contributions	7	9
Employer provided retiree premiums	—	1
Benefits paid	(1)	(1)
Ending plan assets at fair value	$52	$42
Funded status, underfunded	$(16)	$(16)
Amounts recorded as:		
Funded Status:		
Accrued postretirement liabilities	$(16)	$(16)
Total	$(16)	$(16)
Unrecognized Amounts in Non-current Regulatory Assets:		
Net actuarial loss	$—	$—
Total	$—	$—

The unrecognized amounts that otherwise would have been charged and/or credited to AOCI in accordance with the FASB guidance on accounting for retirement benefits are recorded as a regulatory asset on our consolidated statements of financial position as discussed in Note 6. The amounts recorded as a regulatory asset represent a net periodic benefit cost to be recognized in our operating income in future periods. Our measurement of the accumulated postretirement benefit obligation as of December 31, 2016 and 2015 does not reflect the potential receipt of any subsidies under the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Actuarial assumptions used to determine the benefit obligation at December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Discount rate	4.28%	4.62%	4.20%
Annual rate of salary increases	4.00%	4.00%	4.00%
Health care cost trend rate	7.00%	7.15%	7.25%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the ultimate trend rate is reached	2022	2022	2022
Annual rate of increase in dental benefit costs	5.00%	5.00%	5.00%

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Actuarial assumptions used to determine the benefit cost for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Discount rate — service cost	4.72%	4.20%	5.15%
Discount rate — interest cost	4.21%	4.20%	5.15%
Annual rate of salary increases	4.00%	4.00%	4.00%
Health care cost trend rate	7.15%	7.25%	7.50%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the ultimate trend rate is reached	2022	2022	2022
Expected long-term rate of return on plan assets	4.80%	5.20%	5.50%

At December 31, 2016, the projected benefit payments for the postretirement benefit plan calculated using the same assumptions as those used to calculate the benefit obligations listed above are as follows:

(In millions)	
2017	$1
2018	1
2019	1
2020	2
2021	2
2022 through 2026	14

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase or decrease in assumed health care cost trend rates would have the following effects on service and interest cost for 2016 and the postretirement benefit obligation at December 31, 2016:

(In millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 3	$ (2)
Effect on postretirement benefit obligation	15	(11)

Investment Objectives and Fair Value Measurement

The general investment objectives of the other postretirement benefit plan include maximizing the return within reasonable and prudent levels of risk and controlling administrative and management costs. The targeted asset allocation is weighted equally between equity and fixed income investments. Investment decisions are made by our retirement benefits board as delegated by our board of directors. Equity investments may include various types of U.S. and international equity securities, such as large-cap, mid-cap and small-cap stocks. Fixed income investments may include cash and short-term instruments, U.S. Government securities, corporate bonds, mortgages and other fixed income investments. No investments are prohibited for use in the other postretirement benefit plan, including derivatives, but our exposure to derivatives currently is not material. We intend that the long-term capital growth of the other postretirement benefit plan, together with employer contributions, will provide for the payment of the benefit obligations.

We determine our expected long-term rate of return on plan assets based on the current target allocations of the retirement plan investments as well as consider historical returns on comparable fixed income investments and equity investments.

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 years ended December 31, 2016 and 2015, there were no transfers between levels.

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The fair value measurement of the other postretirement benefit plan assets as of December 31, 2016, was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using 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 — U.S. equity securities	$ 25	$ —	$ —
Mutual funds — international equity securities	1	—	—
Mutual funds — fixed income securities	26	—	—
Total	$ 52	$ —	$ —

The fair value measurement of the other postretirement benefit plan assets as of December 31, 2015, was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs	Significant Unobservable Inputs