ITC Holdings Corp.
Form 10-Q
May 01, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-32576
ITC HOLDINGS CORP.
(Exact Name of Registrant as Specified in Its Charter)

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

27175 Energy Way
Novi, MI 48377
(Address Of Principal Executive Offices, Including Zip Code)
(248) 946-3000
(Registrant’s Telephone Number, Including Area Code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No þ
*(Note: The Registrant is a voluntary filer and has not been subject to the filing requirements under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the preceding 12 months.)
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o	Emerging growth company o
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.o
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
All shares of outstanding common stock of ITC Holdings Corp. are held by its parent company, ITC Investment Holdings Inc., which is an indirect majority owned subsidiary of Fortis Inc. There were 224,203,112 shares of common stock, no par value, outstanding as of April 30, 2018.

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DEFINITIONS

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

ITC Holdings Corp. and its subsidiaries

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

Other definitions

- “AOCI” are references to accumulated other comprehensive income or (loss);
- “AFUDC” are references to an allowance for the cost of equity and borrowings used during construction;
- “Consumers Energy” are references to Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation;
- “D.C. Circuit Court” are references to U.S. Court of Appeals for the District of Columbia Circuit;
- “DCF” are references to discounted cash flow;
- “DTE Electric” are references to DTE Electric Company, a wholly-owned subsidiary of DTE Energy Company;
- “ESPP” are references to the Fortis Amended and Restated 2012 Employee Share Purchase Plan;
- “FASB” are references to the Financial Accounting Standards Board;
- “FERC” are references to the Federal Energy Regulatory Commission;
- “Fortis” are references to Fortis Inc.;
- “Formula Rate” are references to a FERC-approved formula that is used to calculate rates;
- “FPA” are references to the Federal Power Act;
- “GAAP” are references to accounting principles generally accepted in the United States of America;
- “GIAs” are references to generator interconnection agreements;
- “GIC” are references to GIC Private Limited;
- “Initial Complaint” are references to a November 2013 complaint to the FERC under Section 206 of the FPA regarding ROE;
- “Investment Holdings” are references to ITC Investment Holdings Inc., a majority owned indirect subsidiary of Fortis in which GIC has an indirect minority ownership interest;

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- “IP&L” are references to Interstate Power and Light Company, an Alliant Energy Corporation subsidiary;
- “IRS” are references to the Internal Revenue Service;
- “ISO” are references to Independent System Operators;
- “kW” are references to kilowatts (one kilowatt equaling 1,000 watts);
- “LIBOR” are references to the London Interbank Offered Rate;
- “MISO” are references to the Midcontinent Independent System Operator, Inc., a FERC-approved RTO which oversees the operation of the bulk power transmission system for a substantial portion of the Midwestern United States and Manitoba, Canada, and of which ITCTransmission, METC and ITC Midwest are members;
- “Moody’s” are references to Moody’s Investor Services, Inc.;
- “NERC” are references to the North American Electric Reliability Corporation;
- “NOLs” are references to net operating loss carryforwards for income taxes;
- “PBU” are references to a performance-based unit;
- “PCBs” are references to polychlorinated biphenyls;
- “ROE” are references to return on equity;
- “RPGI” are references to Resale Power Group of Iowa;
- “RTO” are references to Regional Transmission Organizations;
- “SBU” are references to a service-based unit;
- “SEC” are references to the Securities and Exchange Commission;
- “Second Complaint” are references to an additional complaint filed on February 12, 2015 with the FERC under Section 206 of the FPA regarding ROE;
- “September 2016 Order” are references to an order issued by the FERC on September 28, 2016 regarding ROE complaints;
- “SPP” are references to Southwest Power Pool, Inc., a FERC-approved RTO which oversees the operation of the bulk power transmission system for a substantial portion of the South Central United States, and of which ITC Great Plains is a member;
- “Standard and Poor’s” are references to Standard and Poor’s Ratings Services;
- “TCJA” are references to the Tax Cuts and Jobs Act of 2017, a comprehensive tax reform bill enacted on December 22, 2017; and
- “TO” are references to transmission owners.

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

(in millions, except share data)	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 110	$ 66
Accounts receivable	106	119
Inventory	30	29
Regulatory assets	17	18
Income tax receivable	2	15
Prepaid and other current assets	11	13
Total current assets	276	260
Property, plant and equipment (net of accumulated depreciation and amortization of $1,710 and $1,675, respectively)	7,455	7,309
Other assets		
Goodwill	950	950
Intangible assets (net of accumulated amortization of $36 and $35, respectively)	40	41
Regulatory assets	211	197
Other	63	66
Total other assets	1,264	1,254
TOTAL ASSETS	$ 8,995	$ 8,823
LIABILITIES AND STOCKHOLDER’S EQUITY		
Current liabilities		
Accounts payable	$ 110	$ 97
Accrued compensation	15	28
Accrued interest	59	60
Accrued taxes	43	57
Regulatory liabilities	195	183
Refundable deposits from generators for transmission network upgrades	14	3
Debt maturing within one year	50	100
Other	34	34
Total current liabilities	520	562
Accrued pension and postretirement liabilities	73	74
Deferred income taxes	631	601
Regulatory liabilities	621	619
Refundable deposits from generators for transmission network upgrades	15	29
Other	20	17
Long-term debt	5,163	5,001
Commitments and contingent liabilities (Notes 5 and 14)		
STOCKHOLDER’S EQUITY		
Common stock, without par value, 235,000,000 shares authorized, 224,203,112 shares issued and outstanding at March 31, 2018 and December 31, 2017	892	892
Retained earnings	1,057	1,026
Accumulated other comprehensive income	3	2
Total stockholder’s equity	1,952	1,920
TOTAL LIABILITIES AND STOCKHOLDER’S EQUITY	$ 8,995	$ 8,823

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

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

	Three months ended March 31,	
(in millions)	2018	2017
OPERATING REVENUES		
Transmission and other services	$271	$276
Formula rate true-up	8	22
Total operating revenue	279	298
OPERATING EXPENSES		
Operation and maintenance	23	29
General and administrative	31	31
Depreciation and amortization	44	41
Taxes other than income taxes	27	24
Total operating expenses	125	125
OPERATING INCOME	154	173
OTHER EXPENSES (INCOME)		
Interest expense — net	55	53
Allowance for equity funds used during construction	(9)	(8)
Other (income) and expenses — net	—	1
Total other expenses (income)	46	46
INCOME BEFORE INCOME TAXES	108	127
INCOME TAX PROVISION	26	47
NET INCOME	$82	$80

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

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

	Three months ended March 31,	
(in millions)	2018	2017
NET INCOME	$82	$ 80
OTHER COMPREHENSIVE INCOME		
Derivative instruments, net of tax (Note 11)	1	—
TOTAL COMPREHENSIVE INCOME	$83	$ 80

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

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

	Three months ended March 31,	
(in millions)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$82	$80
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	44	41
Recognition, refund and collection of revenue accruals and deferrals — including accrued interest	(14)	(18)
Deferred income tax expense	26	46
Allowance for equity funds used during construction	(9)	(8)
Other	3	6
Changes in assets and liabilities, exclusive of changes shown separately:		
Accounts receivable	14	(13)
Income tax receivable	13	3
Other current assets	1	6
Accounts payable	3	3
Accrued compensation	(8)	4
Accrued taxes	(14)	(14)
Other current liabilities	10	(4)
Net estimated refund related to return on equity complaints	2	(120)
Other non-current assets and liabilities, net	—	(3)
Net cash provided by operating activities	153	9
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(176)	(204)
Other	7	2
Net cash used in investing activities	(169)	(202)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	225	—
Borrowings under revolving credit agreements	232	333
Borrowings under term loan credit agreements	—	250
Net repayment of commercial paper, net of discount	—	(11)
Retirement of long-term debt	(100)	—
Repayments of revolving credit agreements	(244)	(349)
Dividends to ITC Investment Holdings Inc.	(50)	(33)
Other	(4)	2
Net cash provided by financing activities	59	192
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	43	(1)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	68	11
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period	$111	$10

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

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

ITC Holdings and its subsidiaries are engaged in the transmission of electricity in the United States. Through our Regulated Operating Subsidiaries, we own and operate high-voltage systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Kansas and Oklahoma that transmit electricity from generating stations to local distribution facilities connected to our systems. On October 14, 2016, ITC Holdings became a wholly-owned subsidiary of Investment Holdings, which is indirectly owned by Fortis and GIC.

Basis of Presentation

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

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

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

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

Revenue from Contracts with Customers

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

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

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

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

Recognition and Measurement of Financial Instruments

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

Presentation of Restricted Cash in the Statement of Cash Flows

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

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

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

	Three months ended March 31,	Twelve months ended December 31,		
	2017	2017	2016	2015
Restricted cash - Beginning balance	$ 3	$ 3	$ 1	$ 2
Restricted cash - Ending balance	4	2	3	1
Change - Other non-current assets and liabilities, net within condensed consolidated statements of cash flow	$ 1	$ (1)	$ 2	$ (1)

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

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

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

	Three months ended March 31,	Year ended December 31,				
(in millions)	2017	2017	2016	2015	2014	2013
General and administrative						
Reported	$ 31	$123	$239	$145	$115	$149
Adjustment	—	(2)	(5)	(5)		