

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2023

OR

- 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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
None	None	None

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 No

* 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

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 October 26, 2023.

ITC Holdings Corp.
Form 10-Q for the Quarterly Period Ended September 30, 2023

INDEX

	<u>Page</u>
<u>Part I. Financial Information</u>	<u>5</u>
<u>Item 1. Financial Statements</u>	<u>5</u>
<u>Condensed Consolidated Statements of Financial Position (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Changes in Stockholder's Equity (Unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>8</u>
<u>Notes to Condensed Consolidated Interim Financial Statements (Unaudited)</u>	<u>9</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
<u>Item 4. Controls and Procedures</u>	<u>32</u>
<u>Part II. Other Information</u>	<u>33</u>
<u>Item 1. Legal Proceedings</u>	<u>33</u>
<u>Item 1A. Risk Factors</u>	<u>33</u>
<u>Item 6. Exhibits</u>	<u>33</u>
<u>Signatures</u>	<u>34</u>

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 Holdings;
- “ITC Holdings” are references to ITC Holdings Corp. and not any of its subsidiaries;
- “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 Michigan Transco Holdings, LLC;
- “MISO Regulated Operating Subsidiaries” are references to ITCTransmission, METC and ITC Midwest together;
- “Regulated Operating Subsidiaries” are references primarily to ITCTransmission, METC, ITC Midwest, and ITC Great Plains together; and
- “Company,” “we,” “our” and “us” are references to ITC Holdings together with all of its subsidiaries.

Other definitions

- “AFUDC” are references to an allowance for funds used during construction;
- “ALJ” are references to an administrative law judge;
- “AOCI” are references to accumulated other comprehensive income or (loss);
- “Consumers Energy” are references to Consumers Energy Company, a wholly-owned subsidiary of CMS Energy Corporation;
- “D.C. Circuit Court” are references to the U.S. Court of Appeals for the District of Columbia Circuit;
- “DTE Electric” are references to DTE Electric Company, a wholly-owned subsidiary of DTE Energy Company;
- “Exchange Act” are references to the Securities Exchange Act of 1934, as amended;
- “FASB” are references to the Financial Accounting Standards Board;
- “FERC” are references to the Federal Energy Regulatory Commission;
- “Formula Rate” are references to a FERC-approved formula template used to calculate an annual revenue requirement;
- “Fortis” are references to Fortis Inc.;
- “FPA” are references to the Federal Power Act;
- “GAAP” are references to accounting principles generally accepted in the United States of America;
- “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 the base ROE;
- “IP&L” are references to Interstate Power and Light Company, an Alliant Energy Corporation subsidiary;
- “ITC Investment Holdings” are references to ITC Investment Holdings Inc., a majority owned indirect subsidiary of Fortis in which GIC has an indirect, passive, non-voting minority ownership interest;
- “kW” are references to kilowatts (one kilowatt equaling 1,000 watts);
- “LIBOR” are references to the London Interbank Offered Rate;

- “May 2020 Order” are references to an order issued by the FERC on May 21, 2020 regarding MISO ROE Complaints;
- “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;
- “MISO ROE Complaints” are references to the Initial Complaint and the Second Complaint;
- “NERC” are references to the North American Electric Reliability Corporation;
- “NOPR” are references to a Notice of Proposed Rulemaking issued by the FERC;
- “PBU” are references to a performance-based unit;
- “PCBs” are references to polychlorinated biphenyls;
- “Revolving Credit Agreement” are references to the unsecured, unguaranteed revolving credit agreement entered into by ITC Holdings, ITCTransmission, METC, ITC Midwest and ITC Great Plains dated as of April 14, 2023;
- “ROE” are references to return on equity;
- “ROFR” are references to right of first refusal;
- “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 the base ROE;
- “SOFR” are references to Secured Overnight Financing Rate;
- “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;
- “TO” are references to transmission owner; and
- “USD” are references to the United States dollar.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(In millions of USD, except share data)	September 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 331	\$ 4
Accounts receivable	172	139
Inventory	63	55
Regulatory assets	25	12
Prepaid and other current assets	30	19
Total current assets	621	229
Property, plant and equipment (net of accumulated depreciation and amortization of \$2,531 and \$2,382, respectively)	11,094	10,637
Other assets		
Goodwill	950	950
Regulatory assets	170	181
Other assets	131	134
Total other assets	1,251	1,265
TOTAL ASSETS	\$ 12,966	\$ 12,131
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable	\$ 89	\$ 112
Accrued compensation	52	59
Accrued interest	93	69
Accrued taxes	37	72
Regulatory liabilities	36	22
Refundable deposits and advances for construction	40	26
Debt maturing within one year	400	384
Other current liabilities	16	15
Total current liabilities	763	759
Accrued pension and postretirement liabilities	41	41
Deferred income taxes	1,382	1,303
Regulatory liabilities	734	676
Refundable deposits	51	29
Other liabilities	39	44
Long-term debt	7,153	6,607
Commitments and contingent liabilities (Notes 4 and 12)		
TOTAL LIABILITIES	10,163	9,459
STOCKHOLDER'S EQUITY		
Common stock, without par value, 235,000,000 shares authorized, 224,203,112 shares issued and outstanding at September 30, 2023 and December 31, 2022	892	892
Retained earnings	1,882	1,753
Accumulated other comprehensive income	29	27
Total stockholder's equity	2,803	2,672
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 12,966	\$ 12,131

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

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

(In millions of USD)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
OPERATING REVENUES				
Transmission and other services	\$ 464	\$ 435	\$ 1,203	\$ 1,149
Formula Rate true-up	(76)	(69)	(45)	(51)
Total operating revenues	388	366	1,158	1,098
OPERATING EXPENSES				
Operation and maintenance	30	29	87	83
General and administrative	26	18	86	77
Depreciation and amortization	77	74	228	220
Taxes other than income taxes	34	31	109	104
Other operating (income) expenses, net	—	—	(1)	—
Total operating expenses	167	152	509	484
OPERATING INCOME	221	214	649	614
OTHER EXPENSES (INCOME)				
Interest expense, net	82	68	234	198
Allowance for equity funds used during construction	(10)	(10)	(32)	(27)
Other (income) expenses, net	(5)	1	(10)	4
Total other expenses (income)	67	59	192	175
INCOME BEFORE INCOME TAXES	154	155	457	439
INCOME TAX PROVISION	44	44	117	111
NET INCOME	110	111	340	328
OTHER COMPREHENSIVE INCOME				
Derivative instruments, net of tax (Note 9)	—	6	2	29
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	—	6	2	29
TOTAL COMPREHENSIVE INCOME	\$ 110	\$ 117	\$ 342	\$ 357

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

ITC HOLDINGS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(UNAUDITED)

(In millions of USD)	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholder's Equity
BALANCE, DECEMBER 31, 2021	\$ 892	\$ 1,584	\$ (2)	\$ 2,474
Net income	—	106	—	106
Dividends to ITC Investment Holdings	—	(64)	—	(64)
Other comprehensive income, net of tax (Note 9)	—	—	16	16
BALANCE, MARCH 31, 2022	892	1,626	14	2,532
Net income	—	111	—	111
Dividends to ITC Investment Holdings	—	(64)	—	(64)
Other comprehensive income, net of tax (Note 9)	—	—	7	7
BALANCE, JUNE 30, 2022	892	1,673	21	2,586
Net income	—	111	—	111
Dividends to ITC Investment Holdings	—	(71)	—	(71)
Other comprehensive income, net of tax (Note 9)	—	—	6	6
BALANCE, SEPTEMBER 30, 2022	<u>\$ 892</u>	<u>\$ 1,713</u>	<u>\$ 27</u>	<u>\$ 2,632</u>
BALANCE, DECEMBER 31, 2022	\$ 892	\$ 1,753	\$ 27	\$ 2,672
Net income	—	112	—	112
Dividends to ITC Investment Holdings	—	(70)	—	(70)
BALANCE, MARCH 31, 2023	892	1,795	27	2,714
Net income	—	118	—	118
Dividends to ITC Investment Holdings	—	(70)	—	(70)
Other comprehensive income, net of tax (Note 9)	—	—	2	2
BALANCE, JUNE 30, 2023	892	1,843	29	2,764
Net income	—	110	—	110
Dividends to ITC Investment Holdings	—	(71)	—	(71)
BALANCE, SEPTEMBER 30, 2023	<u>\$ 892</u>	<u>\$ 1,882</u>	<u>\$ 29</u>	<u>\$ 2,803</u>

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

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

(In millions of USD)	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 340	\$ 328
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	228	220
Recognition, refund and collection of revenue accruals and deferrals — including accrued interest	39	58
Deferred income tax expense	84	103
Allowance for equity funds used during construction	(32)	(27)
Share-based compensation	11	7
Other	13	56
Changes in assets and liabilities, exclusive of changes shown separately:		
Accounts receivable	(34)	(29)
Accounts payable	(2)	6
Accrued compensation	(10)	(19)
Accrued interest	25	11
Accrued taxes	(34)	(29)
Other current and non-current assets and liabilities, net	(33)	(28)
Net cash provided by operating activities	595	657
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(622)	(719)
Other	(13)	6
Net cash used in investing activities	(635)	(713)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt, net	799	825
Borrowings under revolving credit agreements	894	783
Net repayment of commercial paper	(134)	(21)
Repayment of long-term debt	(250)	(500)
Repayments of revolving credit agreements	(745)	(819)
Dividends to ITC Investment Holdings	(211)	(199)
Refundable deposits from generators for transmission network upgrades	47	—
Repayment of refundable deposits from generators for transmission network upgrades	(21)	(8)
Other	(9)	(7)
Net cash provided by financing activities	370	54
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	330	(2)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	6	7
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period	\$ 336	\$ 5

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

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. ITC Holdings is a wholly-owned subsidiary of ITC Investment Holdings. Fortis owns a majority indirect equity interest in ITC Investment Holdings, with GIC holding an indirect, passive, non-voting equity interest of 19.9%. Through our Regulated Operating Subsidiaries, we own, operate, maintain and invest in high-voltage transmission systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Kansas, Oklahoma and Wisconsin that transmit electricity from generating stations to local distribution facilities connected to our transmission systems.

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, 2022 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. REVENUE

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

Transmission Services

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

Transmission service revenue includes an estimate for unbilled revenues from service that has been provided but not billed by the end of an accounting period. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of transmission network load (for the MISO Regulated Operating Subsidiaries) and preliminary information provided by billing agents. Due to the seasonal fluctuations of actual load, the unbilled revenue amount generally increases during the spring and summer and decreases during the fall and winter. See Note 3 for information on changes in unbilled accounts receivable.

Other Services

Other services revenue consists of rental revenues, easement revenues and amounts from providing ancillary services. A portion of other services revenue is treated as a revenue credit and reduces gross revenue requirement when calculating net revenue requirement under our Formula Rates. Total other services revenue

for the three months ended September 30, 2023 and 2022 was \$2 million and \$3 million, respectively. Total other services revenue for each of the nine months ended September 30, 2023 and 2022 was \$5 million.

Formula Rate True-Up

The true-up mechanism under our Formula Rates is considered an alternative revenue program of a rate-regulated utility given it permits our Regulated Operating Subsidiaries to adjust future rates in response to past activities or completed events in order to collect our actual revenue requirements under our Formula Rates. In accordance with our accounting policy, only the current year origination of the true-up is reported as a Formula Rate true-up. See “Cost-Based Formula Rates with True-Up Mechanism” in Note 4 for more information on our Formula Rates.

3. ACCOUNTS RECEIVABLE

The following table presents the components of accounts receivable on the condensed consolidated statements of financial position:

(In millions of USD)	September 30, 2023	December 31, 2022
Trade accounts receivable	\$ 2	\$ 2
Unbilled accounts receivable	156	124
Other (a)	14	13
Total accounts receivable	<u>\$ 172</u>	<u>\$ 139</u>

(a) Includes amounts due from affiliates, see “Related Party Receivables and Payables” in Note 11 for additional information.

4. REGULATORY MATTERS

Cost-Based Formula Rates with True-Up Mechanism

The transmission revenue requirements at our Regulated Operating Subsidiaries are set annually using Formula Rates and remain in effect for a one-year period. By updating the inputs to the formula and resulting rates on an annual basis, the revenues at our Regulated Operating Subsidiaries reflect changing operational data and financial performance, including the amount of network load on their transmission systems (for our MISO Regulated Operating Subsidiaries), operating expenses and additions to property, plant and equipment when placed in service, among other items. The formula used to derive the rates does not require further action or FERC filings each year, although the formula inputs remain subject to legal challenge at the FERC. Our Regulated Operating Subsidiaries will continue to use the formula to calculate their respective annual revenue requirements unless the FERC determines the resulting rates to be unjust and unreasonable and another mechanism is determined by the FERC to be just and reasonable. See “Rate of Return on Equity Complaints” in Note 12 for detail on ROE matters for our MISO Regulated Operating Subsidiaries and “ROE and Incentive Adders for Transmission Rates” and “Capital Structure Complaint” discussed herein.

The cost-based Formula Rates at our Regulated Operating Subsidiaries include a true-up mechanism that compares the actual revenue requirements of our Regulated Operating Subsidiaries to their billed revenues for each year to determine any over- or under-collection of revenue requirements. Revenue is recognized for services provided during each reporting period based on actual revenue requirements calculated using the formula. Our Regulated Operating Subsidiaries accrue or defer revenues to the extent that the actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. The amount of accrued or deferred revenues is reflected in future revenue requirements and thus flows through to customer bills within two years under the provisions of our Formula Rates.

The net changes in regulatory assets and liabilities associated with our Regulated Operating Subsidiaries' Formula Rate revenue accruals and deferrals, including accrued interest, were as follows during the nine months ended September 30, 2023:

(In millions of USD)	Total
Net regulatory liabilities as of December 31, 2022	\$ (20)
Net refund of 2021 revenue deferrals and accruals, including accrued interest	8
Net revenue deferral, including accrued interest	(45)
Net accrued interest payable	(2)
Net regulatory liabilities as of September 30, 2023	<u>\$ (59)</u>

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

(In millions of USD)	September 30, 2023	December 31, 2022
Current regulatory assets	\$ 25	\$ 12
Non-current regulatory assets	16	29
Current regulatory liabilities	(36)	(22)
Non-current regulatory liabilities	(64)	(39)
Net regulatory liabilities	<u>\$ (59)</u>	<u>\$ (20)</u>

ROE and Incentive Adders for Transmission Rates

The FERC has authorized the use of ROE incentives, or adders, that can be applied to the rates of TOs when certain conditions are met. Our MISO Regulated Operating Subsidiaries and ITC Great Plains utilize ROE adders related to independent transmission ownership and RTO participation. The FERC issued a NOPR on March 20, 2020, and a supplemental NOPR on April 15, 2021, proposing to update its transmission incentives policy to remove incentives for independent transmission ownership and RTO participation and to grant incentives for certain transmission projects. As of September 30, 2023, no final determination had been made on these NOPRs and we cannot predict whether this will have a material impact on us.

MISO Regulated Operating Subsidiaries

For the three and nine months ended September 30, 2023 and 2022, the authorized ROE used by the MISO Regulated Operating Subsidiaries was 10.77% and is composed of a base ROE of 10.02% with a 25 basis point adder for independent transmission ownership and a 50 basis point adder for RTO participation. See "Rate of Return on Equity Complaints" in Note 12 for a discussion of the MISO ROE Complaints.

ITC Great Plains

For the three and nine months ended September 30, 2023 and 2022, the authorized ROE used by ITC Great Plains was 11.41% and is composed of a base ROE of 10.66% with a 25 basis point adder for independent transmission ownership and a 50 basis point adder for RTO participation.

Capital Structure Complaint

On May 10, 2022, the Iowa Coalition for Affordable Transmission, including IP&L, filed a complaint with the FERC under Section 206 of the FPA. Specifically, the complaint alleged that ITC Midwest does not meet the FERC's three-part test for authorizing the use of a utility's actual capital structure for ratemaking purposes which requires that ITC Midwest 1) issue its own debt without guarantees, 2) have its own credit rating, and 3) have a capital structure within the range of capital structures previously approved by the Commission. The Iowa Coalition for Affordable Transmission asked the FERC to reduce ITC Midwest's equity component from 60% to 53%. On November 2, 2022, the FERC issued an order denying the complaint. On December 2, 2022, the Iowa Coalition for Affordable Transmission filed a request for rehearing with the FERC. On March 16, 2023, the FERC confirmed the previous order denying the complaint and we consider the matter to be closed.

5. DEBT

ITC Holdings

Senior Unsecured Notes

On June 1, 2023, ITC Holdings completed a private offering of Senior Notes totaling \$800 million, which included \$500 million aggregate principal amount of unsecured 5.40% Senior Notes, due June 1, 2033, and an additional \$300 million aggregate principal amount issued of its existing unsecured 4.95% Senior Notes, due September 22, 2027. The issuance increased the total aggregate principal amount issued of the 4.95% Senior Notes to \$900 million. The 5.40% and the 4.95% Senior Notes are redeemable prior to March 1, 2033 and August 22, 2027, respectively, in whole or in part and at the option of ITC Holdings, by paying an applicable make whole premium. The total net proceeds from the offering, after discount and costs related to the issuances, were used to redeem in full \$250 million aggregate principal amount of ITC Holdings 4.05% Senior Notes, due July 1, 2023, to repay indebtedness outstanding under the commercial paper program and for general corporate purposes. The 4.95% and 5.40% Senior Notes were issued under ITC Holdings' indenture, dated April 18, 2013, between ITC Holdings and Computershare Trust Company, N.A., as successor to Wells Fargo Bank, National Association, as trustee, as supplemented from time to time, including by the Sixth and Seventh Supplemental Indentures, dated as of September 22, 2022 and June 1, 2023, respectively.

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. At September 30, 2023, ITC Holdings did not have any commercial paper issued and outstanding under the program. At December 31, 2022, ITC Holdings had \$134 million of commercial paper issued and outstanding. Amounts outstanding are classified as debt maturing within one year in the condensed consolidated statements of financial position. The Company's Revolving Credit Agreement may be used to repay commercial paper issued pursuant to the commercial paper program.

Revolving Credit Agreement

On April 14, 2023, ITC Holdings, ITCTransmission, METC, ITC Midwest and ITC Great Plains entered into the Revolving Credit Agreement. In connection with the closing of the Revolving Credit Agreement, the borrowers used funds borrowed under the Revolving Credit Agreement to replace and refinance in full, the previous revolving credit agreements. The Revolving Credit Agreement established an unguaranteed, unsecured revolving credit facility under which the borrowers may borrow an aggregate principal amount of \$1 billion (subject to certain borrowing sublimits for each of the borrowers as set forth in the Revolving Credit Agreement). The Revolving Credit Agreement has a maturity date of April 14, 2028 and the interest rate is based on a calculation that references either SOFR or a comparable benchmark as further outlined in the Revolving Credit Agreement.

At September 30, 2023, ITC Holdings and certain of its Regulated Operating Subsidiaries had the following unsecured revolving credit facilities available:

(In millions of USD, except percentages)	Total Available Capacity (a)	Outstanding Balance (b)	Unused Capacity	Weighted Average Interest Rate on Outstanding Balance (c)	Commitment Fee Rate (d)
ITC Holdings	\$ 400	\$ —	\$ 400	— %	0.175 %
ITCTransmission	175	107	68	6.35 %	0.100 %
METC	175	96	79	6.35 %	0.100 %
ITC Midwest	225	136	89	6.35 %	0.100 %
ITC Great Plains	25	18	7	6.35 %	0.100 %
Total	<u>\$ 1,000</u>	<u>\$ 357</u>	<u>\$ 643</u>		

- (a) Represents the current borrowing sublimit. Individual sublimits may be adjusted, subject to certain maximum individual sublimits and the aggregate limit under the Revolving Credit Agreement.
- (b) Included within long-term debt in the condensed consolidated statements of financial position.
- (c) Interest charged on borrowings depends on the variable rate structure we elected at the time of each borrowing.
- (d) Calculation based on the average daily unused commitments, subject to adjustment based on the borrower’s credit rating.

Derivative Instruments and Hedging Activities

During the second quarter of 2023, ITC Holdings entered into and settled 10-year U.S. Treasury rate lock contracts with notional amounts totaling \$500 million and a weighted-average forward rate yield of 3.46%. The contracts were used to manage interest rate risk associated with the \$500 million issuance of unsecured 5.40% Senior Notes at ITC Holdings on June 1, 2023. The comparable reference rate used to determine the gain on settlement of the treasury locks was 3.57%. The treasury locks qualified for cash flow hedge accounting treatment and the cumulative pre-tax gain of \$4 million was recorded net of tax in AOCI. This amount is being amortized as a component of interest expense over the term of the related debt. The settlement payment was recognized within cash flows from operating activities in the condensed consolidated statements of cash flows.

6. INCOME TAXES

On March 1, 2022, the governor of Iowa signed an act into law that contains provisions to reduce Iowa’s corporate tax rates if a certain threshold of the state’s annual net corporate income tax receipts is met. Adjustments to reduce the corporate income tax rate are calculated annually after the end of each fiscal year and may continue until the currently targeted corporate income tax rate of 5.5% is reached.

For the state’s fiscal year ended June 30, 2023, net corporate income tax receipts exceeded the prescribed threshold. On September 22, 2023, the Iowa Department of Revenue certified a reduction in the top corporate income tax rate from 8.4% to 7.1%, effective January 1, 2024. We have revalued certain deferred tax balances and net operating losses impacted by the change in the future Iowa corporate income tax rate. As a result, deferred income tax expense of \$7 million was recorded during the three months ended September 30, 2023. In addition, a regulatory liability of \$21 million was recorded as of September 30, 2023 to offset deferred taxes associated with rate base at ITC Midwest.

In September 2022, a reduction in Iowa’s top corporate income tax rate from 9.8% to 8.4% was certified, effective January 1, 2023. As a result, deferred income tax expense of \$7 million was recorded during the three months ended September 30, 2022 and a regulatory liability of \$22 million was established as of September 30, 2022.

7. RETIREMENT BENEFITS AND ASSETS HELD IN TRUST

Pension Plan Benefits

We have a qualified defined benefit pension plan (the “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 generally to fund the annual net pension cost, though we may adjust our funding as necessary based on consideration of federal funding requirements, the funded status of the plan, and other considerations as we deem appropriate.

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.

Net periodic benefit cost for the pension plans, by component, was as follows:

(In millions of USD)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Service cost	\$ 1	\$ 2	\$ 5	\$ 6
Interest cost	2	1	5	3
Expected return on plan assets	(2)	(2)	(5)	(5)
Amortization of unrecognized loss	—	1	—	1
Net pension cost	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 5</u>	<u>\$ 5</u>

The components of net pension cost other than the service cost component are included in other (income) expenses, net in the condensed consolidated statements of comprehensive income.

Other Postretirement Benefits

We provide certain postretirement health care, dental and life insurance benefits for eligible employees (the “postretirement benefit plan”).

Net postretirement benefit plan cost, by component, was as follows:

(In millions of USD)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Service cost	\$ 1	\$ 2	\$ 5	\$ 8
Interest cost	2	1	4	3
Expected return on plan assets	(2)	(2)	(5)	(5)
Amortization of unrecognized gain	(1)	—	(3)	(1)
Net postretirement cost	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 5</u>

The components of net postretirement cost other than the service cost component are included in other (income) expenses, net in the condensed consolidated statements of comprehensive income.

Defined Contribution Plan

We also sponsor a defined contribution retirement savings plan. Participation in this plan is available to substantially all employees. We match employee contributions up to certain predefined limits based upon eligible compensation and the employee’s contribution rate. The cost of this plan was \$2 million and \$1 million for the three months ended September 30, 2023 and 2022, respectively, and \$6 million for each of the nine months ended September 30, 2023 and 2022.

8. FAIR VALUE MEASUREMENTS

The measurement of fair value is based on a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Changes in economic conditions or model-based

valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the nine months ended September 30, 2023 and the year ended December 31, 2022, there were no transfers between levels.

Our assets measured at fair value subject to the three-tier hierarchy at September 30, 2023, were as follows:

(In millions of USD)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Mutual funds — fixed income securities	\$ 43	\$ —	\$ —
Mutual funds — equity securities	13	—	—
Total	<u>\$ 56</u>	<u>\$ —</u>	<u>\$ —</u>

Our assets measured at fair value subject to the three-tier hierarchy at December 31, 2022, were as follows:

(In millions of USD)	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	(Level 1)	(Level 2)	(Level 3)
Financial assets measured on a recurring basis:			
Mutual funds — fixed income securities	\$ 44	\$ —	\$ —
Mutual funds — equity securities	11	—	—
Total	<u>\$ 55</u>	<u>\$ —</u>	<u>\$ —</u>

As of September 30, 2023 and December 31, 2022, we held certain assets that are required to be measured at fair value on a recurring basis. The assets consist of investments recorded within cash and cash equivalents and other long-term assets, including investments held in a trust associated with our supplemental benefit plans described in Note 7 and certain deferred compensation plan investments. The mutual funds we own are publicly traded and are recorded at fair value based on observable trades for identical securities in an active market. Changes in the observed trading prices and liquidity of money market funds are monitored as additional support for determining fair value. Gains and losses for all mutual fund investments are recorded in other (income) expenses, net.

We also held non-financial assets that are required to be measured at fair value on a non-recurring basis. These consist of goodwill and intangible assets. We did not record any impairment charges on long-lived assets and no other significant events occurred requiring non-financial assets and liabilities to be measured at fair value (subsequent to initial recognition) during the three and nine months ended September 30, 2023 and 2022.

Fair Value of Financial Assets and Liabilities

Fixed Rate Debt

Based on the borrowing rates obtained from third party lending institutions currently available for bank loans with similar terms and average maturities from active markets, the fair value of our consolidated long-term debt and debt maturing within one year, excluding revolving credit agreements and commercial paper, was \$6,142 million and \$5,849 million at September 30, 2023 and December 31, 2022, respectively. These fair values represent Level 2 under the three-tier hierarchy described above. The total book value of our consolidated long-term debt and debt maturing within one year, net of discount and deferred financing fees and excluding revolving credit agreements and commercial paper, was \$7,196 million and \$6,649 million at September 30, 2023 and December 31, 2022, respectively.

Revolving Credit Agreements

At September 30, 2023 and December 31, 2022, we had a consolidated total of \$357 million and \$208 million, respectively, outstanding under our revolving credit agreements, which are variable rate loans. The fair value of these loans approximates book value based on the borrowing rates currently available for variable rate loans obtained from third party lending institutions. These fair values represent Level 2 under the three-tier

hierarchy described above. See Note 5 for changes to our revolving credit agreements since December 31, 2022.

Other Financial Instruments

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

9. STOCKHOLDER'S EQUITY

Accumulated Other Comprehensive Income (Loss)

The following table provides the components of changes in AOCI:

(In millions of USD)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at the beginning of period	\$ 29	\$ 21	\$ 27	\$ (2)
<u>Derivative instruments</u>				
Reclassification of net (gain) loss relating to interest rate cash flow hedges from AOCI to earnings (net of tax of less than \$1 and \$1 for the three and nine months ended September 30, 2022, respectively) (a)	—	2	(1)	3
Gain on interest rate swaps relating to interest rate cash flow hedges (net of tax of \$2, \$1 and \$11 for the three months ended September 30, 2022 and for the nine months ended September 30, 2023 and 2022, respectively)	—	4	3	26
Total other comprehensive income, net of tax	—	6	2	29
Balance at the end of period	<u>\$ 29</u>	<u>\$ 27</u>	<u>\$ 29</u>	<u>\$ 27</u>

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

The amount of net gain relating to interest rate cash flow hedges to be reclassified from AOCI to earnings for the 12-month period ending September 30, 2024 is expected to be approximately \$2 million (net of tax of \$1 million). The reclassification is reported in interest expense, net in the condensed consolidated statements of comprehensive income on a pre-tax basis.

10. SHARE-BASED COMPENSATION

In the first quarter of 2023, 305,882 PBUs and 242,671 SBUs were granted pursuant to our long-term incentive plans. Generally, each PBU and SBU granted is valued based on one share of Fortis common stock traded on the Toronto Stock Exchange, converted to U.S. dollars. All PBUs and SBUs are classified as liability awards and generally vest on the third January 1st following the grant date, provided the service and performance criteria, as applicable, are satisfied, and will generally be settled during the same quarter. However, certain awards may vest over a shorter period or on the grant date if certain retirement eligibility criteria are met.

The aggregate fair value of all outstanding PBUs and SBUs as of September 30, 2023 was \$39 million and \$26 million, respectively. At September 30, 2023, the total unrecognized compensation cost related to the PBUs and SBUs was \$12 million and \$10 million, respectively.

11. RELATED PARTY TRANSACTIONS

Related Party Receivables and Payables

ITC Holdings may incur charges from Fortis and other subsidiaries of Fortis that are not subsidiaries of ITC Holdings for general corporate expenses incurred. In addition, ITC Holdings may perform additional services for,

or receive additional services from, Fortis and such subsidiaries. These transactions are in the normal course of business and payments for these services are settled through accounts receivable and accounts payable, as necessary. We had receivables from Fortis and such subsidiaries of \$1 million at September 30, 2023 and December 31, 2022. At September 30, 2023 and December 31, 2022 we had payables to Fortis and such subsidiaries of less than \$1 million and \$1 million, respectively.

Related party charges for corporate expenses from Fortis and such subsidiaries are recorded in general and administrative expenses in the condensed consolidated statements of comprehensive income. Such expense for the three months ended September 30, 2023 and 2022 for ITC Holdings was \$2 million and \$3 million, respectively, and for the nine months ended September 30, 2023 and 2022, was \$9 million and \$10 million, respectively. Related party charges for services to Fortis and other subsidiaries, recorded as an offset to general and administrative expenses for ITC Holdings, were \$1 million for each of the three months ended September 30, 2023 and 2022, and \$2 million and \$5 million for the nine months ended September 30, 2023 and 2022, respectively.

Dividends

During the nine months ended September 30, 2023 and 2022, we paid dividends of \$211 million and \$199 million, respectively, to ITC Investment Holdings. We also expect to pay dividends of \$72 million to ITC Investment Holdings in October 2023.

Intercompany Tax Sharing Agreement

We are organized as a corporation for tax purposes and subject to a tax sharing agreement as a wholly-owned subsidiary of ITC Investment Holdings. Additionally, we record income taxes based on our separate company tax position and make or receive tax-related payments with ITC Investment Holdings. During the nine months ended September 30, 2023 and 2022 we paid \$43 million and \$8 million, respectively, to ITC Investment Holdings associated with our income tax position. At September 30, 2023, we had recorded net income taxes receivable of \$7 million in prepaid and other current assets in the condensed consolidated statements of financial position.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

We are subject to federal, state and local environmental laws and regulations, which impose limitations on the discharge of pollutants into the environment, require reporting of emissions from certain equipment, establish standards for the management, treatment, storage, transportation and disposal of hazardous materials and of solid and hazardous wastes, 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 financial condition, results of operations or liquidity.

Our assets and operations also involve the use of materials classified as hazardous, toxic or otherwise dangerous. Some 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 above ground or underground storage tanks and associated piping. Some of them also include large electrical equipment filled with mineral oil, which may contain or previously have contained PCBs. Some of our facilities and electrical equipment may also contain asbestos containing materials. Our facilities and equipment are often situated close to or on property owned by others so that, if they are the source of contamination, the property of others may be affected. For example, above ground 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, including wetlands and habitat for threatened and endangered species.

Litigation

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

Rate of Return on Equity Complaints

Two complaints were filed with the FERC by combinations of consumer advocates, consumer groups, municipal parties and other parties challenging the base ROE in MISO. The complaints were filed with the FERC under Section 206 of the FPA requesting that the FERC find the MISO regional base ROE rate (the “base ROE”) for all MISO TO’s, including our MISO Regulated Operating Subsidiaries, to no longer be just and reasonable.

Initial Complaint

On November 12, 2013, the Association of Businesses Advocating Tariff Equity, Coalition of MISO Transmission Customers, Illinois Industrial Energy Consumers, Indiana Industrial Energy Consumers, Inc., Minnesota Large Industrial Group and Wisconsin Industrial Energy Group (collectively, the “complainants”) filed the Initial Complaint with the FERC. The complainants sought a FERC order to reduce 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 and terminating the ROE adders approved for certain Regulated Operating Subsidiaries. The FERC set the base ROE for hearing and settlement procedures, while denying all other aspects of the Initial Complaint. The ROE collected through the MISO Regulated Operating Subsidiaries’ rates during the period November 12, 2013 through September 27, 2016 consisted of a base ROE of 12.38% plus applicable incentive adders.

Second Complaint

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

On June 30, 2016, the presiding ALJ issued an initial decision that recommended a base ROE of 9.70% for the refund period from February 12, 2015 through May 11, 2016, with a maximum ROE of 10.68%, which also would be applicable going forward from the date of a final FERC order. The Second Complaint was dismissed as a result of an order issued by the FERC on November 21, 2019 and the dismissal of the complaint was reaffirmed in the May 2020 Order.

FERC Orders

Since the filing of the Initial Complaint, the FERC has issued separate orders in these proceedings on September 28, 2016, November 21, 2019 and May 21, 2020. These orders resulted in multiple revisions to the base ROE and refund settlements. The MISO TOs, along with our MISO Regulated Operating Subsidiaries, and other various parties have challenged certain aspects of these orders through requests for rehearing. In the most recent order, the FERC determined that a methodology using three financial models should be used to determine the base ROE. By applying the new methodology, the FERC determined that the base ROE for the Initial Complaint should be 10.02% and the top of the range of reasonableness for that period should be

12.62%. The FERC determined that this base ROE should apply during the first refund period of November 12, 2013 to February 11, 2015 and from the date of the order issued by the FERC on September 28, 2016 prospectively. The FERC ordered refunds to be made in accordance with the May 2020 Order. Refund settlements were finalized by March 31, 2022 and, during the nine months ended September 30, 2022, we received net settlement payments of less than \$1 million owed from customers.

August 2022 D.C. Circuit Court Decision

On August 9, 2022, in response to appeals of the FERC's orders on the MISO ROE Complaints, the D.C. Circuit Court issued an opinion that rejected the FERC's use of a risk premium model in the methodology used to determine the revised base ROE for MISO TOs. The D.C. Circuit Court decision vacated the FERC's orders on the MISO ROE Complaints, dismissed the remaining outstanding appeals of these orders and remanded the matter to the FERC for further proceedings.

It is possible that the base ROE established in the May 2020 Order may be revised and that we could be required to provide additional material refunds upon resolution of the proceedings. We are awaiting action by the FERC in these proceedings to provide further insight into possible changes to our base ROE and the periods for which a revised ROE applies. We cannot predict whether these proceedings will have a material impact, or estimate the possible impact, on our financial condition, results of operations or cash flows.

See Note 4 for a summary of our base ROE and incentive adders for transmission rates. As of September 30, 2023, our MISO Regulated Operating Subsidiaries had a total of approximately \$5 billion of equity in their collective capital structures for ratemaking purposes. Based on this level of aggregate equity, we estimate that each 10 basis point change in the authorized ROE would impact annual consolidated net income by approximately \$5 million.

13. SUPPLEMENTAL FINANCIAL INFORMATION

Reconciliation of Cash, Cash Equivalents and Restricted Cash

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

(In millions of USD)	September 30,		December 31,	
	2023	2022	2022	2021
Cash and cash equivalents	\$ 331	\$ 3	\$ 4	\$ 5
Restricted cash included in other non-current assets	5	2	2	2
Total cash, cash equivalents and restricted cash	\$ 336	\$ 5	\$ 6	\$ 7

The increase in cash and cash equivalents as of September 30, 2023 was primarily a result of the June 1, 2023 issuance of \$800 million of Senior Notes at ITC Holdings. We expect to utilize the unused net proceeds of cash and cash equivalents from this issuance to fund short-term (within twelve months) capital requirements. See Note 5 for additional information on the June 1, 2023 debt issuance at ITC Holdings, including the initial uses of net proceeds therefrom. Restricted cash primarily represents cash on deposit to pay for vegetation management, land easements and land purchases for the purpose of transmission line construction as well as amounts liquidated to make benefit payments related to our supplemental benefit plans.

Supplementary Cash Flows Information

(In millions of USD)	Nine Months Ended	
	September 30,	
	2023	2022
Supplementary cash flows information:		
Interest paid (net of interest capitalized)	\$ 204	\$ 178
Income taxes paid	43	8
Supplementary non-cash investing and financing activities:		
Additions to property, plant and equipment and other long-lived assets (a)	94	109
Allowance for equity funds used during construction	32	27
Other	1	1

(a) Amounts consist of current and accrued liabilities for construction, labor, materials and other costs that have not been included in investing activities. These amounts have not been paid for as of September 30, 2023 or 2022, respectively, but will be or have been included as a cash outflow from investing activities for expenditures for property, plant and equipment or repayments of contributions in aid of construction when paid.

14. SEGMENT INFORMATION

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

OPERATING REVENUES: (In millions of USD)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Regulated Operating Subsidiaries	\$ 397	\$ 376	\$ 1,185	\$ 1,126
Intercompany eliminations	(9)	(10)	(27)	(28)
Total operating revenues	\$ 388	\$ 366	\$ 1,158	\$ 1,098

INCOME (LOSS) BEFORE INCOME TAXES: (In millions of USD)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Regulated Operating Subsidiaries	\$ 194	\$ 185	\$ 578	\$ 549
ITC Holdings and other	(40)	(30)	(121)	(110)
Total income before income taxes	\$ 154	\$ 155	\$ 457	\$ 439

NET INCOME: (In millions of USD)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Regulated Operating Subsidiaries	\$ 150	\$ 142	\$ 440	\$ 415
ITC Holdings and other	110	111	340	328
Intercompany eliminations	(150)	(142)	(440)	(415)
Total net income	\$ 110	\$ 111	\$ 340	\$ 328

TOTAL ASSETS: (In millions of USD)	September 30, 2023	December 31, 2022
Regulated Operating Subsidiaries	\$ 12,512	\$ 12,005
ITC Holdings and other	6,901	6,378
Reconciliations / intercompany eliminations (a)	(6,447)	(6,252)
Total assets	<u>\$ 12,966</u>	<u>\$ 12,131</u>

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Our reports, filings and other public announcements contain certain statements that describe our management's beliefs concerning future business conditions, plans and prospects, growth opportunities, the outlook for our business and the electric transmission industry, and expectations with respect to various legal and regulatory proceedings based upon information currently available. Such statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Wherever possible, we have identified these forward-looking statements by words such as "will," "may," "anticipates," "believes," "intends," "estimates," "expects," "forecasted," "projects," "likely" and similar 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 are subject to significant risks and uncertainties which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among others, the following risks and uncertainties listed in "Item 1A Risk Factors" of our Form 10-K for the year ended December 31, 2022, as modified herein:

- Certain elements of our Regulated Operating Subsidiaries' Formula Rates have been and can be challenged, which could result in lowered rates and/or refunds of amounts previously collected and thus may have an adverse effect on our business, financial condition, results of operations and cash flows.
- Our 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 may incur expenses related to the pursuit of strategic investment opportunities, which may be higher than forecasted.
- The regulations to which we are subject may limit our ability to raise capital and/or pursue acquisitions, development opportunities or other transactions or may subject us to liabilities.
- Changes in energy laws, regulations or policies could impact our business, financial condition, results of operations and cash flows.
- Each of our MISO Regulated Operating Subsidiaries depends on its primary customer for a substantial portion of its revenues, and any material failure by those primary customers to make payments for transmission services could have a material adverse effect on our business, financial condition, results of operations and cash flows.
- A significant amount of the land on which our assets are located is subject to easements, mineral rights and other similar encumbrances. As a result, we must comply with the provisions of various easements, mineral rights and other similar encumbrances, which may adversely impact our ability to complete construction projects in a timely manner.
- We contract with third parties to provide services for certain aspects of our business. If any of these agreements are terminated, we may face a shortage of labor or replacement contractors to provide the services formerly provided by these third parties.
- Hazards associated with high-voltage electricity transmission may result in suspension of our operations, costly litigation or the imposition of civil or criminal penalties.
- We are subject to environmental regulations and to laws that can give rise to substantial liabilities from environmental contamination.
- If amounts billed for transmission service for our Regulated Operating Subsidiaries' transmission systems are lower than expected, or our actual revenue requirements are higher than expected, the timing of actual collection of our total revenues would be delayed.
- We are subject to various regulatory requirements, including reliability standards; contract filing requirements; reporting, recordkeeping and accounting requirements; and transaction approval requirements. Violations of these requirements, whether intentional or unintentional, may result in penalties that, under some circumstances, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

- The widespread outbreak of an illness or other communicable disease, or any other public health crisis, could have a material adverse impact on our business, financial condition, results of operations, cash flows and credit metrics.
- Acts of war, terrorist attacks and other catastrophic events may have a material adverse effect on our business, financial condition, results of operations and cash flows.
- A cyber-attack or incident could have a material adverse effect on our business, financial condition, results of operations and cash flows.
- Effects of climate change, including natural disasters, severe weather and other related phenomena, and the regulatory and legislative developments related to climate change, 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 financial condition, results of operations, net income, cash flows and credit metrics.
- Advances in technology may negatively impact our business, financial condition, results of operations and cash flows.
- ITC Holdings is a holding company with no operations, and unless we receive dividends or other payments from our subsidiaries, we may be unable to fulfill our cash obligations.
- We have a considerable amount of debt and our reliance on debt financing may limit our ability to fulfill our debt obligations and/or to obtain additional financing.
- Adverse changes in our credit ratings may negatively affect us.
- Certain provisions in our debt instruments limit our financial and operating flexibility.

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

Overview

ITC Holdings provides safe and reliable electric transmission service to connect consumers to more sustainable and cost-effective energy resources. ITC Holdings continues to make investments in a modernized grid to maintain reliability and accommodate future demands as our economy and lifestyles become increasingly dependent on electricity.

Our business consists primarily of the electric transmission operations of our Regulated Operating Subsidiaries. Through our Regulated Operating Subsidiaries, we own and operate high-voltage transmission systems in Michigan's Lower Peninsula and portions of Iowa, Minnesota, Illinois, Missouri, Kansas, Oklahoma and Wisconsin that transmit electricity from generating stations to local distribution facilities connected to our transmission systems.

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.

Our Regulated Operating Subsidiaries earn revenues for the use of their electric transmission systems by their customers, which include investor-owned utilities, municipalities, cooperatives, power marketers and alternative energy suppliers. As independent transmission companies, our Regulated Operating Subsidiaries are subject to rate regulation only by the FERC, and our cost-based rates are discussed below under " — Cost-Based Formula Rates with True-Up Mechanism" as well as in Note 4 to the condensed consolidated interim financial statements.

Significant recent matters that influenced our financial condition, results of operations and cash flows for the nine months ended September 30, 2023 or that may affect future results include:

- Our capital expenditures of \$622 million at our Regulated Operating Subsidiaries during the nine months ended September 30, 2023, as described below under “ — Capital Investment and Operating Results Trends;”
- Debt issuances, borrowings and repayments, changes to debt agreements and treasury locks as described in Note 5 to the condensed consolidated interim financial statements;
- The Iowa Supreme Court ruling on ROFR proceedings, as described below under “ — Recent Developments;”
- The D.C. Circuit Court decision related to the MISO ROE Complaints, as described in Note 12 to the condensed consolidated interim financial statements;
- NOPRs previously issued by the FERC proposing changes to transmission incentives policy (as described in Note 4 to the condensed consolidated interim financial statements), regional transmission planning and cost allocation; and
- The final rule issued by the FERC on July 28, 2023 proposing changes to generator interconnection procedures, which we are monitoring for additional developments related to rehearing requests or appeals but is not expected to have a significant impact on our financial condition, results of operations or cash flows.

Recent Developments

Iowa State Tax Rate Change

On March 1, 2022, the governor of Iowa signed an act into law that contains provisions to reduce Iowa's corporate tax rates if a certain threshold of the state's annual net corporate income tax receipts is met. Adjustments to reduce the corporate income tax rate are calculated annually after the end of each fiscal year and may continue until the currently targeted corporate income tax rate of 5.5% is reached.

For the state's fiscal year ended June 30, 2023, net corporate income tax receipts exceeded the prescribed threshold. On September 22, 2023, the Iowa Department of Revenue certified a reduction in the top corporate income tax rate from 8.4% to 7.1%, effective January 1, 2024. We have revalued certain deferred tax balances and net operating losses impacted by the change in the future Iowa corporate income tax rate. As a result, deferred income tax expense of \$7 million was recorded during the three months ended September 30, 2023. In addition, a regulatory liability of \$21 million was recorded as of September 30, 2023 to offset deferred taxes associated with rate base at ITC Midwest.

Iowa Supreme Court Ruling on Right of First Refusal

In 2020, the State of Iowa enacted Iowa Code section 478.16, which grants incumbent Iowa electric transmission owners, including ITC Midwest, a ROFR to construct, own and maintain certain electric transmission assets in the state. On October 14, 2020, LS Power Midcontinent, LLC and Southwest Transmission, LLC sued the Iowa Utilities Board and several individual defendants, seeking a judgment that the ROFR provisions violated the Iowa Constitution and requesting a temporary injunction of the ROFR until the case was resolved. The case was dismissed in district court based on the plaintiffs' lack of standing in the case and the court of appeals later affirmed the district court's ruling.

On March 24, 2023, the Iowa Supreme Court issued an opinion that the plaintiffs have standing to challenge the ROFR provision, thereby vacating the decision of the court of appeals, reversing the district court's judgment and remanding the case to the Polk County District Court to determine the merits regarding the constitutionality of the ROFR statute. As part of this opinion, the Iowa Supreme Court also issued a temporary injunction staying the enforcement of the ROFR. However, ITC Midwest has already exercised its right to construct certain electric transmission projects approved and awarded by MISO, including projects approved by MISO in 2022 as part of the first tranche of MISO's long-range transmission plan. We do not believe that a determination in these proceedings will impact projects that are already approved and under development, but the pending determination from the district court could impact future projects.

Capital Structure Complaint

On May 10, 2022, the Iowa Coalition for Affordable Transmission, including IP&L, filed a complaint with the FERC under Section 206 of the FPA. Specifically, the complaint alleged that ITC Midwest does not meet the FERC's three-part test for authorizing the use of a utility's actual capital structure for ratemaking purposes which requires that ITC Midwest 1) issue its own debt without guarantees, 2) have its own credit rating, and 3) have a capital structure within the range of capital structures previously approved by the Commission. The Iowa Coalition for Affordable Transmission asked the FERC to reduce ITC Midwest's equity component from 60% to 53%. On November 2, 2022, the FERC issued an order denying the complaint. On December 2, 2022, the Iowa Coalition for Affordable Transmission filed a request for rehearing with the FERC. On March 16, 2023, the FERC confirmed the previous order denying the complaint and we consider the matter to be closed.

Cost-Based Formula Rates with True-Up Mechanism

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

Under these Formula Rates, our Regulated Operating Subsidiaries recover expenses and earn an authorized return on and recover investments in property, plant and equipment on a current basis. The Formula Rates for a given year reflect forecasted expenses, property, plant and equipment, point-to-point revenues, network load at our MISO Regulated Operating Subsidiaries and other items for the upcoming calendar year to establish projected revenue requirements for each of our Regulated Operating Subsidiaries that are used as the basis for billing for service on their systems from January 1 to December 31 of that year. Our Formula Rates include a true-up mechanism, whereby our Regulated Operating Subsidiaries compare their actual revenue requirements to their billed revenues for each year to determine any over- or under-collection of revenue. The over- or under-collection typically results from differences between the projected revenue requirement used as the basis for billing and actual revenue requirement at each of our Regulated Operating Subsidiaries, or from differences between actual and projected monthly network 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 authorized returns.

See "Cost-Based Formula Rates with True-Up Mechanism" in Note 4 to the condensed consolidated interim financial statements for further discussion of our Formula Rates and see "Rate of Return on Equity Complaints" in Note 12 to the condensed consolidated interim financial statements for detail on ROE matters.

Revenue Accruals and Deferrals — Effects of Monthly Network Peak Loads

For our MISO Regulated Operating Subsidiaries, monthly network 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 network peak loads experienced as compared to those forecasted in establishing the annual network transmission rate. Under their cost-based Formula Rates that contain a true-up mechanism, our MISO Regulated Operating Subsidiaries accrue or defer revenues to the extent that their actual revenue requirement for the reporting period is higher or lower, respectively, than the amounts billed relating to that reporting period. Although monthly network peak loads do not impact operating revenues recognized, network load affects the timing of our cash flows from transmission service. The monthly network peak load of our MISO Regulated Operating Subsidiaries is generally impacted by weather, economic conditions and other significant factors, and is seasonally shaped with higher load in the summer months when cooling demand is higher. We are unable to predict the possible future impacts of weather, economic conditions and other factors on monthly network peak loads at our MISO Regulated Operating Subsidiaries.

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

Capital Investment and Operating Results Trends

We expect a long-term upward trend in rate base resulting from our anticipated capital investment, in excess of depreciation and any acquisition premiums, from our Regulated Operating Subsidiaries' long-term capital investment programs to improve reliability, increase system capacity and upgrade the transmission network to support new generating resources. Investments in property, plant and equipment, when placed in-service upon completion of a capital project, are added to the rate base of our Regulated Operating Subsidiaries. We expect increases in rate base to result in a corresponding long-term upward trend in revenues and earnings. Our revenues and earnings may be impacted by future increases or decreases to our rates for incentive adders and base ROE. As of September 30, 2023, our Regulated Operating Subsidiaries had a total of approximately \$5 billion of equity in their collective capital structures for ratemaking purposes. Based on this level of aggregate equity, we estimate that each 10 basis point change in the authorized ROE would impact annual consolidated net income by approximately \$5 million. See Note 4 and Note 12 to the condensed consolidated interim financial statements for additional information related to matters that may impact future rates for incentive adders and base ROE.

Our Regulated Operating Subsidiaries incur significant costs to invest in their transmission systems and maintain the assets on their systems. While we have been impacted by recent increases in inflation and supply chain disruptions, these challenges have not had a material impact on our current or forecasted capital expenditures. We work closely with our suppliers to manage costs and deliveries of required materials and supplies and attempt to ensure that our asset and inventory purchases adequately support our construction and maintenance activities. In response to these challenges, we have increased levels of certain materials and supplies inventories over time to help reduce risks related to global supply chain constraints. We continue to evaluate and monitor the potential impacts of these macroeconomic trends on our forecasted capital expenditures and maintenance activities.

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

We also assess our transmission systems against our own planning criteria that are filed annually with the FERC. Based on our planning studies, we see needs to make capital investments to: (1) maintain and replace our current transmission infrastructure to enhance system reliability and accommodate load growth; (2) interconnect new renewable generation resources; (3) upgrade physical and technological grid security to protect critical infrastructure; and (4) expand access to electricity markets to reduce the overall cost of delivered energy to customers.

In addition to future investments identified through our planning studies, MISO is working to identify capital investment needs through its long-range transmission plan (LRTP) initiative. The objective of this initiative is to improve the transfer capability of electric power across the MISO region. MISO has identified a number of projects in the first tranche of this plan that will result in additional capital investments across MISO's Midwest subregion through 2030. Our forecasted capital expenditures for 2024 through 2028 include approximately

\$1.2 billion of investments related to this first tranche of projects in MISO's long-range transmission plan. The following table shows our actual and expected capital expenditures at our Regulated Operating Subsidiaries:

(In millions of USD)	Actual Capital Expenditures for the Nine Months Ended September 30, 2023	Forecasted Capital Expenditures 2024 — 2028
Expenditures for property, plant and equipment (a)	\$ 622	\$ 5,530

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

Our long-term growth plan includes ongoing investments in our current regulated transmission systems and the identification of incremental strategic projects primarily located in and around our service territories. Refer to "Item 1 Business — Development of Business" in our Form 10-K for the year ended December 31, 2022 for additional information.

Investments in property, plant and equipment could be lower than expected due to a variety of factors, as discussed in "Item 1A Risk Factors" of our Form 10-K for the year ended December 31, 2022 and incorporating any modifications included herein. 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.

Results of Operations

(In millions of USD)	Three Months Ended September 30,		Increase (Decrease)	Percentage Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)	Percentage Increase (Decrease)
	2023	2022			2023	2022		
OPERATING REVENUES								
Transmission and other services	\$ 464	\$ 435	\$ 29	7 %	\$ 1,203	\$ 1,149	\$ 54	5 %
Formula Rate true-up	(76)	(69)	(7)	10 %	(45)	(51)	6	(12)%
Total operating revenues	388	366	22	6 %	1,158	1,098	60	5 %
OPERATING EXPENSES								
Operation and maintenance	30	29	1	3 %	87	83	4	5 %
General and administrative	26	18	8	44 %	86	77	9	12 %
Depreciation and amortization	77	74	3	4 %	228	220	8	4 %
Taxes other than income taxes	34	31	3	10 %	109	104	5	5 %
Other operating (income) expense, net	—	—	—	n/a	(1)	—	(1)	n/a
Total operating expenses	167	152	15	10 %	509	484	25	5 %
OPERATING INCOME	221	214	7	3 %	649	614	35	6 %
OTHER EXPENSES (INCOME)								
Interest expense, net	82	68	14	21 %	234	198	36	18 %
Allowance for equity funds used during construction	(10)	(10)	—	— %	(32)	(27)	(5)	19 %
Other (income) expenses, net	(5)	1	(6)	(600)%	(10)	4	(14)	(350)%
Total other expenses (income)	67	59	8	14 %	192	175	17	10 %
INCOME BEFORE INCOME TAXES	154	155	(1)	(1)%	457	439	18	4 %
INCOME TAX PROVISION	44	44	—	— %	117	111	6	5 %
NET INCOME	<u>\$ 110</u>	<u>\$ 111</u>	<u>\$ (1)</u>	(1)%	<u>\$ 340</u>	<u>\$ 328</u>	<u>\$ 12</u>	4 %

Operating Revenues

The following table sets forth the components of and changes in operating revenues for the three months ended September 30, 2023 and 2022, which included revenue accruals and deferrals, as described in Note 4 to the condensed consolidated interim financial statements:

(In millions of USD)	2023		2022		Increase (Decrease)	Percentage Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Network revenues (a)	\$ 276	71 %	\$ 255	70 %	\$ 21	8 %
Regional cost sharing revenues (a)	96	25 %	93	25 %	3	3 %
Point-to-point	5	1 %	6	2 %	(1)	(17)%
Scheduling, control and dispatch (a)	5	1 %	4	1 %	1	25 %
Other	6	2 %	8	2 %	(2)	(25)%
Total	<u>\$ 388</u>	<u>100 %</u>	<u>\$ 366</u>	<u>100 %</u>	<u>\$ 22</u>	<u>6 %</u>

(a) Includes a portion of Formula Rate true-up revenue.

The following table sets forth the components of and changes in operating revenues for the nine months ended September 30, 2023 and 2022, which included revenue accruals and deferrals, as described in Note 4 to the condensed consolidated interim financial statements:

(In millions of USD)	2023		2022		Increase (Decrease)	Percentage Increase (Decrease)
	Amount	Percentage	Amount	Percentage		
Network revenues (a)	\$ 815	71 %	\$ 762	70 %	\$ 53	7 %
Regional cost sharing revenues (a)	288	25 %	282	26 %	6	2 %
Point-to-point	15	1 %	16	1 %	(1)	(6)%
Scheduling, control and dispatch (a)	15	1 %	14	1 %	1	7 %
Other	25	2 %	24	2 %	1	4 %
Total	<u>\$ 1,158</u>	<u>100 %</u>	<u>\$ 1,098</u>	<u>100 %</u>	<u>\$ 60</u>	<u>5 %</u>

(a) Includes a portion of Formula Rate true-up revenue.

Operating revenues for the three and nine months ended September 30, 2023 increased, compared to the same periods in 2022, primarily due to a higher rate base associated with higher balances of property, plant and equipment in service and resulting return and increased recoverable operating expenses.

Operating Expenses

General and administrative expense

General and administrative expenses for both the three and nine months ended September 30, 2023 increased when compared to the same periods in 2022, primarily due to higher compensation related expenses primarily related to additional share-based compensation expense and personnel additions.

Other Expenses (Income)

Interest expense, net

Interest expense, net increased as compared to the same periods in 2022 due to higher interest rates on long-term debt issuances, commercial paper and our revolving credit agreements and higher overall debt balances. See Note 5 to the condensed consolidated interim financial statements for additional information.

Allowance for equity funds used during construction

AFUDC equity increased due primarily to higher balances of construction work in progress eligible for AFUDC equity for the nine months ended September 30, 2023, compared to the same period in 2022.

Other (income) expenses, net

Other (income) expenses, net decreased primarily due to losses on certain investments associated with our supplemental benefit plans that occurred in the three and nine months ended September 30, 2022. Additionally, during the three and nine months ended September 30, 2023, we earned interest income on the unused net proceeds of cash and cash equivalents from the issuance of \$800 million of Senior Notes at ITC Holdings, as discussed further in Note 5 to the condensed consolidated interim financial statements, including with respect to the initial uses of net proceeds therefrom.

Liquidity and Capital Resources

We expect to maintain our approach of funding our future capital requirements with cash from operations at our Regulated Operating Subsidiaries, our existing cash and cash equivalents, future issuances under our commercial paper program and amounts available under our Revolving Credit Agreement (the terms of which are described in Note 5 to the condensed consolidated interim financial statements). In addition, we may from time to time secure debt funding in the capital markets (including debt to finance or refinance portfolios of eligible projects based on the green bond framework established by ITC Holdings), although we can provide no assurance that we will be able to obtain financing on favorable terms or at all. As market conditions warrant, we may also from time to time repurchase debt securities issued by us in the open market, in privately negotiated transactions, by tender offer or otherwise. We expect that our capital requirements will arise principally from our need to:

- Fund capital expenditures at our Regulated Operating Subsidiaries. Our plans with regard to property, plant and equipment investments are described in detail above under “ — Capital Investment and Operating Results Trends.”
- Fund our debt service requirements, including principal repayments and periodic interest payments.
- Fund working capital requirements.

In addition to the expected capital requirements above, any adverse determinations or settlements relating to the regulatory matters or contingencies described in Notes 4 and 12 to the condensed consolidated interim financial statements would result in additional capital requirements. Our contractual obligations are described in our Form 10-K for the year ended December 31, 2022. There have been no material changes to that information since December 31, 2022, other than the items listed below and described in Note 5 to the condensed consolidated interim financial statements:

- The pricing of \$175 million of Senior Secured Notes by METC with an expected closing date in November 2023. The issuances will consist of \$90 million of 5-year term, 5.65% Senior Secured Notes with an expected funding date in November 2023 and \$85 million of 10-year term, 5.98% Senior Secured Notes with an expected funding date in January 2024. The proceeds from the notes are expected to be used to repay METC's borrowings under the Revolving Credit Agreement, to partially fund capital expenditures and for general corporate purposes.

We believe that we have sufficient capital resources to meet our currently anticipated short-term (within twelve months) needs. However, we rely on both internal and external sources of liquidity to provide working capital and fund capital investments. An extended period of economic disruption could impact our ability to access the capital markets requiring us to seek alternative forms of financing which could negatively impact our liquidity and capital resources. ITC Holdings' sources of cash are dividends and other payments received by us from our Regulated Operating Subsidiaries and any of our other subsidiaries as well as the proceeds raised from the sale of our debt securities. Each of our Regulated Operating Subsidiaries, while wholly-owned by ITC Holdings, is legally distinct from ITC Holdings and has no obligation, contingent or otherwise, to make funds available to us.

We expect to continue to utilize our commercial paper program and Revolving Credit Agreement as well as our cash and cash equivalents as needed to meet our short-term (within twelve months) cash requirements. As of September 30, 2023, we had consolidated indebtedness under our Revolving Credit Agreement of \$357 million, with unused capacity under our Revolving Credit Agreement of \$643 million. Additionally, ITC Holdings did not have any commercial paper issued and outstanding as of September 30, 2023, but has the ability to issue an aggregate amount not to exceed \$400 million outstanding at any one time under the commercial paper program. As of September 30, 2023, we had a balance of cash and cash equivalents of \$331 million, compared

to a balance of \$4 million as of December 31, 2022. The increase in cash and cash equivalents was primarily a result of the June 1, 2023 issuance of \$800 million of Senior Notes at ITC Holdings. We expect to utilize the unused net proceeds of cash and cash equivalents from this issuance to fund short-term (within twelve months) capital requirements. See Note 5 to the condensed consolidated interim financial statements for a detailed discussion of the June 1, 2023 debt issuance at ITC Holdings, including the initial uses of net proceeds therefrom, the commercial paper program and our revolving credit agreements.

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 acceptable to us due to our strong credit ratings and our historical ability to obtain financing. Rising interest rates have resulted in higher coupon rates on recent long-term debt issuances and higher weighted average interest rates on commercial paper and borrowings under our revolving credit agreements. The increase in interest rates, combined with higher long-term debt balances due to additional issuances of long-term debt, has resulted in an increase to interest expense, net of \$14 million and \$36 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. There remains uncertainty surrounding expectations of future interest rate fluctuations.

On April 14, 2023, we entered into the Revolving Credit Agreement, as described in Note 5 to the condensed consolidated interim financial statements, that replaced the previous revolving credit agreements of ITC Holdings and certain of our Regulated Operating Subsidiaries. Under the Revolving Credit Agreement, the interest rate is based on a calculation that references either SOFR or a comparable benchmark as further outlined in the Revolving Credit Agreement and, as a result, we no longer have exposure to LIBOR that existed under the previous revolving credit agreements.

Credit Ratings

Credit ratings by nationally recognized statistical rating agencies are an important component of our liquidity profile. Credit ratings relate to our ability to issue debt securities and the cost to borrow money, and should not be viewed as a recommendation to buy, sell or hold securities. Ratings are subject to revision or withdrawal at any time and each rating should be evaluated independently of any other rating. An explanation of these ratings may be obtained from the respective rating agency. Additional information related to our credit ratings and outlook reported by rating agencies is included in “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operation — Credit Rating” of our Form 10-K for the year ended December 31, 2022.

Covenants

Our debt instruments contain numerous financial and operating covenants that place significant restrictions on certain transactions, such as incurring additional indebtedness, engaging in sale and lease-back transactions, creating liens or other encumbrances, entering into mergers, consolidations, liquidations or dissolutions, creating or acquiring subsidiaries and selling or otherwise disposing of all or substantially all of our assets. In addition, the covenants require us to meet certain financial ratios, such as maintaining certain debt to capitalization ratios and certain funds from operations to debt levels. As of September 30, 2023, 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 Agreement may increase.

Cash Flows

(In millions of USD)	Nine Months Ended		Increase (decrease)	Percentage increase (decrease)
	September 30,			
	2023	2022		
Cash flows provided by (used in):				
Operating activities	\$ 595	\$ 657	\$ (62)	(9)%
Investing activities	(635)	(713)	(78)	11 %
Financing activities	370	54	316	585 %
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 330</u>	<u>\$ (2)</u>		

Cash Flows From Operating Activities

Net cash provided by operating activities decreased primarily due to a decrease in cash received for settlement of interest rate swaps of \$35 million, an increase in income taxes paid of \$35 million and an increase in interest paid of \$26 million during the nine months ended September 30, 2023 compared to the same period in 2022. This decrease was partially offset by an increase in cash received from operating revenues of \$28 million and a decrease in payments pursuant to our long-term incentive plans of \$12 million during the nine months ended September 30, 2023 compared to the same period in 2022.

Cash Flows From Investing Activities

Net cash used in investing activities decreased primarily due to a decrease in capital expenditures.

Cash Flows From Financing Activities

Net cash provided by financing activities increased primarily due to a decrease in repayments of long-term debt of \$250 million, an increase in net borrowings under our revolving credit agreements of \$185 million and an increase in net refundable deposits for transmission network upgrades of \$34 million during the nine months ended September 30, 2023 compared to the same period in 2022. This increase was partially offset by an increase in net repayments of commercial paper of \$113 million, a decrease in issuances of long-term debt, net of discount of \$26 million and an increase in dividend payments of \$12 million during the nine months ended September 30, 2023 compared to the same period in 2022.

Critical Accounting Policies and Estimates

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

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

The accounting policies discussed in “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” of our Form 10-K for the year ended December 31, 2022 are considered by management to be the most important to an understanding of the condensed consolidated interim financial statements because of their significance to the portrayal of our financial condition and results of operations or because their application places the most significant demands on management’s judgment and estimates about the effect of matters that are inherently uncertain. There have been no material changes to that information during the nine months ended September 30, 2023.

Recent Accounting Pronouncements

We have considered all new accounting pronouncements issued by the FASB and determined that it is not likely that any of the recently issued accounting guidance will have a material impact on our condensed consolidated interim financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 \$6,142 million and \$5,849 million at September 30, 2023 and December 31, 2022, respectively. 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 \$7,196 million and \$6,649 million at September 30, 2023 and December 31, 2022, respectively. An increase in interest rates of 10% (from 5.0% to 5.5%, for example) at September 30, 2023 and December 31, 2022 would decrease the fair value of debt by \$285 million and \$270 million, respectively, and a

decrease in interest rates of 10% at September 30, 2023 and December 31, 2022 would increase the fair value of debt by \$313 million and \$297 million, respectively, at that date.

Revolving Credit Agreements

At September 30, 2023 and December 31, 2022, we had a consolidated total of \$357 million and \$208 million, respectively, outstanding under our revolving credit agreements, which are variable rate loans and fair value approximates book value. A 10% increase or decrease in borrowing rates under the revolving credit agreements compared to the weighted average rates in effect at September 30, 2023 and December 31, 2022 would increase or decrease annual interest expense by \$2 million and \$1 million, respectively, at borrowing levels consistent with amounts outstanding at the end of each of the respective periods. See Note 5 to the condensed consolidated interim financial statements for changes to our revolving credit agreements since December 31, 2022.

Commercial Paper

At September 30, 2023, ITC Holdings did not have any commercial paper issued and outstanding under the program. At December 31, 2022, ITC Holdings had \$134 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 annual interest rates for commercial paper compared to the weighted average interest rates in effect at December 31, 2022 would increase or decrease annual interest expense by \$1 million, at levels consistent with amounts issued and outstanding at the end of the period.

Other

As described in our Form 10-K for the year ended December 31, 2022, we are subject to commodity price risk from market price fluctuations, and to credit risk primarily with DTE Electric, Consumers Energy and IP&L, our primary customers. There have been no material changes in these risks during the nine months ended September 30, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 12 to the condensed consolidated interim financial statements for a description of the ROE complaints filed against all MISO TOs, including our MISO Regulated Operating Subsidiaries. See Note 4 to the condensed consolidated interim financial statements for a description of the capital structure complaint filed against ITC Midwest.

ITEM 1A. RISK FACTORS

For information regarding risk factors affecting us, see “Item 1A Risk Factors” of our Form 10-K for the year ended December 31, 2022. There have been no material changes to the risk factors set forth therein.

ITEM 6. EXHIBITS

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

<u>Exhibit No.</u>	<u>Description of Document</u>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Database
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL and contained in Exhibit 101

SIGNATURES

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

Dated: October 26, 2023

ITC HOLDINGS CORP.

By: /s/ Linda H. Apsey

Linda H. Apsey

President and Chief Executive Officer
(duly authorized officer)

By: /s/ Gretchen L. Holloway

Gretchen L. Holloway

Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)