

***Presentation to:
NECPUC***

***Regarding:
Transmission Financing***

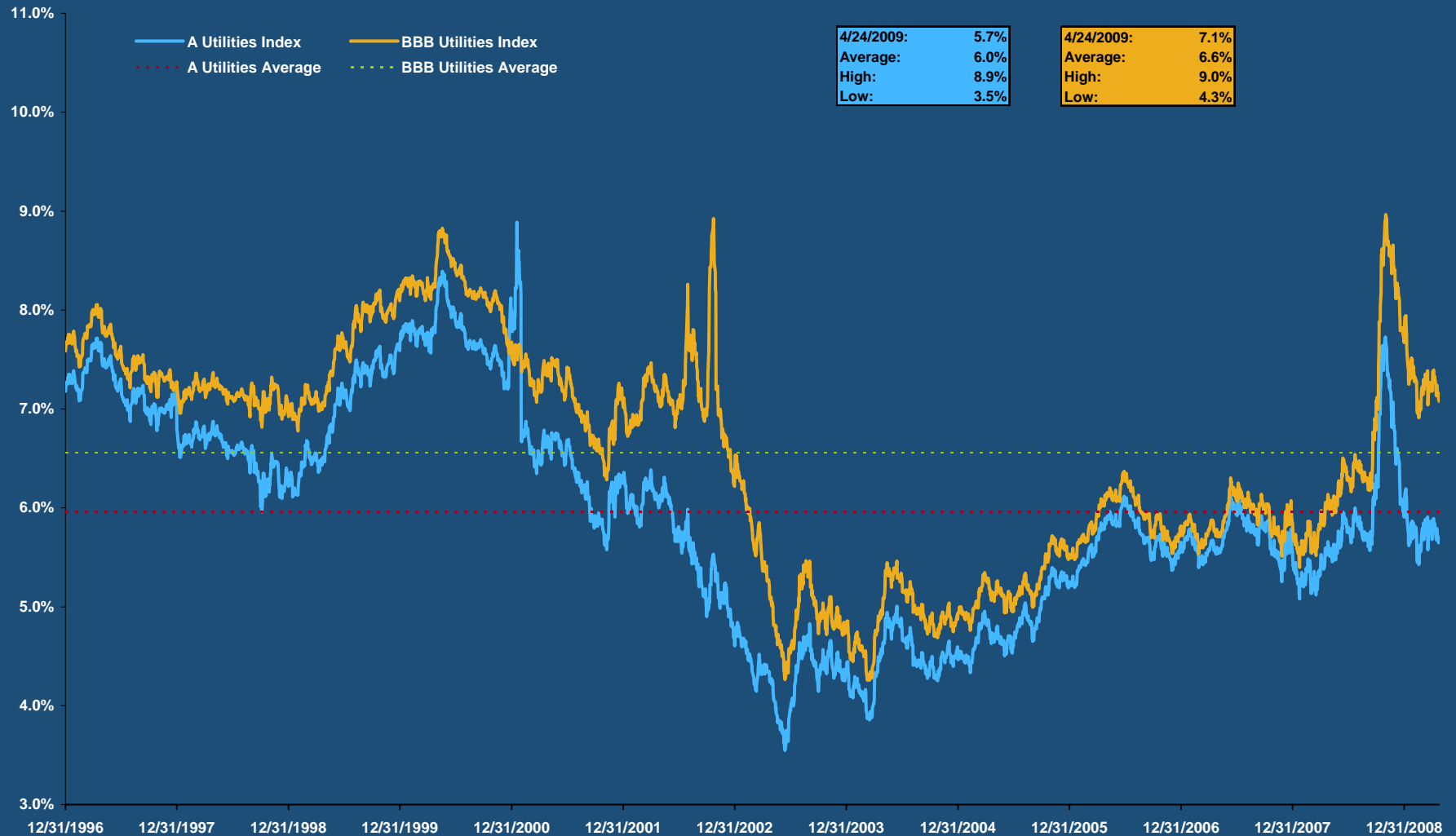
Brant Meleski

***Managing Director
Investment Banking
Energy & Power Group***

May 2009

Utility Yields at Historical Average Levels

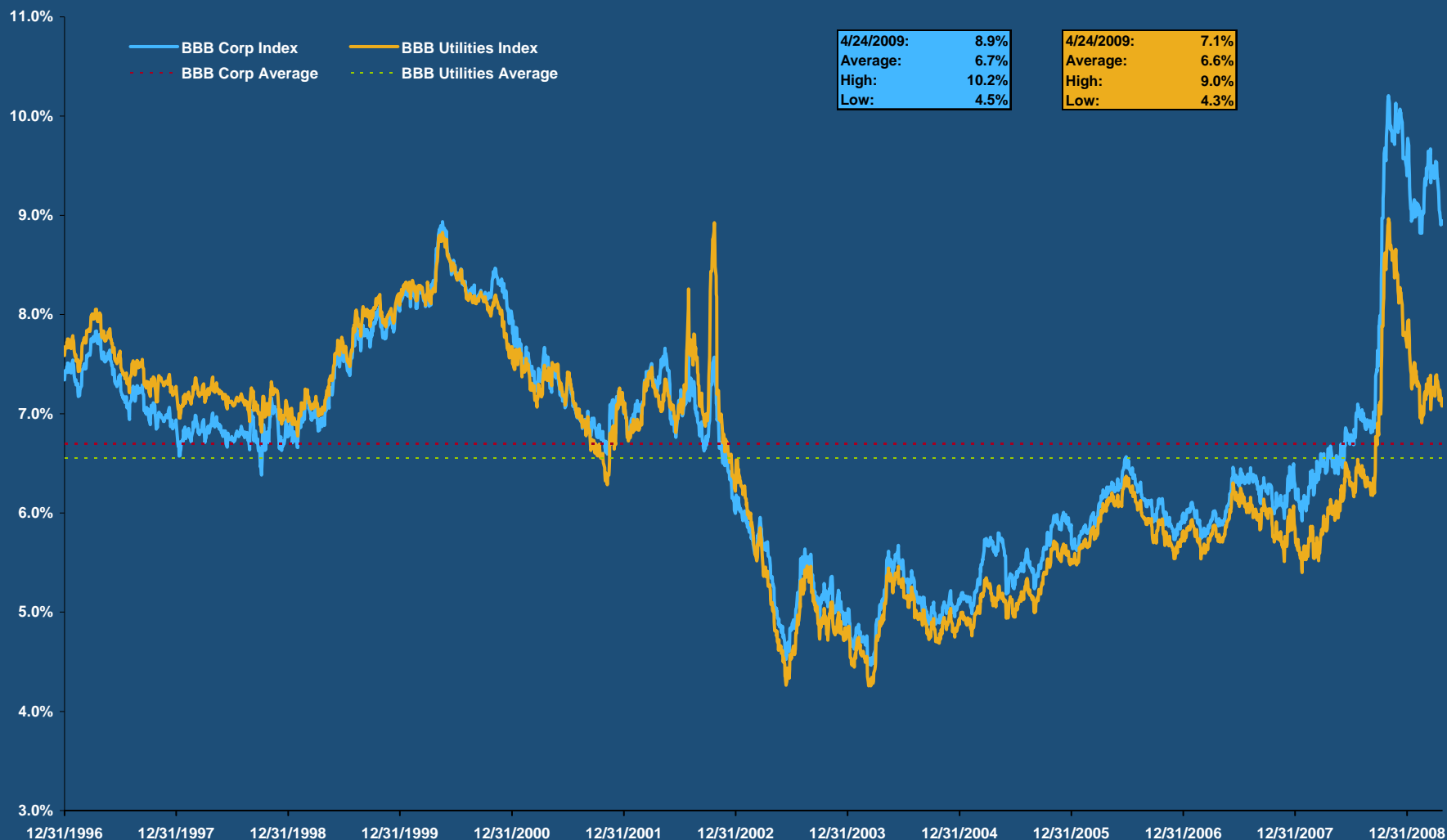
12 Year Historical Yield Performance - Utilities



Source: Merrill Lynch Global Index System.

Utilities Trading at Lower Yields versus Corporates

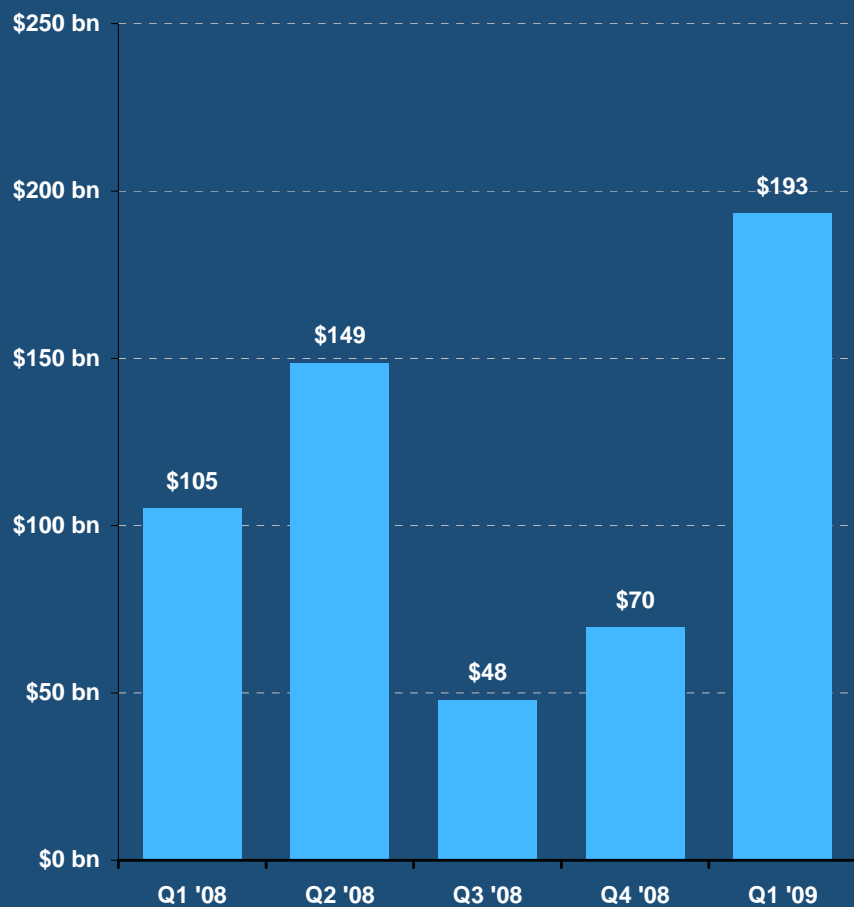
12 Year Historical Yield Performance – Utilities vs. Corporates



Source: Merrill Lynch Global Index System. Corporate index includes financial issuers.

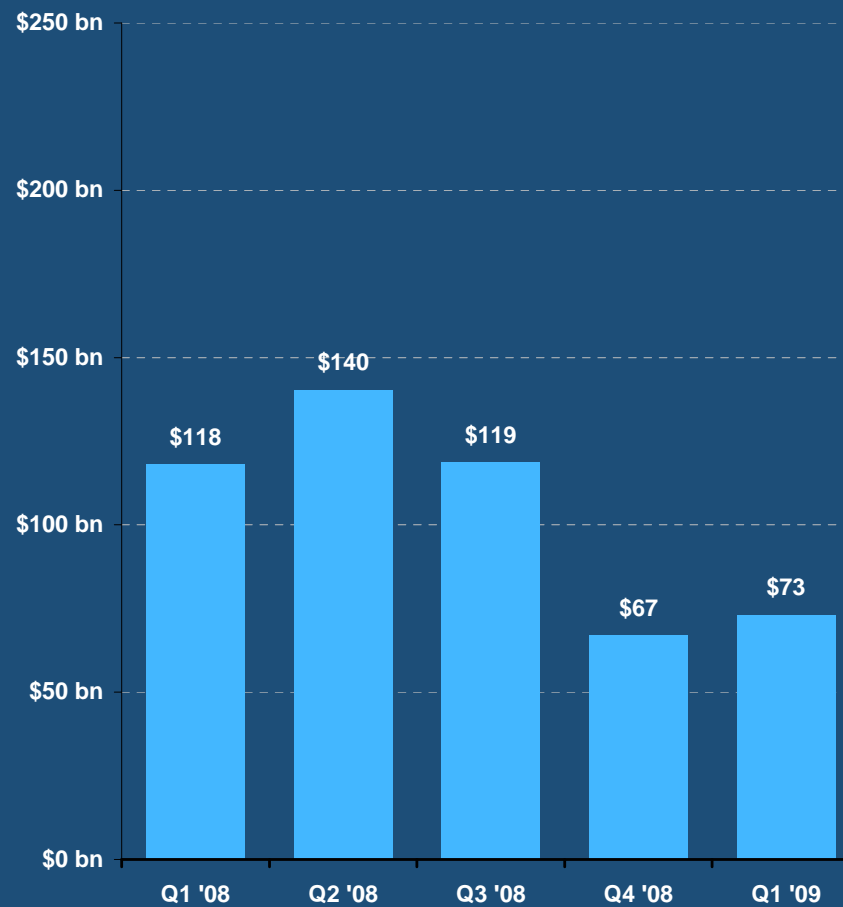
Corporate Debt Markets More Active in 2009

Corporate Issuance - \$193 Billion in Q1 '09



Q1 '09 Up 84% vs. Q1 '08, Represents 52% of Full Year '08

Bank Debt Issuance - \$73 Billion in Q1 '09

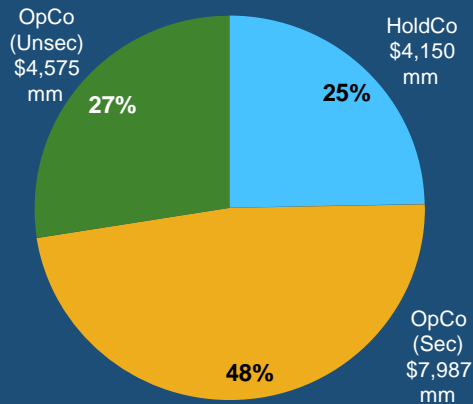


Q1 '09 Down 38% vs. Q1 '08

Debt Investors Pursue Utility Offerings

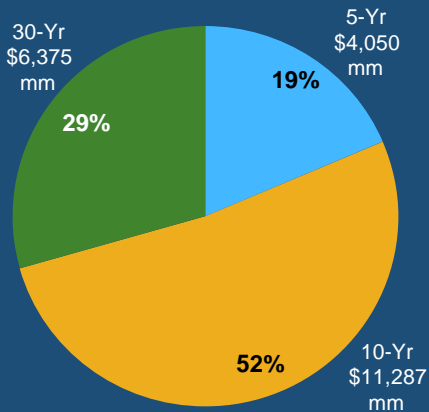
YTD New Issue Supply

Issuance Profile ⁽¹⁾⁽²⁾

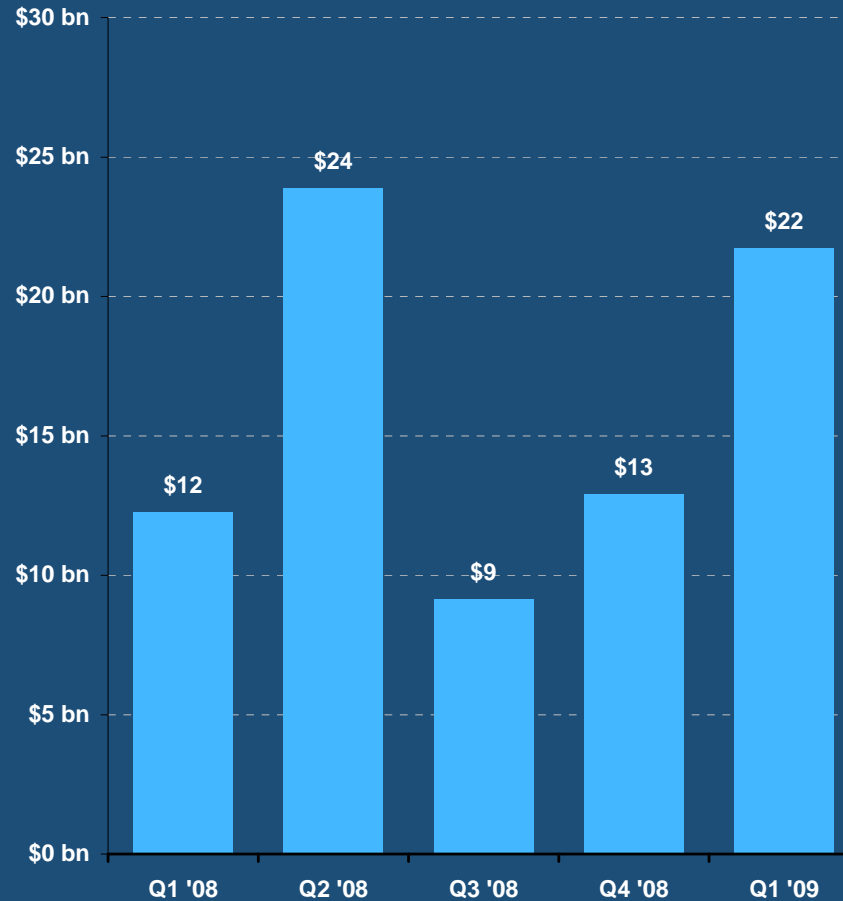


Secured/Unsecured Differential Currently Averaging **~70bps**

Maturity Tranching ⁽¹⁾



Utility New Issue Supply Trends Tracking Corporates



Q1 '09 Up 77% vs. Q1 '08, Represents 37% of Full Year '08

(1) BAML Internal Database.

(2) Excludes Yankee bond issuance.

Traditional Utility Financing in ISO-NE

NEEWS

- Developed by a working group from National Grid, Northeast Utilities and ISO New England
- Expected to cost approximately \$2.1 billion
- Projected siting initiation 2008-2009; projected completion late 2012-2013
- 125 basis incentive to the 11.64% base ROE, CWIP inclusion, and cost recovery if abandoned

Maine Reliability

- Owned by Central Maine Power Company
- Expected to cost approximately \$1.5 billion
- Siting application filed; construction estimated to begin in late 2009 with completion in 2012
- October 2008, FERC approved petition for request of transmission incentives for MRPR subject to the project's inclusion in ISO-NE's regional system plan

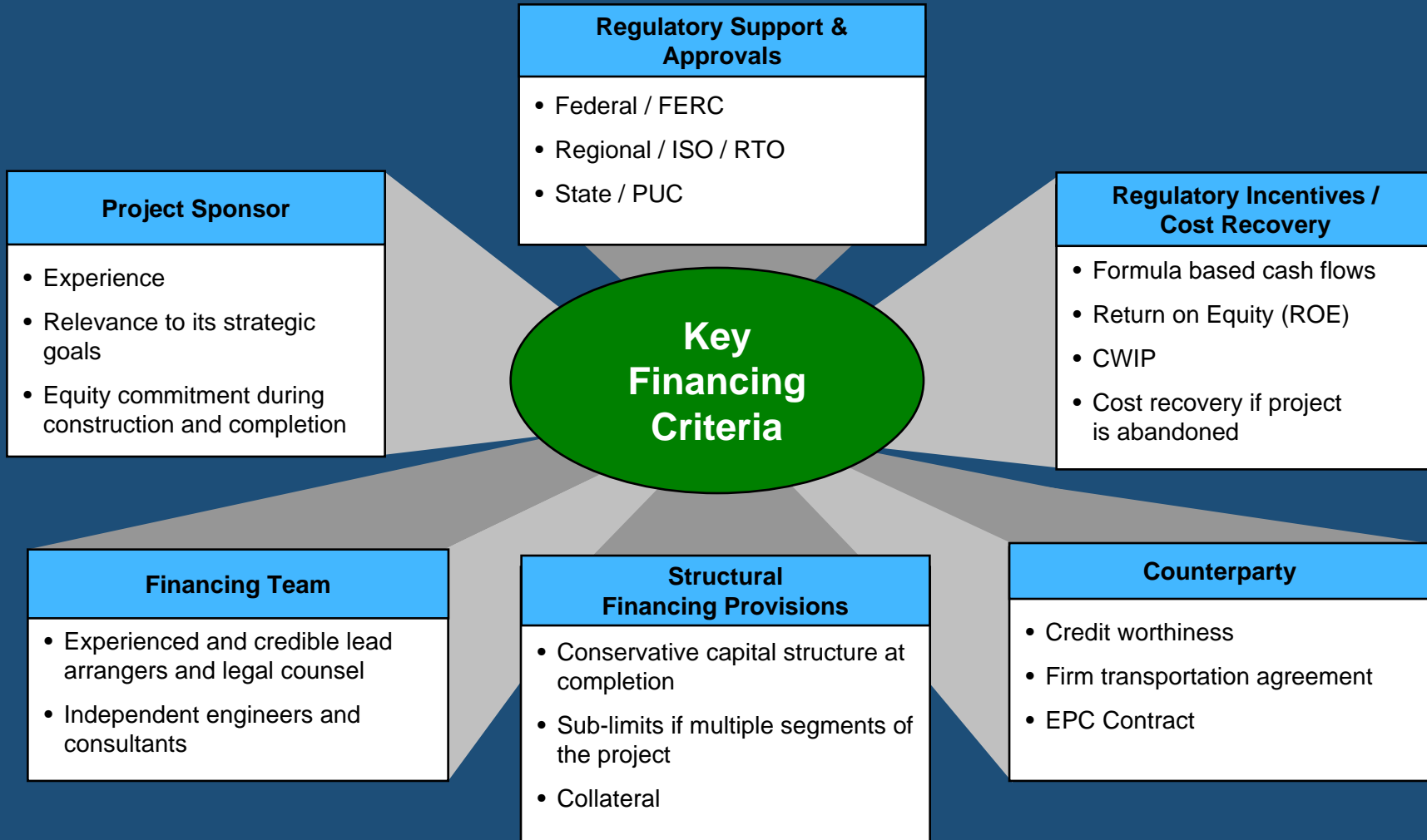
SW Connecticut

- Owned by Northeast Utilities, United Illuminating, and LIPA
- Total cost of approximately \$1.6 billion
- Last phases completed in December of 2008, completing the project a year ahead of schedule
- 100 basis adder for 345kV line plus 50 basis advanced transmission technologies adder for XLPE cable costs

NSTAR 345kV

- Owned by NSTAR
- Total cost of approximately \$275 million
- First phase of the project was completed in 2007; completed and energized the final phase in December 2008, four months ahead of schedule
- 12.64% ROE consisting of 11.64% ROE on regional transmission plus a 100 basis adder for the project

Key Project Financing Criteria - Transmission



Project Financings

PATH 15

- Path 15 is an 83 mile stretch of 500kV electrical transmission lines connecting Southern California with the northern part of the state
- Total cost of approximately \$255 million
 - Debt financing split between a \$151 million bond tranche and a \$57.8 million loan
 - Equity financing for the project was provided by affiliates of ArcLight Capital Partners, EIF Group, and a third private equity fund
- Revenue requirement based on a previous FERC order (issued prior to financing) that was in effect through 2007 premised on a 13.5% ROE and 50/50 debt to equity capital structure
- Project construction began in September 2003 and commenced operation in December 2004, ahead of schedule and under budget

Neptune

- The Neptune RTS Project is a 660MW 500kV HVDC submarine electric transmission cable that connects New Jersey to Long Island
- Total cost of approximately \$600 million
 - Funded with \$550 million in privately placed 22-year notes and \$50 million in letters of credit
 - Loan priced at 125 basis points over LIBOR
 - Underpinned by a 20-year PPA with Long Island Power Authority
- EIF and Starwood Energy, the principal equity investors, began funding in June 2004 and closed their permanent equity investments in July 2005
- Project construction began in the fall of 2005 and commenced operation in the summer of 2007, ahead of schedule and within budget

TrAIL

- The Trans-Allegheny Interstate Line is a new 240 mile, 500 kV transmission line that will extend from PA through WV and VA
- Approximate cost of \$1.1 billion
 - During construction, costs are funded 1/3 from equity and 2/3 from debt facilities
 - At completion of construction, sponsor is required to make equity contributions to the project to establish a debt to equity ratio of 50/50
- In August 2008, TrAIL closed on a 7-year \$550 million senior secured loan facility, which includes a \$530 million term loan and a \$20 million revolving facility, both with an initial borrowing rate equal to LIBOR + 1.875%
- In July 2008, FERC approved an ROE of 12.7% for the TrAIL project and 11.7% for other related projects undertaken to support TrAIL

Financing for Transmission to Move “Green” Electricity

Challenge: Most population centers in the U.S. are not located near the best sites for wind or solar. How to move the electricity?

- Renewables project development requires an off take contract and transportation agreements to move the power from plant site to load
- Projects that involve fewer jurisdictions should be able to reach agreement among all parties
 - CREZ
 - HVDC line to Quebec (NU, NSTAR)
- Projects that stretch across multiple jurisdictions will be more challenged
 - Costs vs. benefits in each jurisdiction

Competitive Renewable Energy Zone (CREZ)

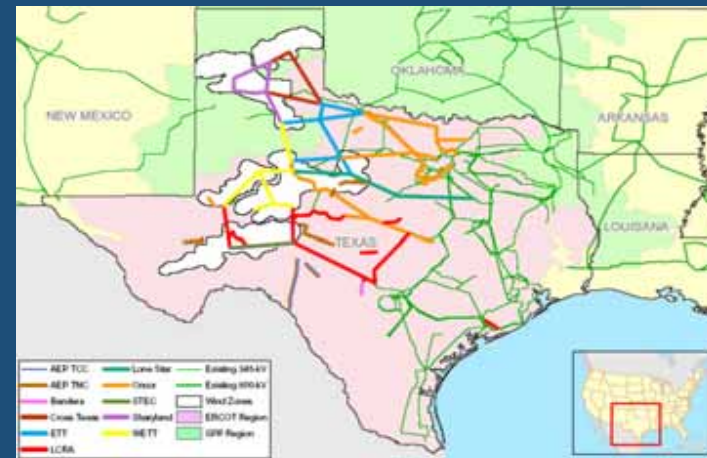
Overview of the Project

- Comprehensive implementation plan to build approximately 2,400 miles of 345-kV transmission lines and associated electrical substations to meet the needs of the Texas' Competitive Renewable Energy Zones (CREZ)
 - CREZ are geographic areas throughout Texas in which renewable energy resources and suitable land areas are sufficient to develop generating capacity from renewable energy technologies
- The PUCT recently adopted the "Scenario 2" CREZ Plan
 - Scenario 2 envisions the construction of approximately 2,400 miles of new 345-kV transmission lines at a projected cost of \$4.9 billion
- The group of developers filed their initial statement of intent with the PUCT on July 24, 2008 and received the final order of approval March 30, 2009

Development Partners

	CapEx	Ownership
Oncor Electric Delivery	\$1,346	27%
Electric Transmission Texas (AEP & MidAmerican)	841	17%
LCRA Transmission Services	694	14%
Lone Star Transmission (FPL)	564	11%
Cross Texas Transmission (LS Power)	403	8%
Wind Energy Transmission Texas (Brookfield & Isolux Corsan)	402	8%
Sharyland Utilities	394	8%
Other	288	6%
Total	\$4,931	100%

Proposed Route



Regulatory Update

Scenario 2	Length	Voltage
High Voltage	2334 Miles	345-kV
Low Voltage	42 Miles	138-kV

RTO Initiates Process:

ERCOT Dec-06

Texas PUC - Interstate Approval:

Transmission Service Provider Selection (TSP) Jan-09
 Certificate of Convenience & Necessity (CCN) TBD

ROE⁽¹⁾ ~10.00%

Targetd Completion:

Stage 1 2012
 Stage 2 2015

Source: SNL Energy, Public Utility Commission of Texas

(1) ROE approved by TX PUC varies slightly from company to company, but taking a simple average yields a combined ROE of ~10%.

ITC Holdings' Green Power Express

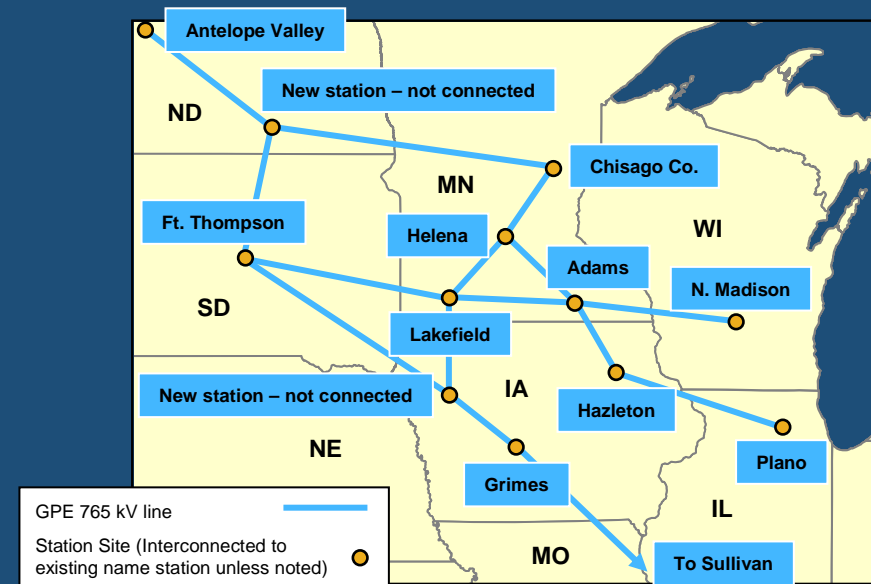
Overview of the Project

- Green Power Express Project is a 3,000 mile network of 765 kV transmission lines that will transport up to 12,000 megawatts of power from wind-abundant areas of the Upper Midwest to Midwestern and Eastern states that demand clean, renewable energy
 - Announced in February 2009 and estimated to cost approx. \$10 to 12 billion
 - Aggressively targeting to have in service by 2020
- Addresses the severe lack of electric transmission infrastructure needed to integrate wind energy onto the nation's electricity grid and is consistent with the DOE's 20% Wind Energy by 2030 Report
 - Aims to reduce 34 million metric tons of carbon emissions, which is equivalent to annual emissions of 7 to 9 600MW coal plants
- Anticipates membership in MISO, PJM and MAPP
- Will seek the necessary state-level siting authorizations from ND, SD, MN, IA, WI, IL and IN

Development Partners

- NorthWestern Energy, NextEra Energy, Iberdrola Renewables, Generation Energy, Montgomery Power Partners, Denali Energy, National Wind, Crownbutte Wind Power, Wind Capital Group, and RES Americas

Proposed Route



Regulatory Update

- On April 13, 2008, FERC granted:
 - Incentive ROE of 12.38%
 - Deferred recovery development / pre-construction costs through the creation of regulatory assets
 - Inclusion of 100% of CWIP in rate base
 - Abandoned plant treatment
 - Hypothetical capital structure of 60% equity and 40% debt until any portion of the Project is placed in service

Whether using Corporate Financing or Project Financing, Cooperation is required to Develop New Transmission Projects

