Exhibit A

BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

Docket No. PA10-13-000

DIRECT TESTIMONY OF

MICHAEL J. VILBERT
AND
BENTE VILLADSEN

ON BEHALF OF

ITC HOLDINGS CORP. and ITC MIDWEST LLC

February 13, 2012

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY

Q1. Please state your name and address for the record.

A1. My name is Michael J. Vilbert. My business address is *The Brattle Group*, 201 Mission Street, Suite 2800, San Francisco, CA 94105, USA.

Q2. Please describe your job and educational experience.

A2. I am a Principal of *The Brattle Group*, ("*Brattle*"), an economic, environmental and management consulting firm with offices in Cambridge, Washington, London, San Francisco and Madrid. My work concentrates on financial and regulatory economics. I hold a B.S. from the U.S. Air Force Academy and a Ph.D. in finance from the Wharton School of Business at the University of Pennsylvania.

Q3. Please state your name and address for the record.

A3. My name is Bente Villadsen. My business address is *The Brattle Group*, 44 Brattle St., Cambridge, MA 02138, USA.

Q4. Please describe your job and educational experience.

A4. I am also a Principal of *The Brattle Group.* My work concentrates on regulatory finance and accounting. I hold a B.S. and M.S. from University of Aarhus, Denmark and a Ph.D. from Yale University.

Q5. What is the purpose of your testimony in this proceeding?

A5. We address the audit report of the staff of the Office of Enforcement, Division of Audits ("Audit Report"),[1] which concludes that ITC Midwest LLC's ("ITC Midwest" or "the Company") accounting for the tax effects of amortized goodwill had the effect of wrongly inflating equity and affecting the calculation of ITC Midwest's actual capital structure used to set rates, resulting in over-billing of customers.[2] It appears

[1] Division of Audits, Office of Enforcement, Federal Energy Regulatory Commission, "Audit of ITC Holdings Corp.'s Compliance with Conditions Established in the Commission's Order Authorizing Disposition of Jurisdictional Facilities," Docket No. PA10-13-000, September 30, 2011("Audit Report").

[2] Audit Report, p. 11.

that in the staff's view, this is contrary to ITC Midwest's commitment not to recover any of the acquisition premium from the purchase of the transmission assets of Interstate Power and Light Company ("IPL") in 2007.

Q6. Are you intending to provide legal interpretation of the statutory requirements?

A6. No. Nothing in our testimony is intended to imply a legal opinion. As experts in accounting, finance and regulatory economics, we are analyzing the evidence presented in the Audit Report and responding to the views taken by the staff. In particular, we conclude that the accounting for the tax effects of goodwill did not cause the Company to recover goodwill nor did it cause the equity ratio to be inflated.

Q7. Have you previously testified before the Federal Energy Regulatory Commission?

A7. Dr. Vilbert has provided pre-filed written testimony and appeared before the Commission. Dr. Villadsen has provided pre-filed written testimony before the Commission.

Q8. Which recommendations in the Audit Report is ITC Midwest challenging?

A8. ITC Midwest has agreed to implement the accounting recommendations in the Audit Report on a going-forward basis, but objects to applying recommendations 2, 3 and 4 on an ex-post basis. Specifically, ITC Midwest seeks Commission review of the following recommendations on an ex-post basis:[3]

> 2. Remove the overstated equity amounts associated with the tax effects of amortized goodwill reported in Account 211. File all correcting entries and supporting documentation with the Division of Audits within 30 days of the issuance of a final audit report in this docket.
>
> 3. Record and file, with supporting documentation, all correcting entries and calculations to correct all account balances affected by the over-accrual of AFUDC.

[3] Notification of Request for Commission Review by Means of Shortened Procedures, Docket No. PA10-13-000, October 31, 2011, p. 2.

> 4. Adjust formula rate billings, as appropriate, for amounts inappropriately recovered from customers associated with the tax effects of amortized goodwill and related over-accrual of AFUDC. Compute interest on the adjustments in accordance with 18 C.F.R. § 35.19a. File a refund analysis with the Commission within 30 days of the issuance of a final audit report in this docket.

Q9. What are the key issues in this proceeding that you are addressing?

A9. Our testimony addresses the following issues:

- Whether ITC Midwest met its commitment not to recover in rates the acquisition premium it paid to acquire the transmission assets of IPL;
- Whether ITC Midwest's equity ratio was overstated as a result of its accounting for goodwill and the tax effects of the amortization of goodwill; and
- Whether it would be reasonable to require any revision to the accounting method used by the Company for the removal of goodwill and the tax effects of the amortization of goodwill from the FERC accounts be applied retroactively to ITC Midwest's commencement of operations in light of accounting and financial guidance and theory**.**

Q10. Has ITC Midwest met its commitment not to recover in rates the acquisition premium paid to acquire the transmission assets of IPL?

A10. Yes. ITC Midwest purchased the transmission assets of IPL in 2007. As a result of the transaction, ITC Midwest recorded "goodwill" on its GAAP books to recognize the amount of the purchase price in excess of the book value of the assets purchased. This goodwill was not, however, recorded in ITC Midwest's FERC books. As a result, ITC Midwest has not received a return of the premium it paid in excess of book value for the IPL transmission assets nor has it received a return on the premium in its rates.

Q11. Was ITC Midwest's equity ratio "overstated" or "inflated" as a result of the accounting for the removal of goodwill and the associated accumulated deferred income tax ("ADIT") liability from the FERC accounts?

A11. No. ITC Midwest's accounting treatment was appropriate and did not artificially inflate ITC Midwest's equity ratio. The removal of goodwill from ITC Midwest's FERC books and records results in a reduction to equity for purposes of calculating the equity ratio. The removal of the ADIT liability is also appropriate so that ITC Midwest's rate base is not reduced by the amortization of goodwill for tax purposes because goodwill itself has been removed from the FERC accounts. Finally, the accounting treatment for the amortization of goodwill increases Account 211, but that is appropriate as explained below.

Q12. Does ITC Midwest's accounting treatment properly reflect the underlying economic benefits and cash flows of the amortization of goodwill for tax purposes?

A12. Yes. There are economic benefits from the tax deductibility of goodwill that are being recorded by ITC Midwest. ITC Midwest and ITC Holdings Corp. ("ITC Holdings") operate under an intercompany tax sharing arrangement. ITC Holdings pays taxes on a consolidated basis for all of its subsidiaries. In this case, the resulting economic benefit (i.e., reduced income tax obligation) is properly transferred to ITC Midwest because the goodwill from the IPL purchase rests with ITC Midwest. ITC Midwest's tax obligation is reduced, and the resulting economic benefit has appropriately been recorded as an increase to equity. Recognizing this transaction is not overstating or inflating equity; the accounting treatment simply recognizes the economic reality of the benefits relating to the tax deductions. For accounting purposes, equity transactions are not limited to transactions that involve the direct movement of cash. They include any transfer of economic value, including reductions of liabilities or contributions of assets other than cash.[4] The accounting change recommended by staff ignores the economic reality of the tax benefit associated with the amortization of goodwill for federal income tax purposes. This benefit is appropriately allocated to ITC Midwest by ITC Holdings because the

[4] For guidance on this issue, see FASB, "Statement of Financial Accounting Concepts No. 6: Elements of Financial Statements," ¶66.

source of the benefit originates from the goodwill in ITC Midwest. The accounting treatment originally relied upon by ITC Midwest reflects this tax benefit in FERC Account 211 (Other Paid-in Capital) and thus reflect economic reality that the tax deductibility of goodwill amortization is an economic benefit to equity holders.

Q13. Did ITC Midwest's accounting treatment of the tax amortization of goodwill inappropriately alter the capital structure for the Company which led to larger customer charges than they would have otherwise experienced?

A13. No. If an alternative accounting treatment had been required by the Chief Accountant or by staff of the Division of Audits, ITC Midwest would have managed its capital structure to achieve the target 60/40 equity to debt ratio authorized by FERC order.[5]

Q14. What is your understanding of how the Company manages its capital structure?

A14. As described in the Audit Report, "audit staff found that ITC Holdings actively manages ITC Midwest's capital structure to always reach the targeted 60/40 equity to debt ratio."[6] ITC Holdings manages the capital structures of its subsidiaries to be at or near the authorized capital structure by injecting cash or other assets or by reducing liabilities.[7] For ITC Midwest, the authorized target equity ratio is 60 percent and ITC Holdings has maintained that level.[8]

Q15. In order to narrow the issues on review, ITC Midwest has agreed to alter its accounting treatment beginning in 2011 consistent with recommendations in the Audit Report. Does this affect in any way your view on whether the staff's recommendation for retroactive changes is appropriate?

A15. No. Any change in accounting treatment for the tax effects of the amortization of goodwill should be implemented on a forward looking basis for several reasons.

---

[5] Audit Report, p. 19. *See also* Order Authorizing Disposition of Jurisdictional Facilities, Accepting Proposed Rates and Jurisdictional Agreements Subject to Conditions, and Dismissing Complaint, *ITC Holdings Corp., et al.*, 121 FERC ¶ 61,229 (2007)("Transaction Order").

[6] Audit Report, p. 19.

[7] ITC Midwest could reduce its equity ratio by paying a dividend to ITC Holdings.

[8] *See supra,* note 5.

First, we continue to believe that the accounting used by ITC Midwest is appropriate, and second, if the Commission were to agree that it is appropriate, there would be no reason to require an ex-post adjustment to the FERC accounts even though the Company has implemented the staff's preferred accounting for 2011 and going forward. Third, even if the Commission were to decide that the agreed upon change to ITC Midwest's accounting method is required, there would still be no need to require an ex-post adjustment because customers were not adversely affected by ITC Midwest's accounting method. ITC Midwest manages its capital structure to maintain its approved capital structure of 60 percent equity. Any change in accounting procedures would have been offset by ITC Midwest to maintain its approved capital structure so charges to customers would have been unaffected. Imposing the change on an ex-post basis prevents the Company from responding to the change in accounting to maintain its target capital structure as it has demonstrated that it would do. Moreover, prospective application for a new, authoritative accounting approach is consistent with how companies typically have adopted new authoritative accounting treatments that have a substantial effect on operations and financial reporting, so that companies to which they apply can prepare for not only accounting implementation but also for impact on operations, financing, etc.

Q16. Have you or the Company been able to find any precedents specifying the procedures recommended by Staff to account for the removal of goodwill and the associated tax effects from the FERC accounts?

A16. No, nor did Staff cite any in its Audit Report.

Q17. Did the Audit Report specify an accounting approach to use as an alternative to the approach used by the company?

A17. No. In its recommendations, the Audit Report merely stated that the Company is to "2. Remove the overstated equity amounts associated with the tax effects of amortized goodwill reported in Account 211."[9] Staff does not appear to acknowledge

[9] Audit Report, pp. 2, 18.

that the underlying transaction that gives rise to the increase in equity is the contribution of tax benefits, not the removal of ADIT liabilities. That transaction must be accounted for, and it is appropriately accounted for as an equity transaction.

II. BACKGROUND AND ACCOUNTING TREATMENT

Q18. Please provide a brief summary of the events and accounting conventions that led to the current proceeding.

A18. ITC Midwest acquired the FERC regulated assets of IPL for $783.1 million. At the time of the transaction, the acquired assets had an estimated book value of approximately $468.6 million resulting in an initial estimated amount of goodwill (or acquisition premium) of approximately $330 million, after accounting for other acquisition assets and liabilities. The acquisition was approved by the Commission in December 2007.[10]

Q19. What are the relevant accounting standards for this proceeding?

A19. Three different accounting standards are relevant for this proceeding: (1) Generally Accepted Accounting Principles ("GAAP"), which are used in reporting to the Securities and Exchange Commission ("SEC"), shareholders, etc., (2) tax accounting requirements, which are used for the purpose of reporting to the Internal Revenue Service ("IRS") and to comply with current income tax laws, and (3) FERC accounting and reporting guidelines, which apply to ITC Midwest's FERC Form 1 and other regulatory reports filed with the Commission. These three reporting systems treat goodwill differently. First, for GAAP purposes, goodwill is recorded as an asset, and the book value of the asset only changes if the asset becomes impaired or is sold. Second, for federal income tax purposes, goodwill in a taxable business combination (as was the case for ITC Midwest) is amortized and is an offset against taxable income. The tax amortization of goodwill results in a deferred tax liability being recorded on ITC Midwest's GAAP books and a reduction in federal income tax

[10] Transaction Order.

owed. Third, in its application for FERC approval of the acquisition of IPL, ITC Midwest stated that it would not seek recovery of the goodwill from customers and that the associated accumulated deferred income tax liabilities would not be recorded on its FERC Form 1.[11] For FERC Form 1 reporting purposes, the $330 million of goodwill was removed from assets and an offsetting $330 million was removed from common equity. Further, the ADIT liability that results from the tax amortization of goodwill over time was removed from ITC Midwest's FERC Form 1 and recorded to the same common equity account to which the goodwill itself is recorded.

Q20. Can you provide a simple illustration of how the accounting treatment affects ITC's books?

A20. Yes. For simplicity, assume that immediately after the acquisition, the only assets on ITC Midwest's GAAP balance sheet are Property, Plant & Equipment ("PPE") of $468.6 and Goodwill of $330, while the only liabilities are Long-Term Debt of $200 and Common Equity of $598.6. Under this scenario, the initial balance sheet for GAAP and FERC purposes would look as shown in Table 1 below, respectively:

Generally Accepted Accounting Principles (GAAP)				Federal Energy Regulatory Commision (FERC)			
PPE	$469	Debt	$200	PPE	$469	Debt	$200
Goodwill	$330	Equity	$599			Equity	$269
Total	$799	Total	$799	Total	$469	Total	$469

Table 1: Initial GAAP and FERC Books

At the acquisition date, the FERC Form 1 balance sheet reflects the removal of goodwill from the FERC accounts. Subsequent to the acquisition date, goodwill is amortized for income tax purposes. Because there is no amortization of book goodwill for GAAP purposes, a book vs. tax timing difference exists and deferred tax liabilities are being generated after the acquisition date on the GAAP balance sheet. For FERC accounting, both the goodwill and the ADIT liability generated by the tax amortization of the goodwill recorded for GAAP purposes are removed from the

[11] *See* the Application in Docket Nos. EC07-89-000 and ER07-887-000, Exhibit N.

FERC accounts. Table 2 below compares the balance sheets under GAAP and under FERC accounting after one year. Table 2 is based upon amortizing tax goodwill over 15 years for tax purposes[12] and uses a marginal income tax rate of 40 percent.

Generally Accepted Accounting Principles (GAAP)				Federal Energy Regulatory Commision (FERC)			
PPE	$469	Debt	$200	PPE	$469	Debt	$200
Goodwill	$330	Deferred Tax	$9	Tax Benefit	$9	Beg. Equity	$269
Tax Benefit	$9	Total Liabilities	$209			Δ Equity	$9
		Equity	$599			End Equity	$278
Total	$808	Total	$808	Total	$478	Total	$478

Table 2: GAAP and FERC Books after One Year

As shown in Table 2, the company's equity increased because the tax amortization allows the company to reduce its tax obligations which generates a tax benefit relative to the situation without the tax amortization. The FERC Form 1 balance sheet reflects the removal of goodwill and the ADIT on goodwill.

Q21. How does FERC accounting relate to GAAP accounting?

A21. Regulated companies usually begin with GAAP accounting statements and modify the GAAP statements to comply with the Uniform System of Accounts ("USoA") required by the FERC. The FERC does not have a comprehensive, stand-alone accounting system.

> The FERC USoA is not a complete body of accounting principles and standards. The USofA relies and bases its accounting principles and standards on those that U.S. GAAP prescribes, and incorporates specific requirements where departures from U.S. GAAP are needed to support rate-making. [footnote omitted][13]

Q22. What does this mean for purposes of ensuring FERC accounts are appropriate?

A22. Broadly speaking, utilities such as ITC Midwest use GAAP accounting as the basis for keeping their books (general ledger). Therefore, when GAAP and FERC

[12] Internal Revenue Code, 26 U.S.C. § 197.

[13] See March 17, 2011 letter from Chief Accountant of the FERC to the Securities Exchange Commission regarding the implementation of IFRS, p. 3.

accounting and reporting differ, companies make adjustments to the GAAP accounts to ensure FERC compliance rather than create a distinct, FERC-specific general ledger. As a result, if the GAAP books contain entries that need to be modified for FERC reporting purposes, companies rely on other FERC journal entries to arrive at FERC balances. This way, the fundamental GAAP reporting system remains intact while the FERC accounts are modified to add, remove or simply move an amount. In the present case, ITC Midwest needed to remove the goodwill that would otherwise reside in FERC Account 186 and ADIT liability that would otherwise reside in FERC Account 283, so the Company removed the goodwill and ADIT amounts with a corresponding net reduction to FERC Account 211 – Other paid-in capital. As described in answer A13 and as depicted in answer A21 above, regardless of the adjustments or mechanics used to convert a GAAP balance sheet to a FERC-basis balance sheet, the resulting balances are the important thing, and an increase in equity to recognize the tax benefits for goodwill is the correct accounting. ITC's accounting conventions and the resulting balances are therefore appropriate.

We believe that narrowing the difference between GAAP and FERC accounting to the extent possible provides more transparent financial information because GAAP accounting consists of a complete body of principles, whereas FERC accounting is not intended to be complete. Therefore, fewer adjustments to the GAAP financials are generally preferred. FERC Staff's recommendations would add additional adjustments.

Q23. Please summarize this section of your testimony.

A23. This section of the testimony discussed the relationship between GAAP and FERC accounting, noting that FERC accounts typically are based on GAAP accounts. Modifications to GAAP accounts to meet FERC accounting requirements are done through additional adjustments or journal entries. In addition, the section notes that new accounting standards are implemented prospectively.

III. ITC MIDWEST'S EQUITY RATIO

Q24. What is the specific concern of the Staff of the FERC Division of Audits?

A24. The specific concern appears to be that the accounting method followed by ITC Midwest for the tax benefit from the amortization of goodwill increases equity which Staff believes artificially "inflates" ITC Midwest's equity balance and ratio. An increase in equity provides a greater dollar amount of return on equity than would be the case if the equity ratio were lower. The equity ratio is used in ITC Midwest's formula rate and for AFUDC. The allowed ROE of 12.38 percent does not change. The concern is primarily with the equity balance and the ratio.

Q25. Does ITC Midwest or ITC Holdings derive some benefit from the effects on equity of its applied accounting method for goodwill and deferred tax liabilities on goodwill?

A25. No. First, ITC Midwest's accounting has the net effect of reducing the equity balance used for ratemaking purposes because goodwill and ADIT liabilities on goodwill are completely removed.

Second, if FERC staff's concerns resulted in a requirement for ITC Midwest to use different accounting entries that required a reduced equity balance, this would not change the cash required to operate ITC Midwest's business. So, in the event additional equity were needed at ITC Midwest to achieve a 60 percent equity ratio, ITC Holdings could have infused additional equity into ITC Midwest and thereby reduced the amount ITC Midwest would need to borrow. Since cash in the consolidated ITC Holdings entity is fungible, there is no particular benefit to ITC Holdings or ITC Midwest from using its accounting treatment.

Finally, ITC Midwest's rate base has been increasing over time as the Company invests in new transmission assets. The economic benefit of the tax amortization of goodwill is being reinvested in ITC Midwest. As a result, rather than raising cash or other assets from external investors in return for equity, ITC Midwest is internally generating cash that results from the tax deductions for goodwill that could be used to raise the equity ratio through buyback of debt, for example.

Q26. What is ITC Midwest's authorized equity ratio?

A26. ITC Midwest is authorized to use its actual capital structure, targeting an equity ratio of 60 percent.[14]

Q27. Does ITC Midwest use its actual equity ratio in setting rates?

A27. Yes.[15]

Q28. Historically, has ITC Midwest's equity ratio exceeded the target of 60 percent?

A28. No.[16]

Q29. Does ITC Holdings, the parent of ITC Midwest, manage the capital structure of ITC Midwest to maintain the target capital structure allowed by the FERC in its decision?

A29. Yes. "[A]udit staff found that ITC Holdings actively manages ITC Midwest's capital structure to always reach the targeted 60/40 equity to debt ratio."[17]

Q30. Did ITC Midwest base its tariff rates on its allowed ROE of 12.38 percent and a 60/40 capital structure?

A30. Yes.[18]

Q31. Did ITC Midwest include in its revenue requirement any provision for a recovery of goodwill or a return on goodwill?

A31. No.

---

[14] *See* Transaction Order at P 49; Audit Report, p. 4.

[15] *See* Audit Report, p. 8.

[16] Audit Report, p. 19.

[17] Audit Report, p. 19.

[18] Audit Report, p. 8.

Q32. When ITC Midwest amortizes goodwill for purposes of determining its income tax liability, does the tax benefit come from customers?

A32. No. The tax benefit from the amortization of goodwill comes from tax policies adopted by the Federal government. The resulting tax benefit does not come from customers, but is instead a reduction in the tax receipts of the Federal government. This distinction is critical in determining the correct regulatory accounting treatment for the amortization of goodwill. The source of the tax benefit is not from customers.

Q33. Is ITC Midwest the taxpayer or is ITC Holdings the taxpayer?

A33. ITC Holdings pays taxes on a consolidated basis for all of its subsidiaries[19], but the tax benefit associated with the amortization of goodwill is an asset belonging to ITC Midwest. The cash paid for the acquisition of IPL's transmission assets was provided by ITC Midwest, and this tax asset and deductions properly reside at ITC Midwest.

Q34. Does ITC Midwest's accounting treatment of the tax benefit from the amortization of goodwill end up being reflected in FERC Account 211, Miscellaneous Paid-In Capital?

A34. Yes. The FERC accounting for the tax benefit has the effect of increasing the balance of Account 211, as described in A12, but this appropriately recognizes the economic reality of the tax savings generated by the tax amortization of goodwill.

Q35. If the tax benefit is reflected in FERC Account 211, why doesn't that inflate or overstate the Company's equity ratio?

A35. As discussed above, equity transactions can take the form of the contribution of cash and other assets, reductions in liabilities, or dividend payments. In this case, the increase in FERC Account 211 is a contribution of a tax benefit (an asset) from ITC Holdings to ITC Midwest in return for equity. Therefore, the equity of ITC Midwest has increased by the amount of the tax benefit (contribution from its shareholder). As noted earlier, using the tax benefit to maintain the equity ratio of ITC Midwest is consistent with ITC Holdings' policy of maintaining the target 60/40 equity to debt

[19] *See* ITC Holdings' Securities and Exchange Commission Form 10-K.

ratio. Over the three-year period from 2008 through 2010 since the acquisition of IPL's assets, ITC Midwest has invested over $490 million in additional assets.[20] Some of the additional investment was financed with equity and some with debt, but the actual capital structure was maintained at the target capital structure.

Q36. Does it matter if the source of additional equity in a company comes from the tax benefits of tax amortization of goodwill?

A36. No. The source of the asset should not be relevant to the use of the asset. To suggest otherwise is to argue that the tax benefit of the tax amortization of goodwill is somehow "tainted" and cannot be used for investment in ITC Midwest.

Q37. Please summarize this portion of your testimony.

A37. ITC Midwest did not include in its revenue requirement either the amortization of goodwill or a return on goodwill. ITC Midwest removed goodwill and the associated ADIT from its FERC accounts as it agreed to do. ITC Midwest set its revenue requirement using the allowed 12.38 percent ROE using its actual capital structure of 60/40 equity to debt ratio, which it actively managed to maintain. Although the tax benefit from the amortization of goodwill increased the balance of Account 211, this was appropriate because the contribution of a tax benefit to ITC Midwest has economic substance that needs to be reflected in the FERC financial statements. Further, the company showed in its approved journal entries how it would reduce Account 211 for the underlying amount of goodwill itself, and not reduce any other accounts.[21] Therefore, ITC Midwest recorded the tax benefits of goodwill in the same account. Had the tax benefit been from any other transaction and the resulting cash invested in ITC Midwest's transmission assets, we believe that there would be no issue regarding the equity ratio. The fact that the tax benefit derives from the tax amortization of goodwill from the acquisition of IPL's assets should not change that conclusion. To argue that it does implies that the tax benefit from the amortization of the goodwill related to the IPL transaction is tainted, at least with regard to

[20] ITC Midwest FERC Form 1's for 2008 through 2010, Statement of Cash Flow p.120 line 34.

[21] *See* Initial Memorandum of ITC Holdings Corp. at pp. 3-4.

investment in ITC Midwest. ITC Midwest's customers paid rates set upon the actual equity ratio and ROE that was approved by FERC in the Transaction Order - rates set using a 12.38 percent ROE using an actual capital structure targeting 60 percent equity. Therefore, customers were not harmed by the accounting treatment for the tax benefit of the amortization of goodwill. The tax benefits that ITC Midwest received were allowed by the tax code of the Federal government and paid by the Federal government, not the customers of ITC Midwest.

Q38. In addition to the economic analysis of goodwill and tax deductions on goodwill throughout your testimony that supports ITC Midwest's accounting, is there other accounting precedent that supports ITC Midwest's accounting treatment?

A38. Yes. ASC 350 (formerly FAS 142)[22] provides that when goodwill is impaired for GAAP reporting purposes, then the goodwill, net of income taxes, is written off and the write-off results in an equal reduction in equity. In particular, if the goodwill on ITC Midwest's GAAP books were deemed to be impaired, the net reduction to equity on the GAAP balance sheet would be the after-tax reduction in goodwill (i.e., the write off of goodwill offset by the tax deduction for the loss in value). This is consistent with ITC Midwest's treatment on its FERC balance sheet. In other words, all else equal, the GAAP and FERC balance sheets would show the same amount of equity at the end of the tax amortization period of tax goodwill if the goodwill were impaired. Under ITC Midwest's accounting treatment, the FERC balance sheet would match the GAAP and the tax balance sheets.

Q39. Does this conclude your testimony?

A39. Yes.

[22] Intangibles – Goodwill and Other, ASC 350. *See* especially, ASC 350-20-35.

AFFIDAVIT

STATE OF CALIFORNIA) Docket No. PA10-13-000

)

COUNTY OF SAN FRANCISCO)

Before me the undersigned authority, personally appeared Michael J. Vilbert, who being first duly sworn, deposes, and says that the statements contained in the foregoing Direct Testimony on behalf of ITC Holdings Corp. and ITC Midwest LLC in this proceeding are correct to the best of his knowledge, information, and belief. He is personally known to me.

____

Michael J. Vilbert

Sworn to and subscribed before me this ______ day of _____________, 2012.

____

Notary Public, State of California at Large

Commission No. ___________________________

My Commission Expires _____________________

AFFIDAVIT OF BENTE VILLADSEN

I, Bente Villadsen, being duly sworn, depose and say that the statements contained in the foregoing Direct Testimony on behalf of ITC Holdings Corp. and ITC Midwest LLC in this proceeding are correct to the best of my knowledge, information and belief.

____
Bente Villadsen

Subscribed and sworn to me before this __th day of ______________, 2012.

____
Notary Public

My Commission expires:

____
(NOTORIAL SEAL)