**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Joint Application of ITC Great Plains, LLC, and its Parent Company, ITC Holdings Corp., Together With Fortis Inc., Fortis US Inc., ITC Investment Holdings Inc. and Element Acquisition Sub, Inc. for Order Approving the Acquisition by Fortis Inc. of the Majority of All Classes of the Stock of ITC Holdings Corp., and its Subsidiary Companies, Including ITC Great Plains, LLC.	))))))))))	Docket No. 16-ITCE-512-ACQ

<u>NOTICE OF FILING OF STAFF'S REPORT & RECOMMENDATION</u>

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) files the attached Report and Recommendation and states as follows:

1. Staff hereby files the attached Report and Recommendation analyzing the Joint Application of Fortis Inc. and ITC Holdings Corp. requesting approval of a transaction involving an upstream change of ownership of ITC Great Plains, LLC, a certificated Kansas public utility.

2. Staff recommends the Commission approve the Joint Application subject to the conditions recommended in Exhibit A, attached to Staff's R&R. Staff further recommends the Commission explicitly state that Fortis has committed to provide equity capital injections as needed for maintaining the financial integrity of ITC Great Plains such that ITC Great Plains is capable of maintaining an investment-grade credit rating.

WHEREFORE Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and proper.

Respectfully submitted,

____

Andrew French, #24680
Senior Litigation Counsel
Amber Smith, #23911
Chief Litigation Counsel
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, KS 66604
Phone: (785)-271-3361
Fax: (785)-271-3167
Email: a.french@kcc.ks.gov
Attorneys for Commission Staff

Utilities Division
1500 SW Arrowhead Road
Topeka, KS 66604-4027

Kansas
Corporation Commission

Phone: 785-271-3220
Fax: 785-271-3357
http://kcc.ks.gov/

REPORT AND RECOMMENDATION
UTILITIES DIVISION

TO: Chairman Jay Scott Emler
Commissioner Shari Feist Albrecht
Commissioner Pat Apple

FROM: Adam Gatewood, Managing Financial Analyst
Justin Grady, Chief of Auditing & Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: September 2, 2016.

SUBJECT: **Docket No: 16-ITCE-512-ACQ**
In the Matter of the Joint Application of ITC Great Plains, LLC, and its Parent Company, ITC Holdings Corp., Together With Fortis Inc., FortisUS Inc., ITC Investment Holdings Inc. and Element Acquisition Sub Inc., for an Order Approving the Acquisition by Fortis Inc. of the Majority of All Classes of the Stock of ITC Holdings Corp., and its Subsidiary Companies, Including ITC Great Plains, LLC.

EXECUTIVE SUMMARY:

On February 9, 2016, Fortis, Inc. (Fortis) and ITC Holdings Corp. (ITC) announced that Fortis would seek to acquire all of the outstanding common stock of ITC for a combination of cash and Fortis common stock. ITC Great Plains (ITC-GP), a Kansas public utility certificated by this Commission, is a subsidiary of ITC. On May 10, 2016, the Joint Applicants submitted a Joint Application citing to K.S.A. 66-101, 66-104, 66-131, 66-136, and 66-1401 and requesting approval by the State Corporation Commission of the State of Kansas (Commission or KCC) of the above transaction.[1] Upon completion of the transaction, Fortis will own 80.1% of ITC while Finn Investment Pte. Ltd. will own 19.9%. The acquisition of ITC Holdings by Fortis will not cause a change in ITC-Great Plains' electric transmission rates, as the existing ITC-Great Plains formula rate in effect at the Federal Energy Regulatory Commission (FERC) will remain in effect. ITC Holdings has committed at FERC not to seek rate recovery of any transaction or transition costs that are related to this acquisition. The Joint Applicants have addressed the Commission's Merger Standards, as recently affirmed by the Commission in this

[1] Joint Application for Transaction Approval and Expedited Treatment; p.1.

Docket[2], and Staff has prepared an analysis of the proposed transaction using these standards as well, in an effort to determine whether the transaction as presented promotes the public interest. After performing an analysis of the proposed transaction using the Commission's Merger Standards, Staff concludes that the transaction would promote the public interest only if approval is conditional upon several commitments[3] by ITC Great Plains and Fortis, as discussed in more detail below. Staff has shared these conditions with the Joint Applicants, as well as the only intervener in this case, Sunflower/Mid-Kansas, and Staff is authorized to state that both parties support the imposition of these conditions as a prerequisite to Commission approval of this transaction. Staff, therefore, recommends approval of the transaction, subject to the conditions discussed herein.

BACKGROUND:

The following entities are involved in the present transaction:

Joint Applicants are comprised of ITC and Fortis.
ITC Holdings, Corp. (ITC) is currently publicly traded and, through its subsidiaries, operates approximately 15,600 miles of high voltage transmission lines in Michigan, Iowa, Minnesota, Illinois, Missouri, Kansas, and Oklahoma.

ITC Great Plains (ITC-GP) was granted a Limited Certificate of Public Convenience by the Commission in Docket 07-ITCE-380-COC.[4] ITC-GP owns approximately 440 miles of transmission line assets and related station assets at eight substations[5] with a net book value of $519,000,348[6] (Transmission Assets). ITC-GP is a wholly owned subsidiary of ITC Grid Development, LLC, which is a wholly-owned subsidiary of ITC.[7]

Fortis, Inc. (Fortis) is a publicly traded Canadian corporation with a market capitalization of $9.45 billion.[8] Fortis is organized as a holding company with assets in Canada, U.S., and the Caribbean, largely in the energy and utility sector.

Fortis-US (Fortis-US) is a wholly-owned subsidiary of Fortis that holds Fortis' U.S. utility businesses CH Energy Group, a New York utility, and UNS Energy, an Arizona

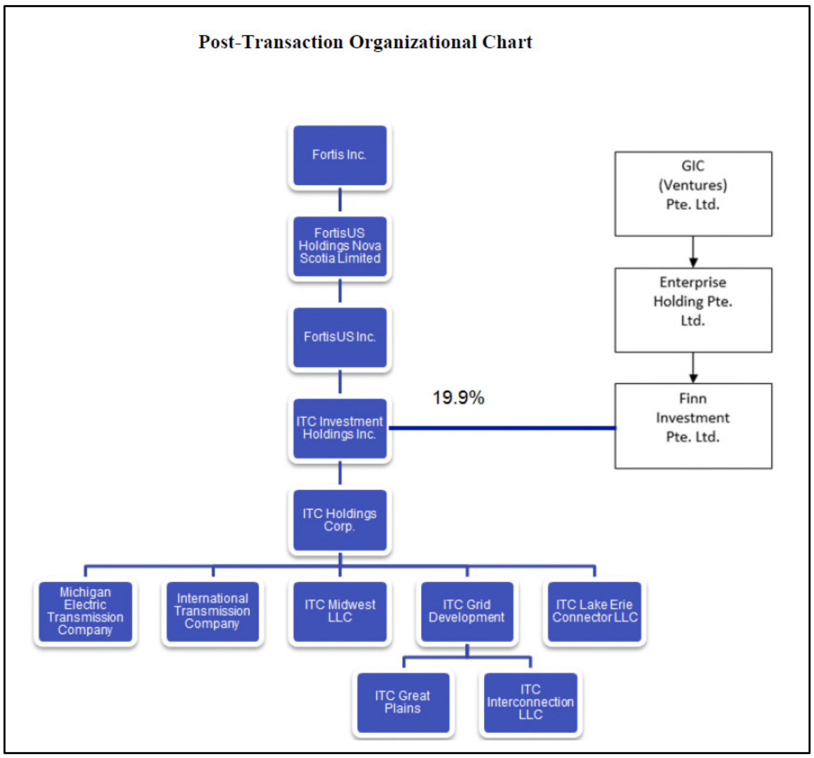
[2] See Order on Merger Standards, August 9, 2016, http://estar.kcc.ks.gov/estar/ViewFile.aspx/20160809133328.pdf?Id=6ff4c577-59ee-47f9-9fc9-bc735d064a9c
[3] Staff's list of recommended conditions for approval is attached hereto as Exhibit A.
[4] Docket No. 07-ITCE-380-COC, Order Approving Stipulation & Agreement and Addressing Application of Statutes, June 5, 2007 (07-380 Order).
[5] Joint Application for Transaction Approval and Expedited Treatment; para 16.
[6] FERC Financial Report, FERC Form 1; 2015, ITC Great Plains; p.110, line 14.
[7] Direct Testimony of Linda H. Blair; p 5.
[8] SNL Financial Report on Fortis, Inc. reports a market capitalization of C$11.822 billion with the prevailing exchange rate of C$1.25 equal to US$1.00.

utility. Upon consummation of the Transaction, Fortis-US will also hold the ITC investment.

Finn Investment Pte, Ltd. (Finn), through several intermediate corporations, is ultimately owned by the Government of Singapore and exists as an investment vehicle for its foreign reserves and government assets. Finn will own 19.9% of ITC.

Proposed Transaction:

The Joint Applicants are requesting authority from the Commission to enter into a transaction that ultimately results in Fortis-US owning 80.1% of ITC and Finn owning the remaining 19.9%.[9] In this instance, as is often the case with mergers and acquisitions, the Transaction may involve intermediate steps and the creation of corporations to be used to complete the Transaction. The following graphic summarizes the post transaction ownership of ITC (shown in chart as "ITC Holdings Corp."). The ITC transmission assets located in Kansas are held in the box labeled "ITC Great Plains".



The Transaction is valued at $11.3 billion ($6.9 billion in consideration and the assumption of $4.4 billion in ITC consolidated debt).[10] ITC Shareholders will receive

[9] Joint Application for Transaction Approval and Expedited Treatment; Exhibit E-2, Post-Transaction Organization Chart.
[10] Direct Testimony of Karl W. Smith; 16-ITCE-512-ACQ; filed May 10, 2016, p 8.

from Fortis $22.57 cash and 0.752 shares of Fortis stock for each share of ITC.[11] The cash portion will be financed by a cash investment by Finn and the issuance of approximately $2 billion of securities by Fortis.[12]

Acquisitions and mergers of jurisdictional utilities have never fit into a singular mold as each transaction is unique in the manner and the degree to which it affects Kansas communities, Kansas utility consumers, and the utilities' shareholders. In this instance, the KCC is not the economic regulatory authority for ITC-GP as FERC sets the rates for its transmission service. ITC-GP does not serve any retail customers in Kansas, and it only serves entities seeking transmission service, which, as a group, tend to be knowledgeable and sophisticated. If the Commission, or any other party, believes there is a problem with ITC-GP's rates, either a result of this transaction or otherwise, it must file a complaint at FERC challenging those rates pursuant to Section 206 of the Federal Power Act.

In 2007, ITC-GP was granted a limited Certificate of Convenience and Necessity to provide transmission service in Kansas. Even though the Commission does not set ITC-GP's rates, it does have authority over ITC-GP to ensure that ITC-GP complies with the Kansas Electric Transmission Line Siting Act,[13] the Commission's wiring-stringing rules,[14] and that it maintains and operates its transmission assets in Kansas in a manner that is consistent with ITC-GP's statutory requirement to provide efficient and sufficient service. Regardless of where the rate-setting authority lies, the transaction must be found to promote the public interest and the acquiring party must demonstrate the financial, managerial, and technical capability to operate the utility in an efficient and sufficient fashion. The Commission has reviewed several corporate restructurings, acquisitions, and mergers during the past decade under K.S.A 66-131 and 66-136.[15]

K.S.A. 66-136

ITC-GP is a public utility that has been granted a Limited Certificate to transact business as a utility with transmission-rights only in Docket 07-ITCE-380-COC.[16] The Transaction affects the ultimate ownership and control of the certificated public utility,

---

[11] At announcement the offer equaled $44.90 per share (Fortis/ITC Holdings Investor Presentation; February 2016).
[12] Direct Testimony of Karl W. Smith; 16-ITCE-512-ACQ; filed May 10, 2016, p 9.
[13] K.S.A. 66-1,177, *et seq.*
[14] K.S.A. 66-183 and K.A.R. 82-12-1, *et seq.*
[15] See, e.g., Docket No. 14-KGSG-100-MIS, Order Approving Unanimous Settlement Agreement, December 19, 2013, para. 29-30; Docket No. 07-BHCG-1063-ACQ/07-KCPE-1064-ACQ, Order Granting Joint Motions to Adopt Stipulation and Agreement and Approving Agreements, May 15, 2008, para. 6.
[16] 07-380 Order.

ITC-GP. Therefore, K.S.A. 66-136 applies and completing the Transaction requires a showing that it promotes the public convenience to be approved by the Commission.

The relevant section of K.S.A. 66-136 states that,

> "No franchise or certificate of convenience and necessity granted to a common carrier or public utility governed by the provisions of this act shall be assigned, transferred or leased, nor shall any contract or agreement with reference to or affecting such franchise or certificate of convenience and necessity or right thereunder be valid or of any force or effect whatsoever, unless the assignment, transfer, lease, contract or agreement shall have been approved by the commission…"

Under Kansas law, a public utility shall not transact the business of a public utility until it has first obtained a Certificate from the Commission that the public convenience will be promoted thereby.[17] Nor shall a public utility assign or transfer a Certificate of Convenience and Necessity or contract referring to or affecting such Certificate unless approved by the Commission.[18] In determining whether a Certificate of Convenience and Necessity should be granted, the public convenience ought to be the Commission's primary concern, the interest of the public utility company already serving the territory secondary, and the desires of the Applicants, a relatively minor consideration.[19] The public convenience means the convenience of the public, not of any particular individuals. Public necessity means a public need without which the public would be inconvenienced.[20] The public convenience and necessity is established by proof of the conditions existing in the territory to be served.[21] The Commission also has authority to impose lawful and reasonable conditions on the granting of a Certificate. A condition is lawful if it is within the statutory authority of the Commission and all statutory and procedural rules are followed. A condition is reasonable if based on substantial competent evidence.[22]

---

[17] K.S.A. 66-131.
[18] K.S.A. 66-136.
[19] Kansas Gas & Electric Co. v. Public Service Commission, 122 Kan. 462, 466, 251 P.1097 (1977).
[20] Atchison, Topeka & Santa Fe Railway Co v. Public Service Commission, 130 Kan. 777, 288 P. 755 (1930); Central Kansas Power Co. v. State Corporation Commission, 206 Kan 670, 482 P.2d 1 (1970).
[21] Atchison, Topeka & Santa Fe Railway Co. v. Public Service Commission, 130 Kan 777, 288 P.755 (1930).
[22] Kansas Electric Power Cooperative, Inc. v. Kansas Corporation Commission, 235 Kan. 661, 665, 683, P.2d 1235 (1984).

K.S.A. 66-131

The fundamental question of K.S.A. 66-131 of what promotes the public convenience and necessity is a more nebulous inquiry than K.S.A. 66-136. The relevant section of K.S.A. 66-131 states that,

> "(a) No person or entity seeking to construct electric transmission lines as defined in K.S.A. 66-1,177 and amendments thereto, or common carrier or public utility, including that portion of any municipally owned utility defined as a public utility by K.S.A. 66-104, and amendments thereto, governed by the provisions of this act shall transact business in the state of Kansas until it shall have obtained a certificate from the corporation commission that public convenience and necessity will be promoted by the transaction of said business and permitting and applicants to transact the business of a common carrier or public utility in this state…"

Over the past 25 years, the Commission has relied on the Merger Standards originally set out in Consolidated Dockets 172,745-U & 174,155-D,[23] later affirmed and slightly revised in Docket No. 97-WSRE-676-MER,[24]as a series of questions for evaluating whether a transaction would promote the public interest. In addition to the Merger Standards, in past dockets that required certificating a new public utility, the Commission has established the threshold requirement that a new public utility must possess the *"financial, managerial, and technical experience"* to provide sufficient and efficient service.[25] In this Transaction, the Commission is not issuing a new entity a Certificate; rather, a new entity to Kansas is acquiring control of a Kansas certificated utility that operates transmission assets in the state. Thus, in this instance, one of the questions that needs to be addressed is whether the new entity, or as in this case the existing public utility under new ownership, can meet the *"financial, managerial, and technical experience"* threshold.

ANALYSIS:

Threshold questions of "financial, managerial, and technical qualifications"

The threshold question is whether Fortis, as the new owner of ITC-GP, will possess, or will allow ITC-GP to possess, through retention of its current employees, the level of managerial and technical expertise to operate and maintain the Kansas Transmission

[23] Consolidated Docket Nos. 172,745-U & 174,155-D, Order, November 15, 1991, pp. 34-36.

[24] Order on Merger Application, 97-WSRE-676-MER, Sept. 28, 1999.

[25] Docket No. 11-GBEE-624-COC, Order Approving Stipulation & Agreement and Granting Certificate, December 7, 2011, para. 63.

assets in an efficient and sufficient manner. There is ample evidence that Fortis is knowledgeable of the public utility industry as demonstrated through its years of experience of profitably and effectively operating public utility businesses in the United States and Canada. Fortis states in the Joint Application that its philosophy is to operate subsidiaries as standalone utilities.[26] Crucial to this threshold question is the fact that ITC-GP personnel will continue to manage, operate and maintain the ITC-GP transmission assets after the acquisition.[27]

With regard to the financial qualifications necessary to own, operate and maintain ITC-GP and its transmission assets, there is no indication that the financial health of Fortis' or ITC will be jeopardized or diminished by the transaction. There is an indication from the bond rating agencies that the post-merger Fortis will retain an investment-grade bond rating.[28, 29] Prior to the transaction, Fortis had a market capitalization of $9.45 billion and an investment-grade corporate issuer rating of "A-" by Standard & Poor's.[30] ITC has a corporate issuer rating of Baa2/A- (Moody's/S&P), and ITC-GP has a corporate issuer rating of A1/A-.[31] While Fortis' senior unsecured long term debt rating was downgraded by S&P upon the announcement of the transaction, this downgrade was only one notch to BBB+ from A-. This is a typical reaction from a debt rating agency given the amount of new debt issued at the Fortis holding company level. Importantly, this new rating matches ITC's current Senior Unsecured S&P rating of BBB+, and is still three notches above the investment-grade threshold. With the announcement of the transaction, all three entities were assigned a negative outlook from S&P,[32] but there was no indication that any resulting downgrade, if it does occur, would be to a level below investment-grade. The Joint Applicants expressed in testimony that the financing for the transaction was structured to allow all of the entities to remain investment-grade after the close of the transaction.[33]

As a majority-owned subsidiary of Fortis, ITC (and thus ITC-GP) will depend entirely on Fortis for equity capital. For that reason, Staff recommends that one of the conditions the

---

[26] Direct Testimony of Barry V. Perry; pp. 11, 15, and 20.
[27] Direct Testimony of Barry V. Perry; pp. 3, 16-17, 20-21.
[28] Direct Testimony of Karl W. Smith; p. 11.
[29] Bond Rating Agency Reports from Standard & Poor's are attached to the Direct Testimony of Karl W. Smith as KWS-3 and KWS-5. A press release summarizing ratings action by DBRS is attached as KWS-4.
[30] SNL Financial Report on Fortis, Inc.
[31] SNL Financial Report on ITC Holdings Corp.
[32] Direct Testimony of Karl W. Smith; 16-ITCE-512-ACQ; filed May 10, 2016, KWS-3 and KWS-5.
[33] Direct Testimony of Karl W. Smith; 16-ITCE-512-ACQ; filed May 10, 2016, pp 11-13.

Commission should place on approval of this transaction is that the Joint Applicants explicitly recognize that Fortis will be ultimately responsible for effectively capitalizing ITC-GP in a responsible manner so as to enable ITC-GP to carry out its obligations as a certificated public utility in the State of Kansas, including the provision of efficient and sufficient service. This is listed as Condition No. 11 in Exhibit A attached to this Report and Recommendation. Staff believes this condition is consistent with the arguments supporting the transaction presented in the Joint Application and, most importantly, Staff believes this explicit recognition is necessary to meet the requirements of K.S.A. 66-131.

The Joint Applicants acknowledge the extent to which ITC-GP will depend on Fortis and lean on that fact as a benefit from the transaction. The benefits of being part of a larger, diversified organization are reiterated in the Joint Applicants' discussion of the Kansas Merger Standards.[34] The Joint Applicants state that meeting four[35] of the Merger Standards depends on Fortis being present as a resource for ITC-GP. The Joint Applicants state, "While Fortis utility subsidiaries are operated and financed on a standalone basis, Fortis will provide ITC and ITC-GP with the financial support of its larger organization."[36] It is clear from the Joint Applicants' testimony that Fortis' statement should not be read to imply its subsidiaries have any independence from Fortis, as ultimately Fortis chooses the management team and provides capital for each subsidiary. While there is an appearance of independence, ITC will have its own board of directors which the Joint Applicants state will be composed mostly of members that are independent of Fortis.[37] However, the board members of ITC are selected and elected by its shareholder(s), which is ultimately Fortis. It will be ITC's board of directors that determines how much of its earnings in the form of dividends flow to its stockholders (Fortis and Finn) and how much is retained to fund capital expenditures at ITC-GP for it to maintain its transmission assets and undertake new projects.

In Staff's opinion there would no benefit to Kansas if ITC-GP is part of a larger, more diverse entity, if that entity could not be held accountable for its subsidiary's operations. As noted above, ITC-GP will be dependent on the financial backing of Fortis. Therefore, without explicit recognition that Fortis is ultimately responsible for maintaining the financial integrity of ITC-GP, the Commission cannot be assured that the threshold "financial qualifications" requirement will be met. Without this condition, Staff would not recommend approval of the transaction.

[34] Joint Application for Transaction Approval and Expedited Treatment; p.18 (para 36 a, i); p. 19 (para 36 a, iii); p. 21 (para 36, c); p. 22 (para 36, g).
[35] Joint Application for Transaction Approval and Expedited Treatment; para 36; subsections: a (i), a (iii), c, and g.
[36] Joint Application for Transaction Approval and Expedited Treatment; p. 5, para. 6.
[37] Direct Testimony of Karl W. Smith; p.10.

Application of KCC Merger Standards to Evaluate the Public Interest Standard

The Commission has recognized that its "comprehensive list of standards was created and first employed in a significant merger proceeding." It further noted, "While these established standards provide a helpful framework for Commission analysis of the public interest, some factors may be less relevant than others to the present proceeding."[38] In the present case, the Commission's limited role in regulating ITC-GP warrants a more limited application of the Merger Standards than would be the case in reviewing a transaction involving utilities that are subject to the full economic regulation of the Commission. The Commission's Merger Standards were derived through its analysis of a transaction that involved two electric utilities with aggregate customer count of well over a half-million retail customers in Kansas and, of course, the Commission had full economic regulation of both utilities involved in that merger.[39]

Ultimately, the Commission's Merger Standards assist the Commission in a determination of whether the proposed transaction provides a net benefit to ratepayers, shareholders, and the public generally. In other word, whether the proposed transaction "promotes the public interest." In most merger and acquisition cases involving utilities that are under the full economic and rate regulation of the Commission, the appropriate focus for this standard is whether there are benefits for the public from the merger that can be quantified. In this case, where the Commission does not have ratemaking jurisdiction over ITC or ITC-GP, that hurdle will be very difficult to meet. Never-the-less, Staff has evaluated the proposed transaction according to the Commission's Merger Standards and has proposed a set of conditions that we recommend the Commission adopt in order to approve the transaction. With the imposition of these conditions, Staff is confident that the proposed transaction provides a net benefit to the public and will, therefore, promote the public interest.

As recently affirmed, the Commission's Merger Standards are as follows:[40]

a. *The effect of the transaction on customers, including:*
   i. *The effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the stand-alone entities if the transaction did not occur;*

   ii. *Reasonableness of the purchase price, including whether the purchase price was reasonable in light of*

---

[38] Docket No. 13-BHCG-509-ACQ, Order Approving Joint Application, October 3, 2013, para. 38.
[39] Order, 172,745-U/174,155-U; November 15, 1991.
[40] Order on Merger Standards; Docket No. 16-ITCE-512-ACQ, Paragraph 5. http://estar.kcc.ks.gov/estar/ViewFile.aspx/20160809133328.pdf?Id=6ff4c577-59ee-47f9-9fc9-bc735d064a9c

the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range;

iii. *Whether ratepayer benefits resulting from the transaction can be quantified;*

iv. *Whether there are operational synergies that can justify payment in excess of book value; and*

v. *The effect of the proposed transaction on the existing competition.*

b. *The effect of the transaction on the environment.*

c. *Whether the proposed transaction will be beneficial on an overall basis to state and local economies and to communities in the area served by the resulting public utility operations in the state. Whether the proposed transaction will likely create labor dislocations that may be particularly harmful to local communities, or the state generally, and whether measures can be taken to mitigate the harm.*

d. *Whether the proposed transaction will [preserve] the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility operations in the state.*

e. *The effect of the transaction on affected public utility shareholders.*

f. *Whether the transaction maximizes the use of Kansas energy resources.*

g. *Whether the transaction will reduce the possibility of economic waste.*

h. *What impact, if any, the transaction has on public safety.*

The Joint Applicants provided their views of the Merger Standards as related to the transaction through the Direct Testimonies of Barry V. Perry on behalf of Fortis and Linda H. Blair on behalf of ITC. The Joint Applicants applied the Merger Standards to the transaction and concluded that it meets the public interest standard that the Commission has used in the past.

The following text from paragraph 36, pages 18 through 22 of the Joint Application, summarizes the Joint Applicants' position on the Merger Standards. The Joint Applicant's response to each Standard is listed in bold text, and Staff's response to each of these standards is included in italics below that. These comments include whether the proposed transaction meets the standard on its own, or whether a Staff proposed condition allows the transaction to meet the Standard.

(a) The effect of the transaction on consumers, including:

(i) The effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the stand-alone entities if the transaction did not occur;

Applicants Response: There is no newly created entity resulting from the proposed Transaction. The Transaction involves a change in the shareholders indirectly owning the ITC Operating Companies. The financial condition of ITC Great Plains will not be altered as a result of the Transaction. As part of a much larger and more diversified Fortis organization with investment-grade credit ratings, the ITC Operating Companies will continue to have access to capital on favorable terms, will benefit from mitigation of ITC's single line-of-business risk profile, and will benefit from financial and other forms of support from the Fortis group of companies.[41]

Staff's Response: While the Joint Applicants' response is technically correct, that there will not be a newly created permanent entity, this misses the point. The appropriate area of inquiry should be whether the financial condition of the utility in question and the financial condition of the pro forma combined entity will be improved or will degrade as a result of the transaction. In this case, given the fact that the Commission does not have economic regulation of ITC-GP, Staff believes that the appropriate focus of this question is whether the post transaction ITC-GP, and its financing affiliates, will maintain their strong investment-grade credit ratings. As discussed above, and as evidenced by the credit rating reports provided in support of the Application, Staff does not believe this transaction will jeopardize the financial condition of ITC, ITC-GP or Fortis. In order to ensure that the Commission remains apprised of ITC-GP's financial condition in the years to come, Staff recommends Conditions No. 8, 11, and 12 in Exhibit A. Condition No. 8 requires Fortis to seek the Commission's approval in the event that its current subsidiary debt and credit protection policies are changed in the future. Condition No. 11 requires an explicit recognition that Fortis is ultimately responsible for capitalizing ITC-GP in a manner that allows it to provide efficient and sufficient service. Last, Condition No. 12 requires ITC-GP to notify the Commission immediately in the future if it or Fortis suffers a downgrade of credit quality to below investment-grade and to take the steps necessary to restore that investment-grade rating, or prove why that is not necessary in order to continue to provide efficient and sufficient service.

[41] Joint Application for Transaction Approval and Expedited Treatment; p. 18, para. 36.

(ii) Reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range:

<u>Applicants Response</u>: The purchase price is reasonable. The consideration that Fortis is paying for each ITC Holdings common share is US$22.57 in cash + 0.7520 of a Fortis common share. This represents an approximate 33% premium compared to the US$ 33.75 ITC Holdings pre-bid unaffected stock price as of market close on November 27, 2015, immediately before ITC Holdings publicly announced that it was undertaking a review of its strategic alternatives. Joint Applicants have committed to hold customers harmless from transaction and acquisition costs and will not seek to recover such costs in the ITC Operating Companies' cost based rates absent a filing consistent with the obligations Applicants have committed to in the FERC Application.[42]

<u>Staff's Response:</u> It is questionable as to the whether this Merger Standard is applicable given the fact that the Commission does not have rate regulation of ITC or ITC-GP, particularly given the fact that Fortis has committed to not seek recovery of the Acquisition Premium through rates. The purchase price, while not outside the realm of premiums observed in recent high profile transactions, cannot be supported by any anticipated savings or operational synergies that are expected as a result of the transaction. In Staff's view, Fortis' commitment to pay $11.3 billion for a current rate base of $5.6 billion is prima facie evidence that FERC's ratemaking policies are vastly over compensating the real required return on equity capital in today's economic environment. Fortis has essentially agreed to pay $2 for every $1 it has the opportunity to earn a return on, and a return of, through a FERC-approved ratemaking construct. This is only possible because ITC's currently authorized Return on Equity (ROE) at FERC is far greater than the 5.9% to 6.5% estimated by ITC's financial advisors as ITC's real cost of equity in ITC's Proxy Statement filed with the United States Securities and Exchange Commission on May 17, 2016.[43] Specifically, in the Proxy Statement, ITC financial advisor Lazard estimated ITC's cost of equity at 6.25% and Fortis' cost of equity at 6.50%. Barclays' estimated ITC's cost of equity at 6.44%, and Morgan Stanley estimated ITC's cost of equity at 6.0% and Fortis' cost of equity at 5.9%.

The fact that these highly paid[44] and internationally respected financial advisors estimate the true cost of equity for ITC to be between 5.9% and 6.5%, coupled with the fact that ITC-GP is currently authorized to earn

---

[42] Joint Application for Transaction Approval and Expedited Treatment; p. 19, para. 36.
[43] FORM DEFM14-A, Proxy Statement—Merger or Acquisition (definitive).
[44] ITC paid Morgan Stanley approximately $20 Million for its services. Barclays was paid $1 Million for its valuation work. Lazard was paid at least $2.5 Million, with the option for another $2 Million at the discretion of ITC's Board.

an ROE of 12.16% in its FERC-approved Transmission Formula Rate, suggests that ITC-GP's ROE is ripe for a Section 206 complaint at FERC. Given the fact that the Joint Applicants are not requesting to recover this Acquisition Premium from Kansas ratepayers, Staff does not recommend that the Commission deny this transaction because the purchase price is being supported by unreasonably high ROEs being authorized for transmission assets at FERC, as opposed to operational synergies or cost savings. Instead, Staff recommends the Commission adopt Condition No. 2 in Exhibit A, which memorializes the Applicants' commitment not to seek recovery from ratepayers, or record on the books of ITC or ITC-GP the Acquisition Premium associated with this transaction. Additionally, when Commission time and resources permit, the Commission may want to consider a Section 206 complaint against ITC-GP's current ROE at FERC to address this issue.

(iii) Whether ratepayer benefits resulting from the transaction can be quantified:

Applicants Response: ITC Great Plains does not have retail ratepayers. Instead, ITC Great Plains only has wholesale customers and FERC retains exclusive jurisdiction over the rates ITC Great Plains may charge for use of its transmission system by approving the terms and conditions set forth in ITC Great Plains' SPP formula rate tariff. However, ratepayers will benefit from the Transaction through Fortis' strong support of the ITC Great Plains' commitment to the delivery of safe, reliable and efficient transmission services, and further investment in upgrading and expanding transmission infrastructure across ITC Great Plains' operating territory.[45]

Staff's Response: It is questionable as to the whether this Merger Standard is applicable given the fact that the Commission does not have rate regulation of ITC or ITC-GP. Any rate-related concession or condition that the Commission would require of ITC or ITC-GP would have to be enforced at FERC, and the Joint Applicants have filed all of the appropriate hold-harmless commitments at FERC. Never-the-less, Staff has memorialized these ratepayer protections in Conditions No. 1, 2, 7, and 9 in Exhibit A. While there may end up being some cost savings associated with the elimination of duplicative and unnecessary services at the ITC holding company level, these expenses may very well be replaced by an allocated portion of holding company level expenses from Fortis. Therefore, Staff is unable to state at this time that there will be any benefit to the transmission ratepayer associated with this transaction. In the event that someone is successful in convincing FERC that its current ROE policy is vastly overcompensating investors in transmission assets, in part supported by the estimates of ITC's cost of equity as contained in

[45] Joint Application for Transaction Approval and Expedited Treatment; p. 19, para. 36.

its Proxy statement that would certainly have significant benefits to ratepayers.

(iv) Whether there are operational synergies that justify payment of a premium in excess of book value:

<u>**Applicants Response**</u>**: The Transaction is not premised on the achievement of operational synergies. For example, no staff reductions are contemplated at ITC Great Plains or any of the other ITC Operating Companies under the Transaction. Moreover, in their FERC Application, the Joint Applicants have committed to hold wholesale transmission customers harmless from Transaction costs and will not seek to recover Transaction costs in ITC Great Plains' cost-based rates absent a filing in accordance with FERC precedent and FERC-established procedures. Furthermore, when ITC Holdings becomes part of the Fortis group, ITC Great Plains will be able to participate in certain Fortis group programs and activities that promote efficiencies.**[46]

<u>Staff's Response:</u> It is questionable as to the whether this Merger Standard is applicable given the fact that the Commission does not have rate regulation of ITC or ITC-GP. As discussed above in the Merger Standard applicable to the reasonableness of the purchase price, this transaction is not premised on the achievement of operational synergies or cost savings. From Staff's perspective, this transaction is largely driven by abundance of very low cost capital in this economic environment and the attractiveness of the ROE and transmission ratemaking policies of FERC. The book value of ITC's rate base is approximately $5.6 billion. Fortis has agreed to pay $11.3 billion for that rate base but only seek to recover $5.6 billion. Whatever minor operational synergies or cost savings Fortis will be able to achieve in this transaction won't come close to explaining the size of that Acquisition Premium. The only rational explanation found in financial or regulatory theory that could support an economic decision of that magnitude would be an actual cost of equity capital far below what FERC ROE decisions have assumed. Given the fact that there are no savings or operational efficiencies that can justify the Acquisition Premium, Staff has memorialized Fortis' commitment not to seek recovery of the premium from ratepayers in Condition No. 2 in Exhibit A.

(v) The effect of the proposed transaction on the existing competition:

<u>**Applicants Response**</u>**: ITC Great Plains operates within the State of Kansas pursuant to a limited, transmission rights only certificate, and operates only within specified geographic areas authorized by the Commission. Fortis currently has no operations in Kansas, SPP,**

[46] Joint Application for Transaction Approval and Expedited Treatment; p. 19, para. 36.

or MISO, and Fortis does not own any electric or natural gas transmission lines parallel to or competing with ITC Great Plains. Furthermore, SPP will continue to have functional control over the transmission assets of ITC Great Plains, and ITC Great Plains will continue to provide transmission service pursuant to the terms and conditions under SPP's FERC-approved OATT. Accordingly, the Transaction will not affect existing competition in Kansas.[47]

Staff's Response: *Staff agrees with the Applicants' view of this Merger Standard. In addition, the impact on competition will be reviewed at FERC as well, and there are several sophisticated and active parties involved in that proceeding. In the event that there is an adverse impact on FERC jurisdictional competition, the FERC Docket will be the forum where those concerns are raised.*

(b) The effect of the transaction on the environment.

Applicants Response: There will be no effect on the environment as a result of the Transaction because there will be no change to ITC Great Plains' operations and ITC Great Plains is and will remain subject to the regulatory oversight of the Kansas Department of Health and Environment regarding all applicable environmental standards and regulations.[48]

Staff's response: *Staff agrees with the Applicants' response to this Merger Standard. Given the fact that this is a holding company level transaction with no effect on the physical assets of ITC Great Plains, this transaction shouldn't have any affect one way or the other on the environment.*

(c) Whether the proposed transaction will be beneficial on an overall basis to state and local economies and to communities in the area served by the resulting public utility operations in the state. Whether the proposed transaction will likely create labor dislocations that may be particularly harmful to local communities, or the state generally, and whether measures can be taken to mitigate the harm.

Applicants Response: ITC Great Plains has always been actively engaged in the communities in which it operates and will continue to cultivate strong relationships with local business and industry participants in Kansas. Fortis will continue to support these efforts, as ITC Great Plains will operate consistent with the Fortis standalone operating model and philosophy that strives to ensure Fortis' regulated utilities maintain beneficial relationships with regulators and local communities. Moreover, ITC Great Plains anticipates its operations will be bolstered by Fortis' track record of committing

[47] Joint Application for Transaction Approval and Expedited Treatment; p. 20, para. 36.
[48] Joint Application for Transaction Approval and Expedited Treatment; p. 20, para. 36.

capital to its utilities and being able to draw on Fortis' stability, experience and market diversity to its advantage.[49]

<u>Staff's Response:</u> While the Applicants' testimony describes a Fortis operating and business philosophy that is premised on decentralized control, autonomy, and business as usual at the ITC and ITC-GP levels, Staff recommends some conditions that memorialize and strengthen these general commitments. For example, the Agreement and Plan of Merger (Agreement) requires Fortis to keep employment levels and community support contributions at ITC and its subsidiaries in aggregate for three (3) years; there is no commitment in the Agreement for employment levels and community support levels within the ITC-GP's Kansas communities. Additionally, while the Agreement requires that Fortis keep ITC's headquarters in Novi, Michigan, there is no such requirement for ITC-GP's regional headquarters to stay in Topeka, KS. In response to this lack of ITC-GP specific employment and community protections, Staff recommends Conditions No. 4, 5, and 6 in Exhibit A apply to Commission approval of the transaction. These conditions will ensure that ITC-GP Kansas employment levels and community support stay the same for at least three years. Additionally, Condition No. 6 requires that ITC-GP commit to keep its regional headquarters of ITC-GP in Topeka for ten (10) years. These types of employee and community protections have become standard in high-profile merger cases in recent years for good reason. These conditions ensure that the acquiring entity doesn't cut employment levels and community support dramatically after the transaction closes in an effort to service the debt associated with the Acquisition Premium. Additionally, the certainty that is created for ITC-GP employees and local business partners through these conditions offer an improvement over the status quo as a direct result of the transaction. This is particularly important in the current transaction because it must promote the public interest, which is not an easy task when the Commission does not have rate regulation over ITC and ITC-GP.

(d) Whether the proposed transaction will preserve the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility regulations in the state.

<u>Applicants Response</u>: The KCC will retain its current jurisdiction over ITC Great Plains.[50]

<u>Staff's Response:</u> Staff agrees with the Applicants' position on this Merger Standard. Nothing in the proposed transaction negatively affects the KCC's jurisdiction or ability to effectively regulate ITC-GP. Arguably the reporting requirements and financial controls provided by the Conditions in Exhibit A provide the Commission an enhanced level of oversight and regulation of ITC-GP.

[49] Joint Application for Transaction Approval and Expedited Treatment; p. 20, para. 36.
[50] Joint Application for Transaction Approval and Expedited Treatment; p. 21, para. 36.

(e) The effect of the transaction on affected public utility shareholders.

> **<u>Applicants Response</u>: In exchange for each ITC common share, ITC shareholders will receive US$22.57 in cash and 0.7520 of a Fortis common share. After consummation, the common shares of Fortis will be listed on both the TSX and NYSE, and ITC shareholders will hold approximately 27% of the issued and outstanding common shares of Fortis.**[51]
>
> *<u>Staff's response:</u> ITC's shareholders are being handsomely rewarded in this transaction, receiving more than a 100% return over the book values of their investments. If the Commission had rate regulation over ITC-GP, Staff may very well have recommended that the Commission should examine the reasonableness of this level of shareholder benefit compared to the benefit being offered to ratepayers, especially since the source of the lofty valuation of ITC can so easily be attributable to the difference between the real cost of equity capital and the ROE being earned by ITC as a result of FERC ratemaking policies. However, given the Commission's limited regulation of ITC and ITC-GP, Staff is not making these recommendations.*

(f) Whether the transaction maximizes the use of Kansas energy resources.

> **<u>Applicants Response</u>: Fortis believes ITC Great Plains is well positioned to undertake further investment in transmission infrastructure to support grid reliability and new and existing energy sources in Kansas. Thus, Fortis supports ITC Great Plains' efforts to work closely with local business and industry participants in Kansas to maximize the use of Kansas energy resources.**[52]
>
> *<u>Staff's Response:</u> Staff agrees with the Applicants' position on this Merger Standard. When enhanced by the conditions Staff recommends for this transaction, ITC-GP should continue to be involved in the development of the transmission infrastructure in Kansas.*

(g) Whether the transaction will reduce the possibility of economic waste.

> **<u>Applicants Response</u>: Fortis believes the transaction will reduce the possibility of economic waste because, as a private company, ITC Holdings can focus exclusively on its core utility operations. When ITC Holdings becomes a private company, non-core aspects of its current business relating to regulation of the listing of its common shares will be discontinued. Further, the merger will support ITC Great Plains' access to capital and the broad experience of the Fortis**

---

[51] Joint Application for Transaction Approval and Expedited Treatment; p. 21, para. 36.
[52] Joint Application for Transaction Approval and Expedited Treatment; p. 21, para. 36.

family of utilities, including the sharing of best practices, will promote efficiencies, thereby reducing the possibility of economic waste.[53]

<u>Staff's Response:</u> Staff agrees with the Applicants' position on this Merger Standard. All other things being equal, allowing ITC to exist as part of a larger holding company structure and avoiding the duplication of some administrative and general expenses that are typically incurred related to a standalone public company, should reduce the possibility of economic waste.

(h) What impact, if any, the transaction has on the public safety.

<u>Applicants Response</u>: The upstream change in ownership will not affect ITC Great Plains' operations. ITC Great Plains will continue to comply with all applicable safety rules, regulations, and Orders of the Commission. The Transaction will not impact public safety.[54]

<u>Staff's Response:</u> While the Joint Applicants state that Fortis plans to operate ITC and ITC-GP as an independent, autonomous, standalone entity (essentially that ITC-GP operations will be business as usual), Staff recommends that ITC-GP be required to notify the Commission in the event of any substantial change in the operating or maintenance practices of ITC-GP for a period of five years after the close of the transaction. This is captured in Staff Condition No. 10 in Exhibit A. The rationale for this condition is that the Commission has yet to observe how Fortis chooses to operate the Transmission Assets of ITC-GP. While we have no reason to doubt that Fortis' claims are genuine, this condition allows the Commission to verify that Fortis is indeed operating and maintaining the ITC-GP assets in a "business as usual" fashion after the close of the transaction. Once the Commission gets an opportunity to observe Fortis' operation and ownership of the ITC-GP assets for five years, this requirement can sunset.

Staff's view of the proposed transaction is that it has the opportunity to promote the public interest if the Commission conditions the approval of the transaction on Staff's thirteen (13) conditions as attached in Exhibit A to this Report. While this transaction doesn't result in an overwhelming benefit to ratepayers, and the benefits that are there are not easy to quantify, that may very well be impossible when the service being provided by ITC-GP is not rate-regulated by this Commission. Never-the-less, Staff does view the Transaction, as conditioned by our recommended Conditions, to promote the public interest; therefore, we recommend that the Commission approve the transaction with the attached conditions.

[53] Joint Application for Transaction Approval and Expedited Treatment; p. 22, para. 36.
[54] Joint Application for Transaction Approval and Expedited Treatment; p. 22, para. 36.

RECOMMENDATIONS:

Grant authority to the Joint Applicants to complete the transaction including authority to enter into ancillary agreements that are necessary and directly related to completing the transaction contemplated in this Joint Application, conditioned upon the thirteen (13) conditions attached to this Report as Exhibit A. As noted in Exhibit A, Staff further recommends the Commission explicitly state that Fortis has committed to provide equity capital injections as needed for maintaining the financial integrity of ITC Great Plains such that ITC Great Plains is capable of maintaining an investment-grade credit rating.

KCC DOCKET NO. 16-ITCE-512-ACQ
CONDITIONS FOR KANSAS CORPORATION COMMISSION
APPROVAL OF TRANSACTION

Staff recommends that the Commission's approval of the Transaction in this instant docket be subject to the following conditions.

1. Neither the Joint Applicants nor any of their affiliates shall recover from customers directly or indirectly, any costs incurred associated with this Transaction in this or any future rate proceeding.
2. Neither (a) the greater of either goodwill or acquisition premium nor (b) any of the debt financing associated with funding this Transaction will be recorded on the books of any direct or indirect subsidiary of ITC Holdings, including ITC Great Plains, nor on the books of ITC Holdings in a manner that would negatively affect the financial condition of any direct or indirect subsidiary of ITC Holdings, including ITC Great Plains. Additionally, any transaction or transition costs associated with the Transaction, along with any related amortization or expense, will be recorded below the line, taken to mean that these costs will be recovered from shareholders and are not recoverable through the rates of any direct or indirect subsidiary of ITC Holdings, including ITC Great Plains.
3. The Joint Applicants shall file the final accounting entries for the Transaction, showing the actual dollar values of all involved accounts, as a compliance filing in either Docket No. 16-ITCE-512-ACQ, or a compliance Docket established at the time of a final Order in this proceeding, within sixty (60) days of the effective date of the closing of the Transaction. If the Transaction closing has not occurred within six months of the Final Order in this proceeding, the Joint Applicants shall file a status report at six month intervals until the journal entries are filed with the Commission.
4. For three (3) years from the effective date of the closing of the Transaction, no voluntary workforce reductions, employee restructuring, or job elimination programs will be implemented by ITC Great Plains in Kansas. This condition shall be taken to mean that the aggregate level of employment by ITC Great Plains in Kansas shall not be reduced by ITC Great Plains from the level in effect before the effective date of the Transaction.
5. For three (3) years from the effective date of the closing of the Transaction, ITC Great Plains will provide charitable contributions and community support in the communities in Kansas at a level comparable in the aggregate to the levels currently provided by the ITC Holdings and ITC Great Plains. Thereafter, Fortis Inc. will not restrict or in any way attempt to limit or control the discretion of the management of ITC Great Plains and ITC Holdings over such programs.
6. For five (5) years from the effective date of the closing of the Transaction, ITC Great Plains will maintain its headquarters in Topeka, Kansas. For an additional five (5) years thereafter, ITC Great Plains will keep its headquarters in Kansas, and will notify the Commission prior to any relocation outside of Topeka, Kansas.
7. Consistent with the Joint Applicants' hold harmless commitment made in FERC Docket No. EC16-110, neither ITC Great Plains nor any other ITC or Fortis-affiliated entity will, at any time, seek to recover any acquisition premium, goodwill, or transaction costs associated with consummating the Transaction (including transition costs), through FERC or any other federal or state regulatory proceeding.

8. It is Fortis' policy that a subsidiary operating utility company such as ITC Great Plains will maintain both standalone credit facilities and senior long-term debt instruments and will not be made responsible for any debt or other obligations of its parent or affiliate companies, and this policy is consistent with applicable federal law and FERC regulations. Fortis has no plans to change that policy, and will not seek to change its policy for five (5) years from the effective date of the closing of the Transaction and during such time ITC Great Plains will continue to maintain both standalone credit facilities and senior long-term debt instruments, and will not make loans under its financing arrangements to Fortis or its affiliates or guarantee any debt of Fortis or its affiliates. If at any time thereafter Fortis or ITC Great Plains wishes to change this important financial condition, it must state its intent to do so in a filing with the Kansas Corporation Commission.
9. Neither Joint Applicants nor any of their affiliates will at any time attempt to circumvent any condition contained herein or any commitment made in this docket or FERC Docket No. EC16-110 through any action at FERC or another state or federal regulatory body or state or federal court.
10. For five (5) years following the effective date of the closing of the Transaction, in the event that ITC Great Plains makes any substantial change in its primary operating and maintenance contracts which may have a substantial effect on the safety and reliability of its Transmission assets in the state of Kansas, including but not limited to a substantial change in its operation and maintenance contracts currently in effect for its Kansas transmission assets, ITC Great Plains shall make a filing with the Commission 30 days in advance of the changed contract (in either Docket No. 16-ITCE-512-ACQ or a compliance Docket established as a result of the final Commission Order in this proceeding). This filing shall include a description of the change, the rationale for the change (including the business or economic rationale for the change), whether the change is expected to impact service quality, safety, or reliability of ITC Great Plains' transmission operations in the State and all appropriate support for each of the above claims. For greater certainty, no such filings will be required where ITC Great Plains (and/or its primary contractor) routinely updates maintenance and operations practices in the normal course of business, as it currently does, to fully comply with all applicable standards for safety and security as they are issued by NERC or other regulatory bodies. Nothing herein shall restrict the right of ITC Great Plains to designate information as confidential under the applicable provisions of K.S.A. 66-1220a and K.A.R. 82-1-221a.
11. The Commission should explicitly state that Fortis has committed to provide equity capital injections as needed for maintaining the financial integrity of ITC Great Plains such that ITC Great Plains is capable of maintaining an investment-grade credit rating.
12. In the event that ITC Great Plains, Fortis, or any Fortis affiliate from which ITC Great Plains receives financing (including equity capital) should have its corporate credit rating downgraded as determined by Standard and Poor's (S&P) or Moody's to below BBB- or Baa3, respectively, ITC Great Plains commits to file the following:
    1. Notice with the Commission within five (5) business days of the downgrade;
    2. A Pleading with the Commission within 60-days which shall include the following:

       a. A plan identifying all reasonable steps, taking into account the costs, benefits, and expected outcomes of such actions, that will be taken to restore and maintain a S&P BBB- or Moody's Baa3 or above credit rating for ITC Great Plains, Fortis, or the financing affiliate. If ITC Great Plains' plan does not involve taking the steps to restore and maintain a S&P BBB- or Moody's Baa3 or above credit rating, for ITC Great Plains, Fortis, or any financing affiliate, then ITC Great Plains shall comprehensively state why it believes the steps necessary to produce that result are not reasonable or necessary in order for it to continue to provide efficient and sufficient service in Kansas. Thereafter, until ITC Great Plains, Fortis, and/or the financing affiliate have regained a corporate credit rating of BBB- or Baa3 or above, ITC Great Plains shall file a status report with the Commission every 60-days detailing the steps it is taking to restore its investment grade credit rating, and support that its ability to provide efficient and sufficient service has not been detrimentally affected by a corporate credit rating below investment grade.

13. For three (3) years from the effective date of the closing of the Transaction, ITC Great Plains will make an annual filing in Docket No. 16-ITCE-512-ACQ or a compliance Docket that is established as a result of the final Commission Order in this proceeding. This filing shall include a report as to compliance with the conditions imposed by the Commission Order approving the Transaction.

CERTIFICATE OF SERVICE

16-ITCE-512-ACQ

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing Staff 's Report and Recommendation was served via electronic service this 2nd day of September, 2016, to the following:

PAUL FITZPATRICK, DIRECTOR, REGULATORY AND COMPLIANCE
FORTIS INC.
FORTIS PLACE SUITE 1100
5 SPRINGDALE STREET
ST.JOHN'S, NL A1B 3T2
pfitzpatrick@fortisinc.com

CHRIS WINLAND, MANAGER, REGULATORY STRATEGY
ITC GREAT PLAINS, LLC
204 NORTH ROBINSON AVE
SUITE 2500
OKLAHOMA CITY, OK 73102
cwinland@itctransco.com

STEPHEN J. VIDETO, PRACTICE GROUP LEADER & SENIOR COUNSEL-REGULATORY & LEGISLATIVE
ITC HOLDINGS CORP
27175 ENERGY WAY
NOVI, MI 48377-3639
svideto@itctransco.com

BRIAN G. FEDOTIN, DEPUTY GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3314
b.fedotin@kcc.ks.gov

ANDREW FRENCH, SENIOR LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3314
a.french@kcc.ks.gov

AMBER SMITH, CHIEF LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3167
a.smith@kcc.ks.gov

ANNE E. CALLENBACH, ATTORNEY
POLSINELLI PC
900 W 48TH PLACE STE 900
KANSAS CITY, MO 64112
Fax: 913-451-6205
acallenbach@polsinelli.com

FRANK A. CARO, JR., ATTORNEY
POLSINELLI PC
900 W 48TH PLACE STE 900
KANSAS CITY, MO 64112
Fax: 816-753-1536
fcaro@polsinelli.com

RENEE BRAUN, CORPORATE PARALEGAL, SUPERVISOR
SUNFLOWER ELECTRIC POWER CORPORATION
301 W. 13TH
PO BOX 1020 (67601-1020)
HAYS, KS 67601
Fax: 785-623-3395
rbraun@sunflower.net

JAMES BRUNGARDT, REGULATORY AFFAIRS ADMINISTRATOR
SUNFLOWER ELECTRIC POWER CORPORATION
301 W. 13TH
PO BOX 1020 (67601-1020)
HAYS, KS 67601
Fax: 785-623-3395
jbrungardt@sunflower.net

CERTIFICATE OF SERVICE

16-ITCE-512-ACQ

AL TAMIMI, VICE PRESIDENT, TRANSMISSION PLANNING AND POLICY
SUNFLOWER ELECTRIC POWER CORPORATION
301 W. 13TH
PO BOX 1020 (67601-1020)
HAYS, KS 67601
Fax: 785-623-3395
atamimi@sunflower.net

TIMOTHY E. MCKEE, ATTORNEY
TRIPLETT, WOOLF & GARRETSON, LLC
2959 N ROCK RD STE 300
WICHITA, KS 67226
Fax: 316-630-8101
temckee@twgfirm.com

MARK D. CALCARA, ATTORNEY
WATKINS CALCARA CHTD.
1321 MAIN ST STE 300
PO DRAWER 1110
GREAT BEND, KS 67530
Fax: 620-792-2775
mcalcara@wcrf.com

TAYLOR P. CALCARA, ATTORNEY
WATKINS CALCARA CHTD.
1321 MAIN ST STE 300
PO DRAWER 1110
GREAT BEND, KS 67530
Fax: 620-792-2775
tcalcara@wcrf.com

/s/ Vicki Jacobsen

Vicki Jacobsen