NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

September 25, 2009

Ms. Kimberly Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: NERC Notice of Penalty regarding International Transmission Company d/b/a ITC*Transmission* Company and Michigan Electric Transmission Company, LLC FERC Docket No. NP09-_-000

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby provides this Notice of Penalty[1] regarding International Transmission Company d/b/a ITC*Transmission* Company (ITC) and Michigan Electric Transmission Company, LLC (METC), NERC Registry ID NCR00803 and NCR00820, respectively,[2] in accordance with the Federal Energy Regulatory Commission's (Commission or FERC) rules, regulations and orders, as well as NERC Rules of Procedure including Appendix 4C (NERC Compliance Monitoring and Enforcement Program (CMEP)).[3]

This Notice of Penalty is being filed with the Commission because, based on information from Reliability*First* Corporation (RFC), RFC has entered into a joint Settlement Agreement with ITC and METC. The Settlement Agreement addresses the alleged violations of FAC-003-1 Requirement (R) 2 and FAC-003-1 R1.2.2 by ITC and the alleged violation of FAC-003-1 R1.2.2 by METC. In the Settlement Agreement, ITC has agreed to the proposed penalty of forty thousand dollars ($40,000)[4] to be assessed for the alleged violations of FAC-003-1 Requirement (R) 2 and FAC-003-1 R1.2.2, in addition to other actions which result in additional expenditures of approximately $10 million by ITC and METC collectively to promote prospective compliance required under the terms and conditions of the Settlement Agreement. The Settlement Agreement resolves all outstanding issues arising from a preliminary and non-public assessment resulting in RFC's determination and findings of the enforceable alleged violations at issue in

[1] *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards* (Order No. 672), III FERC Stats. & Regs. ¶ 31,204 (2006); *Notice of New Docket Prefix "NP" for Notices of Penalty Filed by the North American Electric Reliability Corporation*, Docket No. RM05-30-000 (February 7, 2008). *See also* 18 C.F.R. Part 39 (2008). *Mandatory Reliability Standards for the Bulk-Power System*, FERC Stats. & Regs. ¶ 31,242 (2007) (Order No. 693), *reh'g denied*, 120 FERC ¶ 61,053 (2007) (Order No. 693-A).

[2] RFC confirmed that ITC*Transmission* Company and Michigan Electric Transmission Company are subsidiaries of ITC Holdings, Corporation. Further, ITC Transmission Company d/b/a ITC*Transmission* Company (ITC) and Michigan Electric Transmission Company (METC) were both included on the NERC Compliance Registry on May 30, 2007 as a Transmission Owner, among other functions, and were subject to the requirements of NERC Reliability Standards FAC-003-1.

[3] *See* 18 C.F.R § 39.7(c)(2).

[4] The Settlement Agreement reference to METC paying this penalty is incorrect.

this Notice of Penalty. Accordingly, the alleged violations identified as NERC Violation Tracking Identification Numbers RFC200700003, RFC200800080 and RFC200800081 are being filed in accordance with the NERC Rules of Procedure and the CMEP.

Statement of Findings Underlying the Alleged Violations

This Notice of Penalty incorporates the findings and justifications set forth in the Settlement Agreement executed by ITC, METC and RFC as of July 29, 2009, which is included as Attachment b.[5] The details of the findings and basis for the penalty are set forth in the Settlement Agreement and herein. This Notice of Penalty filing contains the basis for approval of the Settlement Agreement by the NERC Board of Trustees Compliance Committee (NERC BOTCC). In accordance with Section 39.7 of the Commission's regulations, 18 C.F.R. § 39.7 (2007), NERC provides the following summary table identifying each alleged violation of a Reliability Standard resolved by the Settlement Agreement, as discussed in greater detail below.

Regional Entity	Registered Entity	NOC ID	NERC Violation ID	Reliability Std.	Req. (R)	VRF	Total Penalty ($)
RFC	ITC*Transmission* Company	134	RFC200700003	FAC-003-1	2	High	$40,000
RFC	ITC*Transmission* Company	134	RFC200800080	FAC-003-1	1.2.2	High	
RFC	Michigan Electric Transmission Company	134	RFC200800081	FAC-003-1	1.2.2	High	$0

The purpose of Reliability Standard FAC-003-1 is to improve the reliability of the electric transmission systems by preventing outages from vegetation located on transmission rights-of-way (ROW) and minimizing outages from vegetation located adjacent to ROW, maintaining clearances between transmission lines and vegetation on and along transmission ROW, and reporting vegetation related outages of the transmission systems to the respective Regional Entities and NERC.

FAC-003-1 R2

FAC-003-1 R2 requires the Transmission Owner, such as ITC, to create and implement an annual plan for vegetation management work to ensure the reliability of the system. The plan shall describe the methods used, such as manual clearing, mechanical clearing, herbicide treatment, or other actions. The plan should be flexible enough to adjust to changing conditions, taking into consideration anticipated growth of vegetation and all other environmental factors that may have an impact on the reliability of the transmission systems. Adjustments to the plan shall be documented as they occur. The plan should take into consideration the time required to obtain permissions or permits from landowners or regulatory authorities. Each Transmission Owner shall have systems and procedures for documenting and tracking the planned vegetation management work and ensuring that the vegetation management work was completed according to work specifications.

[5] Although a substantially similar form of the Settlement Agreement was originally approved by the NERC BOTCC on February 8, 2009, the Settlement Agreement was subsequently revised and re-executed to provide additional clarity as to the factual background of the instant violations and the subsequent expenditures by ITC and METC.

According to the Settlement Agreement, on September 19, 2007, ITC submitted a quarterly report in which it indicated a possible violation of FAC-003-1 R3.4.1.[6] The report contained information regarding a vegetation outage that occurred on the 230 kV Brownstown-Navarre 2 transmission line at 12:07 a.m. E.S.T. on July 28, 2007. The outage lasted approximately 127 minutes. The tree involved in the outage was removed July 28, 2007. The Vegetation Outage Report states that the outage occurred because the Brownstown-Navarre 2 line experienced higher than average loading due to larger than usual power transfers across the ITC system.[7] As the line loading increased the line sagged, reducing the clearance between the line and vegetation until the line contacted a tree causing it to lock out. The transmission line was only loaded to 79.8% of its normal rating at the time of the contact with the vegetation apparently due to vegetation growing into the clearance zone for operation of the line at ratings less than full loading. According to the Settlement Agreement, it is ITC's practice to completely remove all tall-growing vegetation in the ROW; however, this particular tree was in an area where the easement rights dictate that ITC was allowed to trim any tree along the lines to allow for a 12 feet wire clearance. This area was trimmed in late 2005 and was in the process of being trimmed for 2007.

According to the Settlement Agreement, on October 26, 2007, ITC submitted the following information in its response to a RFC questionnaire regarding the outage. According to ITC, the vegetation was a result of vigorous sprout re-growth from a previously topped tree after the routine line clearance occurred in the winter of 2005. The vegetation contractor that performed the work in 2005 had a history of poor pruning techniques and incomplete tree work and that ITC believed, in this case, that the top of the tree was not treated as it should have been. ITC's contract with the pruning contractor was terminated at the end of 2005 as a result of these issues. Subsequently, ITC made a good faith effort to review the contractor's work by conducting spot reviews and performing corrective work where deficiencies were identified. No documentation from 2005 exists to explain why the particular tree that caused the outage was missed in the good faith review. Following the outage, however, between July 30, 2007 and August 1, 2007, all 230 kV corridors were checked and additional corrective clearance work was performed between August 2, 2007 and August 6, 2007. No additional violation encroachments were discovered in the course of this review.

ITC further stated in the questionnaire that the vegetation that was the cause of the July 28, 2007 outage "was marked by a Certified Arborist for work and as having 11-15 ft of clearance from the conductors at a maximum sag of 8 feet in March 2007." According to ITC, although "[t]his was not, at the time, considered a potential problem area according to ITC's Vegetation Management specifications…[a]fter this incident, the ITC Vegetation Management specifications were revised to reflect a maximum sag of 20 feet…." This change was made effective October 1, 2007, per the approved Mitigation Plan to reduce the likelihood of a similar event from occurring in the future.

[6] Upon review of ITC's quarterly report and the October 26, 2007 responses to a questionnaire, RFC determined the facts included in the quarterly report and questionnaire responses actually gave rise to a violation of FAC-003-1, R2. This information was officially conveyed to ITC by way of the Initial Notice of Alleged Violation, dated December 14, 2007.

[7] Although ITC used the term "higher than normal loading" in its "Vegetation Outage Report," it actually meant "higher than average or usual loading."

However, when RFC reviewed ITC's report and the questionnaire, RFC determined that ITC reported a violation of the wrong requirement number. RFC found that ITC failed to effectively implement a Transmission Vegetation Management Plan that took into account the anticipated growth of vegetation inside the ROW thus resulting in a transmission line outage as stated in NERC Reliability Standard FAC-003-1 R2, rather than a violation of FAC-003-1 R3.4.1. Also, as discussed below with respect to the violation of FAC-003-1 R1.2.2, RFC found that ITC's Vegetation Management Plan failed to include or comply with minimum clearance requirements.

Although RFC Compliance Staff confirmed that ITC had a Transmission Vegetation Management Plan in place and that it complied with FAC-003-1 R2,[8] RFC Compliance Staff determined that ITC did not implement the Vegetation Management Plan properly. Therefore, ITC was found, by RFC, to have allegedly violated FAC-003-1 R2.

The duration of the violation of FAC-003-1 R2 was from June 18, 2007, when the Reliability Standard became mandatory and enforceable, to July 28, 2007, when ITC removed the tree which caused the outage.

FAC-003-1 R1

FAC-003-1 R1 requires Transmission Owners, such as ITC and METC, to prepare, and keep current, a formal Transmission Vegetation Management Program. The Transmission Vegetation Management Plan must include the Transmission Owner's objectives, practices, approved procedures, and work specifications. Specifically, FAC-003-1 R1.2.2 states, "Clearance 2 — The Transmission Owner shall determine and document specific radial clearances to be maintained between vegetation and conductors under all rated electrical operating conditions. These minimum clearance distances are necessary to prevent flashover between vegetation and conductors and will vary due to such factors as altitude and operating voltage. These Transmission Owner-specific minimum clearance distances shall be no less than those set forth in the Institute of Electrical and Electronics Engineers (IEEE) Standard 516-2003 (*Guide for Maintenance Methods on Energized Power Lines*) and as specified in its Section 4.2.2.3, Minimum Air Insulation Distances without Tools in the Air Gap." FAC-003-1 R1.2.2.1 states, "Where transmission system transient overvoltage factors are not known, clearances shall be derived from Table 5, IEEE 516-2003, phase-to-ground distances, with appropriate altitude correction factors applied."

During an audit conducted on September 23, 2008, representatives from the RFC Compliance Enforcement Staff and the RFC Compliance Audit Staff visited the common offices of ITC and METC in Novi, Michigan for the purposes of performing a complete compliance audit of NERC

[8] The ITC TVMP in place as of June 18, 2007 was titled "Line Clearance Requirements;" it was renamed and revised to FSS-002 "Vegetation Management Program," dated October 2, 2007. While the October 2, 2007 version refers to the Institute of Electrical and Electronics Engineers (IEEE) vegetation clearance requirements, the June 18, 2007 version does not. Neither document contains a reproduction on Table D.3 from IEEE Standard 516-2003. Subsequent changes to FSS-002 were made in Revision 001, dated July 23, 2008 and Revision 002 dated August 15, 2008. Each of these versions reproduced Table D.3 from IEEE Standard 516-2003, albeit inaccurately, as discussed throughout this document.

Reliability Standard of FAC-003-1, as well as verifying the completion of the ITC Mitigation Plan associated with the alleged violation denoted with NERC Violation ID # RFC200700003. RFC reviewed ITC's Transmission Management Program (ITC Document #FSS-002, Effective date August 15, 2008, Revision 002) and discovered that the clearances distances listed in ITC's plan were below the minimum clearance set forth in the IEEE Standards.

RFC alleges that ITC and METC[9] failed to determine and document specific minimum clearance distances to be maintained between vegetation and conductors under all rated electrical operating conditions that were no less than those set forth in the IEEE Standard 516-2003 (*Guide for Maintenance Methods on Energized Power Lines*) and as specified in its Section 4.2.2.3, Minimum Air Insulation Distances without Tools in the Air Gap. Specifically, ITC/METC specified clearance distance for a 230 kV line to be 5.1 feet, which is less than the 5.14 feet specified by IEEE Standard 516-2003 and ITC/METC specified clearance distance for a 345 kV line to be 9.4 feet, which is less than the 9.44 feet specified by IEEE Standard 516-2003.

Due to the common records, common procedures, common personnel, common presentation, common impact of mitigating actions and the shared basis for the finding of an alleged violation of FAC-003-1 R1 for ITC and METC and with recognition of the information provided by ITC and METC as to the corporate structure under ITC Holdings, the Settlement Agreement resolves all issues with regard to the alleged violations and it jointly binds ITC and METC to perform actions to ensure compliance with the NERC Reliability Standards at issue here. The duration of the violation was from June 18, 2007, when the Reliability Standard became mandatory and effective, to September 24, 2008, when ITC revised its Transmission Vegetation Management Program.

RFC determined the penalty associated with ITC's alleged violations of FAC-003-1 R2 and FAC-003 R1 to be $40,000. The penalty amount was based on a "High" Violation Risk Factor (VRF) associated with FAC-003-1 R1 and FAC-003-1 R2. It properly takes into account the fact that the Transmission Vegetation Management Plan failed to comply with the IEEE minimum requirements, which RFC determined was attributed to rounding errors. In addition, the penalty amount is based on the sustained nature (127 minutes in duration) of the Category 1 – Grow-in vegetation contact outage. The penalty amount also reflects the real time operation nature of the alleged violation in contrast with an alleged violation with a "long term planning" time horizon. RFC assessed the penalty to be commensurate with the seriousness of the violation. RFC, in applying the adjustment factors as specified in Section 4.3 of the NERC Sanction Guidelines (Appendix 4B of the NERC Rules of Procedure), concluded no aggravating factors existed. Specifically, RFC determined there were no repetitive violations, there was no concealment of the violation, there was no evidence of an intent to violate the Reliability Standard, and there was no failure to comply with compliance directives.

[9] RFC determined that METC also was in violation of FAC-003-1 R1, because METC uses the same Transmission Vegetation Management Program as ITC. Specifically, both used the ITC "Transmission Vegetation Management Program."

Status of Mitigation Activities[10]

ITC's Mitigation Plan to address the alleged violation of FAC-003-1 R2 was submitted to RFC on January 18, 2008, accepted by RFC on February 12, 2008 and was approved by NERC on May 21, 2008. The Mitigation Plan is designated as MIT-07-0428 and was submitted as non-public information to FERC on May 21, 2008 in accordance with FERC orders. ITC certified, within the Mitigation Plan itself, on January 18, 2008 to RFC that its Mitigation Plan was completed on October 1, 2007. RFC Staff reviewed the evidence in support of its Certification of Completion and RFC verified on April 2, 2009 that the Mitigation Plan was timely completed. Specifically, RFC reviewed ITC's work orders for vegetation removal and management, ITC's transmission line clearance requirements, ITC's request for additional vegetation management, a sample ITC "Hot Spot" Report, documents relating to ITC's easement management program, an ITC training document, and the ITC Transmission Vegetation Management Plan.[11]

According to the Settlement Agreement, to prevent future vegetation contacts, ITC and METC revised the clearance standards within their Vegetation Management Programs on September 24, 2008. Clearances between all of ITC/METC's 230 kV and 345 kV circuits and vegetation within the ROW were increased (from a minimum of 15 feet to a minimum of 20 feet at maximum sag) to reduce the likelihood of a similar event from occurring in the future. These revisions were made in the ITC Transmission Vegetation Management Program, Document FSS-002, Revision 001, and effective July 23, 2008. This increase to the clearance distance results in annual cost increase to on-going operations. ITC's costs to comply will increase over the next three years by approximately $600,000 in 2008, $650,000 in 2009 and $700,000 in 2010 respectively. METC's costs to comply will increase by $1,100,000 in 2008, $1,200,000 in 2009 and $1,350,000 in 2010 respectively, in order to meet the clearance increases. The increased costs also reflect costs for additional tree removals because it is anticipated that some landowners will prefer to have trees removed rather than have substantial trimming. The increased costs are based on contractor estimations of what it would cost to trim an additional 5 feet of clearance on each circuit over the next 3 years of cycled work. The incremental cost increase each year is because the contractors assumed there would be some cost escalation each year due to inflation. Costs should decrease in the fourth year, 2011, because the additional clearance work will be complete.

ITC and METC also adopted a revised Transmission Vegetation Management Plan (ITC Document Number FSS-002, Revision 3), which was made effective September 24, 2008. This revision makes ITC's and METC's required clearance distances greater than the respective IEEE Standard 516-2003, thus bringing ITC and METC into compliance with FAC-003-1, R1. The revised Transmission Vegetation Management Plan modified the clearance distances for the 230 kV line from 5.1 feet to 5.2 feet and for the 345 kV line from 9.4 feet to 9.5 feet.

In addition, ITC and METC made revisions to the process by which corridors are managed the year vegetation work is due on them. An initial hotspot report, assuming maximum sag, will be performed at the beginning of the year on each of the scheduled corridors. Any critical

[10] *See* 18 C.F.R § 39.7(d)(7).
[11] For a more detailed review of RFC's Mitigation Plan completion verification process, *see* Summary and Review of Evidence of Mitigation Plan Completion, attached hereto as Attachment d.

vegetation identified in the hotspot reports will be identified and removed by tree contractors prior to beginning the more detailed plan of clearing the entire corridor. By addressing the hotspots prior to beginning the normal work, ITC/METC ensure that the most pressing issues are addressed in a more timely fashion, significantly reducing the potential for a vegetation contact. This on-going initial hotspot identification and immediate treatment activity carries an annual cost increase to on-going operations, estimated to be $340,000, in 2008, $375,000, in 2009 and $400,000 in 2010 for ITC, and $350,000 in 2008, $380,000 in 2009 and $425,000 in 2010 for METC.

ITC/METC also has implemented an improved integrated and active process to maximize its easement rights and to mitigate easement restrictions that limit the company's ability to provide adequate and necessary vegetation clearances. ITC/METC's Legal Department has implemented a process to perform thorough reviews of each parcel of easements encompassing the corridor. In the case of any such restrictions, ITC/METC's Legal Department will take active measures to negotiate permissions for tree trimming and clearing, as well as to negotiate improved easements when necessary. These process changes were made to ITC/METC's Vegetation Management Program and re-training was completed, as of October 1, 2007, per the Mitigation Plan discussed above. This improved easement management process results in additional expenses of approximately $1,700,000 to date in 2008. These increased expenses reflect the need for ITC and METC to collect each easement, review the rights therein, and develop an electronic tool for foresters that graphically and textually presents the easement rights associated with each parcel. Ultimately, this will ensure that foresters are able to exercise ITC's and METC's easement rights to the maximum extent allowable by law.

Accordingly, these costs total approximately $10 million for ITC and METC to enhance their compliance programs. These costs reflect actions beyond those ITC and METC are otherwise required to undertake to meet the NERC Reliability Standard requirements.

Since ITC submitted the Mitigation Plan on January 18, 2008, ITC and METC have continued to assess and improve their Vegetation Management Programs, as evidenced by the multiple versions made effective throughout 2008. Past practices and improved processes have been formalized throughout the Transmission Vegetation Management Program document. For instance, ITC and METC have added clarity to their vegetation inspection procedures and work planning procedures, as well as clearance requirements and easement policies. To ensure their field personnel are familiar with the new Vegetation Management Program, ITC and METC have completed additional training for their field personnel, including Regional Foresters and Vegetation Managers as of August 20, 2008.

Subject to RFC oversight and control of the content, ITC and METC will also be hosting a two day workshop within 12 months following Commission approval for industry stakeholders (and open to interested Regional Entity/NERC/FERC representatives) on Vegetation Management issues. The workshop's primary purpose will be to share information with others, including specific practices that could be implemented by other companies to improve their programs. It also will provide a forum for the identification of common issues that other companies are having with implementing their Vegetation Management Programs. ITC and METC estimate that the cost to implement the workshop will be approximately $70,000.

The Settlement Agreement also provides that RFC may audit and inspect financial records to validate actual expenditures with estimates in this Settlement Agreement and may require various status reports and other reporting obligations as it deems necessary.

Statement Describing the Proposed Penalty, Sanction or Enforcement Action Imposed[12]

Basis for Determination

Taking into consideration the Commission's direction in Order No. 693, the NERC Sanction Guidelines and the Commission's July 3, 2008 Guidance Order,[13] the NERC BOTCC reviewed the Settlement Agreement and supporting documentation on February 8, 2009. The NERC BOTCC approved the Settlement Agreement, including RFC's imposition of the financial penalty of $40,000 to ITC and $0 to METC, in addition to other actions to promote prospective compliance required under the terms and conditions of the Settlement Agreement which amount to approximately $10 million, allocated as discussed above. In approving the Settlement Agreement, the NERC BOTCC reviewed the applicable requirements of the Commission-approved Reliability Standards and the underlying facts and circumstances of the alleged violations at issue.

In reaching this determination, NERC BOTCC considered the following:

- the alleged violation of FAC-003-1 R2 was determined as a result of a quarterly reporting requirement and was promptly addressed by ITC;
- the alleged violations of FAC-003-1 R1 also were identified as a result of the RFC audit prompted by the self-reported outage;
- the prompt actions by ITC/METC to increase the clearance distances at maximum conductor sag and to meet the required minimum clearance requirements and implement training, as well as the resulting overall enhancement to reliability;
- ITC's and METC's cooperation throughout the proceeding;
- the absence of prior violation history of this standard or a closely-related requirement;
- no indication of an attempt to conceal any information;
- no indication that the alleged violations were intentional; and
- the parties' willingness to resolve the issues expeditiously through the Settlement Agreement.

Therefore, NERC approves the Settlement Agreement and believes that the proposed $40,000 financial penalty assessed to ITC and additional actions to be taken by ITC and METC are appropriate and consistent with NERC's goal to ensure reliability of the bulk power system.

Pursuant to Order No. 693, the penalty will be effective upon expiration of the 30 day period following the filing of this Notice of Penalty with FERC, or, if FERC decides to review the penalty, upon final determination by FERC.

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[12] *See* 18 C.F.R § 39.7(d)(4).
[13] *North American Electric Reliability Corporation*, "Guidance Order on Reliability Notices of Penalty," 124 FERC ¶ 61,015 (2008).

Attachments to be Included as Part of the Notice of Penalty

The attachments to be included as part of this Notice of Penalty are the following documents and material:

a) ITC Quarterly Report and Vegetation Outage Report, included as Attachment a;

b) Settlement Agreement by and between ITC, METC and RFC, included as Attachment b.

c) Mitigation Plan designated as MIT-07-0428 and Certification of Completion of Mitigation Plan contained therein, included as Attachment c; and

d) RFC's statement of verification that the Mitigation Plan has been completed, dated April 2, 2009, included as Attachment d.

A Form of Notice Suitable for Publication[14]

A copy of a notice suitable for publication is included in Attachment e.

[14] *See* 18 C.F.R § 39.7(d)(6).

Notices and Communications

Notices and communications with respect to this filing may be addressed to the following:

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*Persons to be included on the Commission's service list are indicated with an asterisk. NERC requests waiver of the Commission's rules and regulations to permit the inclusion of more than two people on the service list.

Conclusion

NERC respectfully requests that the Commission accept this Notice of Penalty as compliant with its rules, regulations and orders.

Respectfully submitted,

/s/ Rebecca J. Michael

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cc: ITC*Transmission* Company and Michigan Electric Transmission Company
ReliabilityFirst Corporation

Attachment(s)

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment a

ITC Quarterly Report and Vegetation Outage Report

RELIABILITY FIRST

COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM
VIOLATION SELF-REPORTING FORM

RFC200700003

This Violation Self-Reporting Form can be used for submittals via e-mail or fax for violations of the Reliability Standards identified by a self- assessment.

1. **Reliability Standard (XXX-###-# or XXX-###-RFC-##)** FAC-003-1

2. **Violation(s):** Check the appropriate box(s) to identify violation(s) of any of the applicable requirement(s) referenced in the standard.

For violations of requirements with Levels of Non-Compliance or Violation Severity Levels (VSL) specified in the standard:

☐ Entity is Level 1 Non-Compliance or has Lower VSL for the following: requirement(s): _____ for function(s): _____

☐ Entity is Level 2 Non-Compliance or has Moderate VSL for the following: requirement(s): _____ for function(s): _____

☒ Entity is Level 3 Non-Compliance or has High VSL for the following: requirement(s): R3.4.1 for function(s): TO

☐ Entity is Level 4 Non-Compliance or has Severe VSL for the following: requirement(s): _____ for function(s): _____

For violations of requirements with no Levels of Non-Compliance or Violation Severity Levels specified in the standard:

☐ Entity is in violation of requirement(s) not referenced in the Levels of Non-Compliance or Violation Severity Levels section of the standard:

requirement(s): _____ for function(s): _____

3. **Description of the violation:** ITC expereinced a vegetation related outage on a 230kV line. Per RFC September newsletter, ITC understands this is considered an automatic violation of FAC-003. The attached outage reporting form contains the outage details.

4. **Additional information:** Mitigating actions are described in the attached outage reporting form..

5. **Mitigation Plan attached:** ☒ Yes ☐ No

6. **Officer Verification:** I understand that this information is being provided as required by the Reliability*First* Compliance Monitoring and Enforcement Program. Any review of this violation will require all information certified on this form be supported by appropriate documentation.

Officer's Name: Jon E. Jipping

Officer's Title: Executive Vice President & Chief Operating Officer

Officer's e-mail address: jjipping@itctransco.com Phone: 248-374-7100

Registered Company Name: ITC Transmission Company CDMS User ID: ITC

Primary Compliance Contact (PCC)/Alternate: Michael J. Ayotte

Email: mayotte@itctransco.com Phone: 734-665-3485 Date: 9/19/07

E-mail Submittals to: compliance@rfirst.org or Fax#: 330- 456-5408 – Attention Compliance Dept.
For any questions regarding compliance submittals, please e-mail: compliance@rfirst.org.

ReliabilityFirst Corporation
TRANSMISSION OWNER
QUARTERLY VEGETATION OUTAGE REPORT

Quarter: 3 Year: 2007

Requirements

All vegetation-related transmission line trips on lines of 200 kV or higher and any other lower voltage lines designated by ReliabilityFirst to be critical to the reliability of the electric system are to be reported to ReliabilityFirst on a quarterly basis by the 20th of January, April, July, and October for the previous quarter.

Reporting Instructions

All sustained transmission line outages shall be reported where the cause of the outage is contact with vegetation, except:

- Multiple sustained outages on an individual line, if caused by the same vegetation, shall be reported as one outage regardless of the actual number of outages within a 24-hour period.

Outage Reporting Exceptions

The following sustained transmission line outages caused by vegetation are not required to be reported:

1. Vegetation-related outages that result from vegetation falling into lines from outside the right-of-way that result from natural disasters shall not be considered reportable
   Examples of disasters that could create non-reportable outages include, but are not limited to, earthquakes, fires, tornados, hurricanes, landslides, wind shear, major storms as defined either by the transmission owner or an applicable regulatory body, ice storms, and floods.
2. Vegetation-related outages due to human or animal activity shall not be considered reportable (examples of human or animal activity that could cause a non-reportable outages include, but are not limited to, logging, animal severing tree, vehicle contact with tree, arboricultural activities or horticultural or agricultural activities, or removal or digging of vegetation).

Reporting Entity: ITC*Transmission*

Reported by: Jason Ausmus

Title: Operations Engineer

E-mail: jausmus@itctransco.com

Phone: 734.332.5058 Date of Report: 9/19/07

Number of Reportable Vegetation Outages in the quarter as specified above and in accordance with FAC-003-1: 1

- If there were *no reportable* vegetation related outages for the quarter, then the requirement is complete and this page should be submitted to ReliabilityFirst Corporation.
  > Email it to compliance@rfirst.org and/or fax it to 330-456-3648.

- For *each reportable* outage, proceed to the next page and complete a table for each outage reported.

ReliabilityFirst Corporation
TRANSMISSION OWNER
QUARTERLY VEGETATION OUTAGE REPORT

Reported 9/20/07

Individual Vegetation Related Transmission Line Outage

For EACH outage experienced, complete the following table.

Outage # 1

Name of Transmission Owner (TO):	ITC*Transmission*
Name of Transmission Line Involved in Outage: *(No circuit number please)*	Brownstown-Navarre 2
Voltage of Transmission Line: *(Please mark one)*	☒ 230 kV class ☐ 345 kV class ☐ 500 kV class ☐ 765 kV class ☐ ReliabilityFirst Designated Critical Lines <200 kV
Time and date of outage:	00:07 7/28/2007
Duration of outage:	127 minutes
Line-loading (% of normal rating) of the involved line at the time of line trip: **NOTE:** This information should be provided whenever vegetation grew up from within or outside of the ROW and contacted the line, or if the line sagged into the vegetation.	79.8%
Description of cause of outage:	On the night of July 27th 2007, the Brownstown-Navarre 2 line experienced higher than normal loading due to larger than normal power transfers across the ITC system. As the line loading increased the line sagged, reducing the clearance between the line and vegetation until the line contacted a tree causing it to lock out. It is ITC's practice to completely remove all tall-growing vegetation in the ROW, however this particular tree was in an area where the easement rights dictate that we are allowed to trim any tree along the lines to allow for a 12 feet wire clearance. This area was trimmed in late 2005 and was in the process of being trimmed for 2007. Following this outage the tree was removed.
Caused by Category 1, Category 2, or Category 3	☒ **Category 1 — Grow-ins:** Outages caused by

ReliabilityFirst Corporation
TRANSMISSION OWNER
QUARTERLY VEGETATION OUTAGE REPORT

vegetation: **NOTE:** Please check whether or not a Category 1 outage occurred as a result of a tree from inside or outside the right-of-way.	vegetation growing into lines from vegetation inside and/or outside of the right-of-way. ☒ Inside the right-of-way ☐ Outside the right-of-way ☐ **Category 2 — Fall-ins:** Outages caused by vegetation falling into lines from inside the right-of-way. ☐ **Category 3 — Fall-ins:** Outages caused by vegetation falling into lines from outside the right-of-way.
Counter measures or corrective steps taken by TO including timeframe to prevent future outages:	In response to this event, ITC revised its clearance standard within its Vegetation Management Program. Clearances between all of ITC's circuits and vegetation within the right-of-way were significantly widened to reduce the likelihood of a similar event from occurring in the future. Revisions were also made to the process in which corridors are managed the year vegetation work is due on them. An initial hotspot report, assuming maximum sag, will be performed at the beginning of the year on each of these corridors. Any vegetation identified in the hotspot reports are to be worked and completed by tree contractors prior to beginning the more detailed plan of clearing and reclaiming the corridor. Both of these revisions were made to ITC's Vegetation Management Program and are expected to become effective, included training completed, at the end of September 2007.
Additional comments:	

> Please complete this form and email it, along with the cover sheet, to compliance@rfirst.org and/or fax it to 330-456-3648.

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment b

Settlement Agreement by and between RFC, ITC and METC, executed July 29, 2009

In re	)	
	)	
INTERNATIONAL TRANSMISSION COMPANY	)	**DOCKET NUMBERS**
	)	
	)	**RFC200700003**
NERC Registry ID # NCR00803	)	**RFC200800080**
	)	
	)	
AND	)	
	)	
MICHIGAN ELECTRIC TRANSMISSION COMPANY, LLC	)	**DOCKET NUMBER**
	)	
NERC Registry ID # NCR00820	)	**RFC200800081**

SETTLEMENT AGREEMENT

OF

RELIABILITY*FIRST* CORPORATION

AND

INTERNATIONAL TRANSMISSION COMPANY
AND
MICHIGAN ELECTRIC
TRANSMISSION COMPANY, LLC

I. INTRODUCTION

1. ReliabilityFirst and International Transmission Company, d/b/a ITCTransmission ("ITC"), a subsidiary of ITC Holdings Corp., enter into this Settlement Agreement ("Agreement") to resolve all outstanding issues arising from a preliminary and non-public assessment resulting in ReliabilityFirst's determination and findings, pursuant to the North American Electric Reliability Corporation ("NERC") Rules of Procedure, of violations by ITC of the NERC Reliability Standard FAC-003-1, Requirement 1 and Requirement 2.

2. ReliabilityFirst and Michigan Electric Transmission Company, LLC ("METC"), also a subsidiary of ITC Holdings, Corp., enter into this Agreement to resolve all outstanding issues arising from a preliminary and non-public assessment resulting in ReliabilityFirst's determination and findings, pursuant to the NERC's Rules of Procedure, of a violation by METC of the NERC Reliability Standard FAC-003-1, Requirement 1.

II. STIPULATION OF FACTS – ITC, METC AND RELIABILITY*FIRST*

3. The facts stipulated herein are stipulated solely for the purpose of resolving between ITC and ReliabilityFirst and METC and ReliabilityFirst, the matters discussed herein and do not constitute stipulations or admissions of liability on the part of ITC or METC or for any other purpose. ITC, METC and ReliabilityFirst hereby stipulate and agree to the following:

A. BACKGROUND

4. ITC is a Michigan corporation engaged in the transmission of electricity throughout Southeastern Michigan. Its principal offices are located in Novi, Michigan. ITC is a subsidiary of ITC Holdings, Corp.

5. ITC operates approximately 2,700 circuit miles of overhead and underground transmission lines, carrying more than 12,500 megawatts of electric power.

6. On July 28, 2007, the date of the alleged violation of FAC-003-1 Requirement 2, and September 23, 2008, the date on which the alleged violation of FAC-003-1, Requirement 1 was detected, ITC was on the NERC Compliance Registry as a Transmission Operator ("TOP"), Transmission Planner ("TP") and Transmission Owner ("TO") with the NERC Registry Identification Number of NCR00803.

7. METC is a Michigan limited liability company engaged in the transmission of electricity throughout Michigan. Its principal offices are located in Novi, Michigan. METC is a subsidiary of ITC Holdings, Corp.

8. METC operates approximately 5,400 circuit miles of overhead transmission lines,

carrying more than 9036 megawatts of electric power.

9. On September 23, 2008, the date on which the alleged violation of FAC-003-1, Requirement 1 was detected, METC was on the NERC Compliance Registry as a TOP, TP, and TO with the NERC Registry Identification Number of NCR00820.

B. ALLEGED VIOLATION OF FAC-003-1 REQUIREMENT 2 – RFC200700003

10. NERC Reliability Standard FAC-003-1 *"Transmission Vegetation Management Program,"* Requirement 2, states in part, "The Transmission Owner shall create and implement an annual plan for vegetation management work to ensure the reliability of the system. . . The plan should be flexible enough to adjust to changing conditions, taking into consideration anticipated growth of vegetation and all other environmental factors that may have an impact on the reliability of the transmission systems. . . The plan should take into consideration the time required to obtain permissions or permits from landowners or regulatory authorities. Each Transmission Owner shall have systems and procedures for documenting and tracking the planned vegetation management work and ensuring that the vegetation management work was completed according to work specifications."

11. On September 19, 2007, ITC submitted to Reliability*First* via email a Compliance Monitoring and Enforcement Program Violation Self-Reporting Form in which ITC identified Non-Compliance to Requirement 3.4.1 of Reliability Standard FAC-003-1. Reliability*First* determined that ITC had actually violated FAC-003-1, Requirement 2, reflecting a statement made by the Federal Energy Regulatory Commission regarding vegetation outages.[1]

12. Specifically, in the Self-Reporting Form, ITC stated that ITC experienced a "vegetation related outage on a 230kV line."

13. On September 19, 2007, ITC submitted to Reliability*First* via email a "Vegetation Outage Report" containing information regarding an outage on the 230 kV Brownstown-Navarre 2 transmission line that occurred on July 28, 2007 at 00:07, with the line being returned to service after an outage lasting 127 minutes. There was no loss of load during the outage. The "Vegetation Outage Report," submitted by ITC, further states the cause of the outage in the following manner:

> "On the night of July 27th 2007, the Brownstown-Navarre 2 line experienced [higher than] normal loading[2] due to larger than normal power transfers across the

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[1] *See* Order on Violation Risk Factors, 119 FERC ¶ 61,321 at P.10 (2007) ("A vegetation-related transmission outage would result in a violation of Requirement R1, R2 or both.")

[2] Note: Although ITC uses the term "normal loading" here, the "Vegetation Outage Report" submitted by ITC on September 19, 2007 shows a line loading of 79.8% of the normal rating. The term "higher than normal loading" here should read "higher than average or usual loading."

ITC system. As the line loading increased the line sagged, reducing the clearance between the line and vegetation until the line contacted a tree causing it to lock out. It is ITC's practice to completely remove all tall-growing vegetation in the ROW, however this particular tree was in an area where the easement rights dictate that we are allowed to trim any tree along the lines to allow for a 12 feet wire clearance. This area was trimmed in late 2005 and was in the process of being trimmed for 2007."

14. Although ITC submitted to Reliability*First* a Self-Report on September 19, 2007 for an event occurring on July 28, 2007, Reliability*First* considered the delay to be due to the lack of clarity as to whether such events need be reported on a quarterly basis or immediately. Such clarity presently exists that notification to the Regional Entity must be immediate. Additionally, at the time of the Self-Report, ITC noted Requirement 3.4.1 as the requirement in violation. Subsequent clarification provided by Reliability*First* properly classified the Clearance 2 event as a Requirement 2 alleged violation.

15. The tree involved in the contact was removed on July 28, 2007.

16. On October 26, 2007, ITC submitted to Reliability*First* via email a completed "Vegetation Outage Questionnaire – [FAC-003]" containing information related to the July 28, 2007 outage. Specifically, in the Questionnaire, ITC stated that:

> "[t]he vegetation was a result of vigorous sprout re-growth from a previously topped tree after the routine line clearance occurred in the winter of 2005. The vegetation contractor that performed the work in 2005 had a history of poor pruning techniques and incomplete tree work and we believe in this case that the top of the tree was not treated as it should have been. Their contract was terminated at the end of 2005 as a result of these issues."

17. In 2005 when ITC identified quality problems with the contractor's work, ITC made a good faith effort to review the contractor's work by conducting spot reviews and performing corrective work where deficiencies were identified.[3] METC did not use this contractor. There is no documentation from 2005 that explains why the particular tree that caused the outage was missed in the good faith review. However, following the outage, between July 30, 2007 and August 1, 2007, all 230 kV corridors were checked and corrective clearance work was performed between August 2, 2007 and August 6, 2007. No other encroachments were discovered after this incident.

18. Specifically, in the Questionnaire, ITC further stated that the vegetation that was the cause of the July 28, 2007 outage "was marked by a Certified Arborist for work and as having 11-15 ft of clearance from the conductors at a maximum sag of 8 feet in March 2007." According to ITC, although "[t]his was not, at the time, considered a potential

[3] Note that METC did not use the same vegetation contractor as ITC, and thus did not share ITC's need to review that contractor's work.

problem area according to ITC's Vegetation Management specifications. . .[a]fter this incident, the ITC Vegetation Management specifications were revised to reflect a maximum sag of 20 feet. . . ."

19. Following the outage, ITC took action beyond merely addressing the July 28, 2007 outage, ITC conducted a review of its entire Vegetation Management Program to determine what modifications or additional policies and procedures could be added to improve its program and prevent future vegetation encroachments. This review included examining Vegetation Management policies, procedures, work practices and staffing levels for improvement opportunities. This resulted in the corrective actions enumerated in section IV of this settlement agreement. As to reviewing the incident itself, it was determined, that the vegetation which caused the outage at issue was the result of a vigorous sprout re-growth from a previously topped tree after the routine line clearance occurred in the winter of 2005. Upon investigation, the vegetation contractor that performed the work in 2005 appeared to have had poor pruning techniques and incomplete tree work and ITC believes, in this case, that the top of the tree was not treated as it should have been. The vegetation contractor was terminated at the end of 2005.

20. Reliability*First* alleges that ITC failed to create and effectively implement a vegetation management plan that took into account the anticipated growth of vegetation inside the right-of-way thus resulting in a transmission line outage as stated in Requirement 2 of NERC Reliability Standard FAC-003-1.

C. ALLEGED VIOLATION OF FAC-003-1 REQUIREMENT 1 – RFC200800080

21. NERC Reliability Standard FAC-003-1 *"Transmission Vegetation Management Program,"* Requirement 1.2.2, states in full, "Clearance 2 — The Transmission Owner shall determine and document specific radial clearances to be maintained between vegetation and conductors under all rated electrical operating conditions. These minimum clearance distances are necessary to prevent flashover between vegetation and conductors and will vary due to such factors as altitude and operating voltage. These Transmission Owner-specific minimum clearance distances shall be no less than those set forth in the Institute of Electrical and Electronics Engineers (IEEE) Standard 516-2003 (*Guide for Maintenance Methods on Energized Power Lines*) and as specified in its Section 4.2.2.3, Minimum Air Insulation Distances without Tools in the Air Gap."

22. NERC Reliability Standard FAC-003-1 *"Transmission Vegetation Management Program,"* Requirement 1.2.2.1, states in full, "Where transmission system transient overvoltage factors are not known, clearances shall be derived from Table 5, IEEE 516-2003, phase-to-ground distances, with appropriate altitude correction factors applied."

23. Note 7 of Table 5 of IEEE Standard 516-2003 states that "for values in feet, use Table D.3."

24. Table D.3 from IEEE Standard 516-2003 is reproduced below:

Voltage in kilovolts phase to phase	Distance in feet	
	Phase to ground	Phase to phase
72.6–121	2.45	3.56
138–145	2.94	4.27
161–169	3.42	4.96
230–242	5.14	7.46
345–362	9.44	13.69
500–550	14.68	22.61
765–800	20.44	33.53

NOTES

1—These distances take into consideration the highest transient overvoltage an employee will be exposed to on any system with air as the insulating medium and the maximum voltages shown.

2—Values are based on altitudes below 3000 feet. See Table D.1 for correction factors for higher altitudes. It is not necessary to correct for atmospheric conditions.

3—Table distances include a factor for inadvertent movement. See 7.2 for inadvertent movement considerations. These factors must be added to the values to obtain the total MAD.

4—The clear live tool length should be equal to or exceed these values for the indicated voltage ranges.

5—The data used to formulate this table was obtained from test data taken with standard atmospheric conditions. Standard atmospheric conditions are defined as temperatures above freezing, wind less than 15 mph, unsaturated air, normal barometer, uncontaminated air, and clean and dry insulators. If standard atmospheric conditions do not exist, extra care must be taken.

6—Data for this table was obtained from Table D.5 and Table D.8.

7—For metric values, see Table 5.

25. On September 23, 2008, ITC submitted to Reliability*First* a document identified as the ITC "Transmission Vegetation Management Program" ("TVMP – REV 2") (ITC Document # FSS-002, Effective Date August 15, 2008, Revision 002),[4] which was considered by Reliability*First* as verification of completion of the accepted and approved mitigation plan for RFC200700003 (Attachment 1- Mitigation Plan # MIT-07-0428).

26. Section 7.4.2 of the ITC TVMP – REV2, with regard to the determination of Clearance 2 distances, recognizes that, "FAC-003-1 states, "minimum clearance distances shall be no less than those set forth in the Institute of Electrical and Electronics Engineers

[4] TVMP document in place as of June 18, 2007 titled "Line Clearance Requirements," was renamed and revised to be FSS-002 "Vegetation Management Program," dated October 2, 2007. While the October 2, 2007 version refers to the Institute of Electrical and Electronics Engineers ("IEEE") vegetation clearance standards, the June 18, 2007 version does not. Neither document contains a reproduction of Table D.3 from IEEE Standard 516-2003. Subsequent changes to FSS-002 were made in Revision 001 dated July 23, 2008 and then Revision 002 dated August 15, 2008. Each of these versions reproduces Table D.3 from IEEE Standard 516-2003, albeit inaccurately, as discussed throughout this Settlement Agreement.

(IEEE) Standard 516-2003 (*Guide for Maintenance Method on Energized Power Lines*) and as specified in its Section 4.2.2.3, Minimum Air Insulation Distances without Tools in the Air Gap."

27. Section 7.4.2 of the ITC TVMP – REV2, further provides, that, "the distances as outline[d] in this table shall be used as minimum Clearance 2 distances unless the transmission owner can demonstrate it knows the transient overvoltage factors for its system."

Nominal voltage in kilovolts phase to phase	Minimum Air Insulation Distance (MAID) Phase to Ground per IEEE-516 (Table 5)
	(ft.)
101 to 121	2.5
138 to 145	2.9
161 to 169	3.4
230 to 242	5.1
345 to 362	9.4
500 to 550	14.7
765 to 800	20.4

28. Section 7.4.2 of the ITC TVMP – REV2, states that "the minimum Vegetation-to-Conductor clearance in all directions shall be Clearance 2. For ITC voltages at 200kV and above, that distance is 5.1 ft for 230kV, and 9.4 ft for 345kV."

29. However, Table D.3 from IEEE Standard 516-2003 establishes minimum air insulation distances of 5.14 ft for 230 kV and 9.44 for 345 kV phase to ground voltages.

30. The elevation of the ITC service area does not require that the values in Table D.3 IEEE Standard 516-2003 be corrected for higher altitudes (greater than 3000 feet).

31. Reliability*First* alleges that ITC failed to determine and document specific minimum clearance distances to be maintained between vegetation and conductors under all rated electrical operating conditions that were no less than those set forth in the Institute of Electrical and Electronics Engineers (IEEE) Standard 516-2003 (*Guide for Maintenance Methods on Energized Power Lines*) and as specified in its Section 4.2.2.3, Minimum Air Insulation Distances without Tools in the Air Gap. Specifically, the ITC specified clearance distance for 230 kV of 5.1 feet is less than the 5.14 feet specified by IEEE Standard 516-2003 and the ITC specified clearance distance for 345 kV of 9.4 feet is less than the 9.44 feet specified by IEEE Standard 516-2003.

D. ALLEGED VIOLATION OF FAC-003-1 REQUIREMENT 1 – RFC200800081

32. METC utilizes the same document as ITC, namely the ITC "Transmission Vegetation Management Program" ("TVMP – REV 2") (ITC Document # FSS-002, Effective Date August 15, 2008, Revision 002) as the governing document for compliance to NERC Reliability Standard FAC-003-1, Requirement 1. Therefore, the facts, nature and discovery of the alleged violation described in paragraphs 19 through 25 pertain to METC as well as ITC.

33. Reliability*First* alleges that METC failed to determine and document specific minimum clearance distances to be maintained between vegetation and conductors under all rated electrical operating conditions that were no less than those set forth in the Institute of Electrical and Electronics Engineers (IEEE) Standard 516-2003 (*Guide for Maintenance Methods on Energized Power Lines*) and as specified in its Section 4.2.2.3, Minimum Air Insulation Distances without Tools in the Air Gap. Specifically, the METC specified clearance distance for 230 kV of 5.1 feet is less than the 5.14 feet specified by IEEE Standard 516-2003 and the METC specified clearance distance for 345 kV of 9.4 feet is less than the 9.44 feet specified by IEEE Standard 516-2003.

III. PARTIES' SEPARATE REPRESENTATIONS

A. STATEMENT OF RELIABILITY*FIRST* AND SUMMARY OF FINDINGS

34. On September 23, 2008, representatives from the Reliability*First* Compliance Enforcement Staff and the Reliability*First* Compliance Audit Staff visited the common offices of ITC and METC in Novi, Michigan for the purposes of performing a complete compliance audit of NERC Reliability Standard of FAC-003-1, as well as verifying the completion of the ITC mitigation plan associated with the alleged violation denoted with NERC Violation ID # RFC200700003. Due to the common records, common procedures, common personnel, common presentation, common impact of mitigating actions and the shared basis for the finding of an alleged violation of FAC-003, Requirement 1 for ITC and METC and with recognition of the information provided by ITC and METC as to the corporate structure under ITC Holdings Corp., Reliability*First* considers this Agreement as the resolution of all issues with regards to the above captioned docket numbers for both ITC and METC and to jointly bind ITC and METC in the commitment to perform actions hereafter enumerated and listed as conditions for this Agreement.

35. Requirement 2 of FAC-003-1 has a "High" Violation Risk Factor.

36. Reliability*First* found noteworthy and commendable certain aspects of ITC's Compliance Program including that the ITC Board of Directors has a committee which provides monitoring and oversight of ITC's compliance with Reliability Standards and compliance program, that ITC has appointed a Corporate Compliance Officer for Reliability Standards, the existence of a Reliability Compliance Steering Committee with Senior Management representation, that the Director of Compliance and Training actively coordinates the ITC compliance program with two Compliance Coordinators

reporting to the Director and that ITC has retained an independent contractor to assess their compliance documentation for every NERC Standard.

37. Requirement 1, specifically Sub-Requirement 1.2.2.1, has a Violation Risk Factor of "High."

38. ITC/METC immediately revised the table in ITC "Transmission Vegetation Management Program" ("TVMP – REV 3") (ITC Document # FSS-002, Effective Date September 24, 2008, Revision 003) to state that,

> *"Based on the criteria above, in all circumstances as described here and in the rest of this TVMP; the minimum Vegetation-to-Conductor clearance in all directions shall be Clearance 2. For ITC voltages at 200kV and above, that distance is 5.2 ft for 230kV, and 9.5 ft for 345kV."*

39. Reliability*First* agrees that this Agreement is in the best interest of the parties and in the best interest of bulk power system reliability.

B. STATEMENT OF ITC

40. ITC neither admits nor denies that the facts set forth and agreed to by the parties for purposes of this Agreement constitute violations of NERC Reliability Standard FAC-003-1.

41. Although ITC neither admits nor denies that the facts set forth and agreed to by the parties for purposes of this Agreement constitute a violation of NERC Reliability Standard FAC-003-1, ITC has agreed to enter into this Settlement Agreement with Reliability*First* to avoid extended litigation with respect to the matters described or referred to herein, to avoid uncertainty, and to effectuate a complete and final resolution of the issues set forth herein. ITC agrees that this Agreement is in the best interest of the parties and in the best interest of maintaining a reliable electric infrastructure and further agrees to be bound to all actions hereafter listed as part of this Agreement.

C. STATEMENT OF METC

42. METC neither admits nor denies that the facts set forth and agreed to by the parties for purposes of this Agreement constitute violations of NERC Reliability Standard FAC-003-1.

43. Although METC neither admits nor denies that the facts set forth and agreed to by the parties for purposes of this Agreement constitute a violation of NERC Reliability Standard FAC-003-1, METC has agreed to enter into this Settlement Agreement with Reliability*First* to avoid extended litigation with respect to the matters described or referred to herein, to avoid uncertainty, and to effectuate a complete and final resolution of the issues set forth herein. METC agrees that this Agreement is in the best interest of the parties and in the best interest of maintaining a reliable electric infrastructure and

further agrees to be bound to perform all actions hereafter listed as part of this Agreement.

IV. MITIGATING ACTIONS, REMEDIES, AND SANCTIONS

44. To prevent future vegetation contacts, ITC/METC revised its clearance standard within its Vegetation Management Program. Clearances between all of ITC/METC's 230 kV and 345 kV circuits and vegetation within the right-of-way were significantly increased (from a minimum of 15 feet to a minimum of 20 feet at maximum sag) to reduce the likelihood of a similar event from occurring in the future. This 33% increase to the managed clearance distance carries a significant annual cost increase to on-going operations. ITC will see cost increases over the next three years of approximately $600,000 in 2008, $650,000 in 2009 and $700,000 in 2010 respectively, while METC will see increases of $1,100,000 in 2008, $1,200,000 in 2009 and $1,350,000 in 2010 respectively, due to the clearance increases. The increased costs also reflect costs for additional tree removals because it is anticipated that some landowners will prefer to have trees removed rather than have substantial trimming. The increased costs are based on contractor estimations of what it would cost to trim an additional 5 feet of clearance on each circuit over the next 3 years of cycled work. The incremental cost increase each year is because the contractors assumed there would be some price/cost escalation each year due to inflation. Costs should decrease in the fourth year, 2011, because the additional work will be complete.

45. Revisions were also made to the process by which corridors are managed the year vegetation work is due on them. An initial hotspot report, assuming maximum sag, will be performed at the beginning of the year on each of the scheduled corridors. Any critical vegetation identified in the hotspot reports will be worked and completed by tree contractors prior to beginning the more detailed plan of clearing the entire corridor. Previously, the hotspots were identified in a similar manner; however they were addressed during the course of the normal line clearance process for the corridor. By addressing the hotspots prior to beginning the normal work, ITC/METC ensure that the most pressing issues are addressed in a more timely fashion, significantly reducing the potential for a vegetation contact. This on-going initial hotspot identification and immediate treatment activity carries an annual cost increase to on-going operations, estimated to be $ 340,000, in 2008, $ 375,000, in 2009 and $ 400,000 in 2010 for ITC, and $ 350,000 in 2008, $ 380,000 in 2009 and $ 425,000 in 2010 for METC. The increased costs are based on contractor estimations of what it would cost to implement the new standard on each circuit over the next 3 years of cycled work. The incremental cost increase each year is because the contractors assumed there would be some price/cost escalation each year due to inflation. Costs should decrease in the fourth year, 2011, because the additional work will be complete.

46. ITC/METC also has implemented an improved integrated and active process to maximize its easement rights and to mitigate easement restrictions that limit the company's ability to provide adequate and necessary vegetation clearances. ITC/METC's Legal Department has implemented a process to perform thorough reviews of each parcel

of easements encompassing the corridor. The review looks to support maximum exercise of existing easement rights and also to identify easement language which may inhibit ITC/METC in meeting the requirements of the Vegetation Management Program. In the case of any such restrictions ITC/METC's Legal Department takes active measures to negotiate permissions for tree trimming and clearing, as well as to negotiate improved easements when necessary. These process changes were made to ITC/METC's Vegetation Management Program and became effective, included re-training completion, on October 1, 2007. This improved easement management process has produced a significant increase in expenses, approximately $1,700,000 to date in 2008. These increased expenses reflect the need for ITC/METC to collect each easement, review the rights therein, and develop an electronic tool for foresters that graphically and textually presents the easement rights associated with each parcel. Ultimately, this will ensure that foresters are able to exercise ITC/METC's easement rights to the maximum extent allowable by law.

47. Because of the significant activities that ITC/METC will undertake to further enhance reliability of the bulk power system and because those activities will provide considerable reliability benefits to the electric transmission industry as a whole, Reliability*First* agrees to the monetary penalty assessed in this Agreement.

48. Since submitting the mitigation plan, ITC/METC has continued to assess and improve its vegetation management program. Past practices and improved processes have been formalized throughout the TVMP document. This was done using detailed descriptions and/or formal process maps. For example, high level process maps describe ITC and METC procedures for such things as field issues resolution, easement restriction mitigation and imminent threats. Based on these further modifications to the TVMP, ITC/METC completed additional training for its field personnel including Regional Foresters and Vegetation Managers on August 20, 2008.

49. For purposes of settling any and all disputes arising from Reliability*First*'s assessment and review of the matters reported by ITC in the Self-Report on September 19, 2007, and the matters discovered during an audit performed by ReliabilityFirst of ITC and METC on September 23, 2008, Reliability*First* and ITC and METC agree that, on and after the effective date of this Agreement, ITC and METC will jointly take the following actions:

> ITC/METC will design (subject to ReliabilityFirst oversight and approval) and host a 2-day workshop for industry stakeholders (and open to interested Regional Entity/NERC/FERC representatives) on Vegetation Management issues. The workshop's primary purpose will be information sharing among companies, including specific practices which could be implemented by other companies to improve their programs, and identification of common issues that companies are having with implementing their vegetation management programs. As a deliverable from the workshop, ITC/METC will produce a workshop summary document, or similar product, which Reliability*First* can make available on its website. The target audience would include registered entities, transmission

owner personnel involved in rights-of-way management, vegetation management, public relations/community affairs, operations, legal etc. The estimated cost to ITC/METC to implement the workshop is approximately $70,000. A suggested agenda includes:

i. NERC Standard FAC-003

A member of the standard drafting committee would describe pending revisions to the standard and discuss the current standard in whole with detailed explanation of violation risk factors and violation severity levels of the standards requirements. This session would help educate participants on details of proposed revisions to the standard, the rationale for those revisions, and would encourage participants to become engaged in the standard drafting process.

ii. Overview of Reliability*First* Compliance Monitoring and Enforcement Program Implementation

A Reliability*First* representative would cover topics related to lessons learned during the first year of mandatory reliability standards. Reliability*First* would provide comments from their 2008 Compliance Monitoring Quarterly Report regarding FAC-003 and possible violations and discuss what happens when a registered entity self-reports or is found to have a potential violation of a NERC reliability standard. In addition, Reliability*First* would provide its perspective on the elements of a good compliance program and provide insight and details into the best practices observed from FAC-003 compliance assessments performed in 2007 and 2008. This session would provide valuable feedback and insight from the compliance monitor's perspective and assist participants in evaluating and improving their own internal compliance program.

iii. Recent Violations, Common Modes of Failure and Practical Lessons Learned

ITC/METC and other companies that would be willing to publicly discuss recent alleged violations of FAC-003 would review the details of the alleged violations and provide specific causes and corrective actions taken. In addition, other publicly available information from Quarterly Compliance Reports or other sources would be used as discussion points to identify common modes of failure. Participants would gain valuable lessons learned information from this session in order to proactively take action to prevent similar failures and vegetation related outages on their systems.

iv. Contents of a Successful Vegetation Management Plan

A panel of professionals and registered entities would be invited to provide their perspective on documentation and data systems that are particularly effective for vegetation management plan and program implementation. Any applicable custom applications or technical solutions could be demonstrated for

participants. This session would provide participants with new ideas and possible tools to enhance their vegetation management plan.

v. Vegetation Management Communications Strategy

A panel of professionals and registered entities would be invited to address the methods they have effectively employed to educate the public on the importance of reliability and personal safety as it pertains to vegetation management and how to effectively work together with municipalities and governmental agencies to attain zero outages. This session would assist participants by sharing communications strategies, which is an important element of vegetation management given the public outcry that has resulted in many areas from implementation of more aggressive tree clearance.

vi. Technology to Implement in the Field

A panel of professionals or registered entities would present technical solutions and their application in the field related to vegetation management. This could include such things as Geographic Information Systems, Global Positioning Systems or aerial mapping products. This session would provide participants with exposure to the technologies that are available and how other companies are applying them to enhance efficiency and improve the quality of data gathering and tracking.

vii. Identifying and Overcoming Legal Hurdles to Vegetation Management

A panel of registered entities would discuss the processes used for rights-of-way analysis and documentation, rights-of-way limitations and managing/curing the limitations, and landowner responses and managing those responses. Overcoming the legal hurdles related to land rights is a major obstacle to performing vegetation management in a manner than would ensure zero outages. This session would focus on this important issue and sharing information on how companies are handling this in the short term and what the potential long term solutions might be.

viii. Managing Vegetation Management Program

A panel of professionals and registered entities would discuss the number, experience level, and structure of resources used to oversee vegetation management programs and manage a contract vegetation management workforce. This would also include topics related to consistent workforce development and training. This session would facilitate information sharing and practices related to the challenge of program management and achieving consistent performance from the field workforce.

ix. Effective Control Methods for Vegetation Management

A panel of professionals and registered entities would discuss various mechanical, chemical, and biological methods used for controlling vegetation and how clearances are implemented in the field. This would include discussion on the newest equipment and resources available to perform accurate and satisfactory work. This session is focused on sharing of best practices among participants in order to provide options for improving individual practices and tools in the field.

x. Metrics for Measuring Vegetation Management Effectiveness and Recognizing Risk

During breakout sessions, participants would discuss and brainstorm metrics that could be used to measure the effectiveness of company vegetation management programs and measure the risk to reliability at a given time. The intent of this session is to collectively discuss some metrics or data points that Reliability*First* and individual companies could utilize to track the overall status of vegetation management implementation and the associated risk to reliability. These metrics would also be useful in tracking progress over time.

xi. Document Management for Vegetation Management

A panel of registered entities would explain their processes, tools, and technologies for managing the documentation associated with the vegetation management program. This could include topics on tracking records for such things as: scheduled work versus completion, patrol results, work verification and legal land rights. This session would provide participants with ideas on methods to maintain the large amount of documentation associated with vegetation management in order to avoid problems with missed or incomplete work and also facilitate adequate audit documentation collection.

The Vegetation Management Workshop Agenda (See Attachment A for description) shall be completed within 12 months of FERC approval of the Settlement Agreement.

50. In order to facilitate Reliability*First*'s need to communicate the status and provide accountability to the ERO (NERC), and for a period of three (3) years, ITC/METC would make available quarterly (or more frequently, upon request by Reliability*First*) reports containing the following vegetation management and status information detailed below. ITC/METC would submit summaries of these status updates (with full reports made available upon request) to Reliability*First* in accordance with the confidentiality provisions of Section 1500 of the NERC Rules of Procedure. The following reports would be submitted as additional attachments hereto:

i. Vegetation Management

Attached hereto as Attachment B, is the public version of the ITC 2008 Line

Clearance Program Map (the non-public version has been provided to Reliability*First* but is not included as an attachment because it gives the location and vegetation status in and around transmission lines and therefore is Critical Energy Infrastructure Information). This map provides a visual overview of the annual scheduled vegetation management plan for the entire ITC transmission system. The map would indicate which circuits are planned for vegetation management within the year and the type of vegetation management being applied. The maps will be provided to Reliability*First* for both METC and ITC and would be updated quarterly to reflect work completed versus scheduled work. This report would provide Reliability*First* with an instant overview of the status of the entire TVMP of ITC/METC for monitoring purposes.

ii. Aerial Inspection Overview

Attached hereto as Attachment C, is the ITC 2008 1st Statewide Aerial Inspection. This map report identifies required tree trimming or removal locations and potential structural issues throughout the transmission system. The report consists of initial tree trimming or removal identification and a written summary reflecting actions taken for the removal of trees or limbs in a timely manner. ITC/METC would provide updates to this report in the latter half of the year the first report is provided. This report would demonstrate to Reliability*First* that ITC/METC is taking appropriate and timely actions to address by removal or trimming, those encroaching trees from its system.

iii. Easement Restriction Analysis

METC/ITC currently performs a strenuous easement restriction analysis consisting of an evaluation of each transmission line within the ITC/METC transmission systems identifying easement language that might seek to restrict or inhibit the TVMP. ITC/METC will maintain quarterly updates to this report and provide them to Reliability*First* upon request. Through this effort, Reliability*First* would be able to track ITC/METC's progress toward identifying and resolving all easement restriction issues that impact ITC/METC's ability to perform the desired level of vegetation management on its corridors.

51. The above activities would improve reliability for ITC/METC and other Reliability*First* registered entities and the industry as a whole in a number of valuable ways as described above. In addition, the Vegetation Management workshop would provide an opportunity for industry stakeholders to share information so that industry stakeholders can learn about best practices and implement those best practices. It also would provide a forum for industry stakeholders to identify areas that pose problems for reliability and to discuss potential solutions. It is unique in that it covers all aspects of the process, from legal to field practices. The reporting mechanisms would allow Reliability*First* to regularly monitor ITC/METC's vegetation management program and to have meaningful metrics for progress. All of the actions are beyond those necessary to come into compliance with the standard.

52. It is understood that Reliability*First* staff shall audit the progress of mitigation plans and any other remedies of this Agreement, including, but not limited to site inspection, interviews, and request other documentation to validate progress and/or completion of the mitigation plans and any other remedies of this Settlement Agreement. Reliability*First* shall reasonably coordinate audits and information requests with the ITC/METC related to this Settlement Agreement.

53. Based on the actions already taken and the above actions proposed to be taken by ITC and METC, ITC and METC shall pay a total monetary penalty of $40,000, subject to approval of this Agreement by NERC and final action by the Commission.

54. Reliability*First* may audit and inspect financial records to validate actual expenditures with estimates in this Settlement Agreement. Funding and programs associated with this Settlement Agreement will be above the original planned budget and programs for the 2009 year.

55. Failure to comply with any of the terms and conditions agreed to herein, or any other conditions of this Settlement Agreement, shall be deemed to be either the same alleged violations that initiated this Settlement and/or additional violation(s) and may subject ITC/METC to new or additional enforcement, penalty or sanction actions in accordance with the NERC Rules of Procedure.

V. ADDITIONAL TERMS

56. The signatories to the Agreement agree that they enter into the Agreement voluntarily and that, other than the recitations set forth herein, no tender, offer or promise of any kind by any member, employee, officer, director, agent or representative of Reliability*First* or ITC OR METC has been made to induce the signatories or any other party to enter into the Agreement.

57. The Regional Entity shall report the terms of all settlements of compliance matters to NERC. NERC will review the settlement for the purpose of evaluating its consistency with other settlements entered into for similar violations or under other, similar circumstances. Based on this review, NERC will either approve the settlement or reject the settlement and notify the Regional Entity and the Registered Entity of changes to the settlement that would result in approval. If NERC rejects the settlement, NERC will provide specific written reasons for such rejection and the Regional Entity will attempt to negotiate a revised settlement agreement with the Registered Entity including any changes to the settlement specified by NERC. If a settlement cannot be reached, the enforcement process shall continue to conclusion. If NERC approves the settlement, NERC will (i) report the approved settlement to the Commission for the Commission's review and approval by order or operation of law and (ii) publicly post the alleged violation and the terms provided for in the settlement.

58. This Agreement shall become effective upon the Commission's approval of the Agreement by order or operation of law as submitted to it or as modified in a manner acceptable to the parties.

59. ITC and METC agree that this Agreement, when approved by NERC and the Commission, shall represent a full and final settlement of all matters set forth herein and ITC and METC waive their rights to further hearings and appeal, unless and only to the extent that ITC and METC contend that any NERC or Commission action on the Agreement contains one or more material modifications to the Agreement. Reliability*First* reserves all rights to initiate enforcement, penalty or sanction actions against ITC and/or in accordance with the NERC Rules of Procedure in the event that ITC and METC fail to comply with the mitigation plan and compliance program agreed to in this Agreement. In the event ITC or METC fail to comply with any of the stipulations, remedies, sanctions or additional terms, as set forth in this Agreement, Reliability*First* will initiate enforcement, penalty, or sanction actions against ITC and/or METC to the maximum extent allowed by the NERC Rules of Procedure, up to the maximum statutorily allowed penalty. ITC and METC shall retain all rights to defend against such enforcement actions, also according to the NERC Rules of Procedure.

60. ITC and METC consent to the use of Reliability*First*'s determinations, findings, and conclusions set forth in this Agreement for the purpose of assessing the factors, including the factor of determining the company's history of violations, that are set forth in the May 15, 2008 Revised Policy Statement on Enforcement,[5] or that may be set forth in any successor policy statement or order. Such use may be in any enforcement action or compliance proceeding under taken by Reliability*First*; provided however that ITC and METC do not consent to the use of the specific acts set forth in this Agreement as the sole basis for any other action or proceeding brought by Reliability*First*, nor does ITC or METC consent to the use of this Agreement by any other party in any other action or proceeding.

61. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Agreement on the entity's behalf.

62. The undersigned representative of each party affirms that he or she has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his or her knowledge, information and belief, and that he or she understands that the Agreement is entered into by such party in express reliance on those representations, provided, however, that such affirmation by each party's representative shall not apply to the other party's statements of position set forth in Section IV of this Agreement.

63. The Agreement may be signed in counterparts.

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[5] *Revised Policy Statement on Enforcement*, 123 FERC ¶ 61,221 (2008).

64. This Agreement is executed in triplicate, each of which so executed shall be deemed to be an original.

Agreed to and accepted:

Raymond J. Palmieri — 7/23/09

Raymond J. Palmieri
Vice President and Director of Compliance
Reliability*First* Corporation

Date

Elizabeth Howell — 7/29/09

Elizabeth Howell
Vice President, Operations
For ITC and METC

Date

Approved by:

Tim Gallagher — 7/23/09

Tim Gallagher
President
Reliability*First* Corporation

Date

NERC
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Attachment c

ITC's Mitigation Plan designated as MIT-07-0428 and Certification of Completion therein, dated January 18, 2008

RELIABILITY FIRST

NERC ID - RFC200700003

Proposed Mitigation Plan

Date Submitted	January 18, 2008

Registered Entity Information

Company Name: ITC Transmission (ITC)

Company Address:

39500 Orchard Hill Place
Suite 200
Novi, MI
48375

Mitigation Plan Contact Person & Phone Number:

Michael J. Ayotte
734-665-3485

Violation

Reliability Standard Number:

FAC-003-1

Requirement Number Violated:

Based on ITC's interpretation of FAC-003-1, ITC believes that the alleged violation is of Requirement 2. Portions of Requirement 2 relate to the anticipated growth of vegetation, obtaining permissions or permits from landowners and systems and procedures for ensuring that vegetation management work is completed to specifications.

Cause of the Violation:

On the night of July 27th 2007, ITC's 230kV Brownstown-Navarre 2 line experienced higher than normal loading (80% of normal rating). As the line loading increased, the line sagged, reducing the clearance between the line and vegetation until the line contacted the tree causing it to lock out.

It is ITC's practice to completely remove all tall-growing vegetation in the ROW, however this particular tree was in an area where the easement rights (easement rights inherited when ITC obtained the system) only authorize us to trim any tree along the lines to allow for a 12 feet wire clearance. This area was trimmed in late 2005 and was in the process of being trimmed for 2007 when the outage occurred.

Plan to Correct the Violation

Following the outage, ITC did more than just address this one outage, reviewing its entire Vegetation Management Program and, as explained below, revising clearance requirements and some processes within the Program.

The vegetation was a result of vigorous sprout re-growth from a previously topped tree after the routine line clearance occurred in the winter of 2005. Upon investigation, the vegetation contractor that performed the work in 2005 appears to have had poor pruning techniques and incomplete tree work and we believe in this case that the top of the tree was not treated as it should have been. The vegetation contractor was terminated at the end of 2005.

Plan to Prevent Recurrence of the Violation

To prevent future vegetation contacts, ITC revised its clearance standard within its Vegetation Management Program. Clearances between all of ITC's circuits and vegetation within the right-of-way were significantly increased (to a minimum 20' at maximum sag) to reduce the likelihood of a similar event from occurring in the future.

Revisions were also made to the process by which corridors are managed the year vegetation work is due on them. An initial hotspot report, assuming maximum sag, will be performed at the beginning of the year on each of these corridors. Any critical vegetation identified in the hotspot reports will be worked and completed by tree contractors prior to beginning the more detailed plan of clearing and reclaiming the entire corridor.

ITC has also implemented an improved process to mitigate easement restrictions that limit the company's ability to provide adequate and necessary vegetation clearances. ITC's Real Estate Department will review easement language along any corridors scheduled to be worked in the current year. Any easements restricting proper vegetation control will be further reviewed and mitigation measures will proceed through ITC's Legal Department. Furthermore, areas Real Estate has already reviewed, where easement restrictions exist, will be reported to ITC's Legal Department to pursue mitigation measures.

These revisions were made to ITC's Vegetation Management Program and became effective, included re-training completion, on October 1, 2007.

Mitigation Plan

Anticipated Impact of the Mitigation Plan on the Bulk Power System Reliability:

The implementation of the revised vegetation management clearance standards and corridor management practices described above will reduce the risk of vegetation caused outages on the ITC system.

Action Plan to Mitigate Any Increased Risk to the Reliability of the Bulk Power-System while the Mitigation Plan is Being Implemented:

ITC undertook a vigorous review and made program modifications immediately following the incident. These modifications have been implemented by ITC and have mitigated any increased risk to the Bulk Power-System.

Mitigation Plan Schedule

Anticipated Completion Date:

Completed October 1, 2007

Implementation Milestones & Due Dates (no more than three (3) months apart):

N/A

Any Additional Information

While ITC has submitted this as an alleged violation of Requirement 2, ITC has done more than merely address the Requirement 2 areas in our mitigation efforts.

ITC has completed the proactive measure of modifying its Transmission Vegetation Management Program to address the Requirement 2. ITC also has taken proactive measures to further strengthen its practices in Requirement 1 such as required clearances, inspection procedures and mitigation measures to achieve sufficient clearance in restricted locations.

ITC would be happy to provide any additional information or documentation that RFC requests in conjunction with this incident and mitigation plan.

RELIABILITY FIRST

Signature Jon E Jipping Date 1/17/08

Name: Jon E. Jipping

Title: Executive Vice President & Chief Operating Officer

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Attachment d

RFC's Verification of Completion of the Mitigation Plan, dated April 2, 2009

CONFIDENTIAL
NOT FOR PUBLIC DISTRIBUTION

FOR PUBLIC RELEASE – SEPTEMBER 16, 2009

April 2, 2009

Summary and Review of Evidence of Mitigation Plan Completion

NERC Violation ID #:	**RFC200700003** **RFC200800080** **RFC200800081**
NERC Plan ID:	**MIT-07-0428**
Registered Entity;	**International Transmission Company** **Michigan Electric Transmission Company**
NERC Registry ID:	**NCR00803 (ITC)** **NCR00820 (METC)**
Standard:	**FAC-003-1**
Requirement:	**R2, R1.2.2**
Status:	**R2 – Compliant** **R1.2.2 – Compliant**

International Transmission Company, d/b/a ITC*Transmission* ("ITC"), a subsidiary of ITC Holdings Corp., submitted a self report of noncompliance with NERC Reliability Standard FAC-003-1, Transmission Vegetation Management Program, Requirement 3.4.1 on September 19, 2007. Specifically, ITC reported that it had experienced a "vegetation related outage on a 230 kV line" on July 28, 2007. According to ITC, this outage occurred because the transmission line in question sagged due to increased line loading. The line sagged until it contacted a tree and locked out. ITC stated that the particular tree that caused the outage was in an area where limited easement rights restricted its ability to trim vegetation adequately.

After investigation of this self-report by Reliability*First* Corporation ("Reliability*First*"), the underlying event was properly classified as an alleged violation of NERC Reliability Standard FAC-003-1, Requirement 2, not FAC 003-1, Requirement 3.4.1. ITC developed an approved Mitigation Plan to prevent future vegetation contacts. The Mitigation Plan was submitted to Reliability*First* January 18, 2008. Concurrently, ITC certified that the specific tasks included in the Mitigation Plan were complete as of October 1, 2007.

On September 23, 2008, as part of Reliability*First*'s verification of the completion of the aforementioned Mitigation Plan, ITC submitted to Reliability*First* a document identified as ITC's "Transmission Vegetation Management Plan" ("TVMP"). Reliability*First* determined that the ITC TVMP violated FAC-003-1, Requirement 1.2.2. This alleged violation was corrected by ITC on September 24, 2008.

Like ITC, Michigan Electric Transmission Company ("METC") is a subsidiary of ITC Holdings Corp. Also like ITC, METC utilized the ITC TVMP. Therefore, the facts, nature and discovery of ITC's referenced alleged violation of FAC-003-1, Requirement 1.2.2, as well as steps taken to mitigate the alleged violation, pertain to METC as well as ITC.

Review Process:

ITC certified that the Mitigation Plan for its violation of FAC-003-1, Requirement 2 was completed on October 1, 2007. As noted, this certification was submitted by ITC with its Proposed Mitigation Plan on January 18, 2008. Reliability*First*, in order to verify completion of this Mitigation Plan, conducted an on-site audit of ITC's TVMP on September 23, 2008.

In the course of that audit, Reliability*First* auditors discovered that ITC's TVMP did not comport with Institute of Electrical and Electronics Engineers ("IEEE") Standard 516-2003 as to the minimum vegetation clearance distances required by FAC-003-1, Requirement 1.2.2. This alleged violation was immediately corrected. ITC submitted a revised and compliant TVMP on September 24, 2008, and no formal Mitigation Plan was filed.

Because METC utilized ITC's TVMP, it also allegedly violated FAC-003-1, Requirement 1.2.2 on September 23, 2008. This alleged violation was also immediately corrected by ITC's submission of a revised TVMP on September 24, 2008. As a result, no formal Mitigation Plan was filed for METC's alleged violation of FAC-003-1, Requirement 1.

FAC-003-1, Requirement 2 states:

R2. *The Transmission Owner shall create and implement an annual plan for vegetation management work to ensure the reliability of the system. The plan shall describe the methods used, such as manual clearing, mechanical clearing, herbicide treatment, or other actions. The plan should be flexible enough to adjust to changing conditions, taking into consideration anticipated growth of vegetation and all other environmental factors that may have an impact on the reliability of the transmission systems. Adjustments to the plan shall be documented as they occur. The plan should take into consideration the time required to obtain permissions or permits from landowners or regulatory authorities. Each Transmission Owner shall have systems and procedures for documenting and tracking the planned vegetation management work and ensuring that the vegetation management work was completed according to work specifications.*

Evidence Submitted: ITC provided Reliability*First* with evidence of completion of actions required by the Mitigation Plan. Additionally, on September 23, 2008, Reliability*First* performed an on-site audit of ITC's TVMP to assess compliance with all applicable requirements of FAC-003-1. The following documents evidence the completion of the Mitigation Plan:

Documents 1 through 3: ITC Work Orders for Vegetation Removal and Management

ITC submitted a copy of the completed work order that was generated to remove the vegetation that caused the outage (Document 1). The work order was closed on 8/7/2007 at 9:12:56 AM. ITC also provided information associated with a 2007 pruning work order (Document 2) and an herbicide work order (Document 3) for the transmission corridor on which the vegetation outage occurred. These orders included details on the location of trees, vegetation and infrastructure within the corridor.

Documents 4 and 5: ITC Transmission Line Clearance Requirements

ITC submitted the transmission line clearance requirements (Document 4) in effect at the time of the line outage. The title page of the document indicates it is document 03.12.003 in the Vegetation Management section of the Maintenance Manual, is revision 001, has a date of 01/10/05, and was approved by Jon E. Jipping, ITC Executive Vice President and Chief Operating Officer. ITC submitted the revised transmission line clearance requirements (Document 5) developed after the July 28, 2007 vegetation outage. The title page of the document indicates it is document FSS-002, revision 000, dated 10/02/2007, and approved by Jon Jipping.

Document 6: ITC Request for Additional Vegetation Management

ITC submitted documentation of its request for additional vegetation management on the Warren Brownstone East Transmission Corridor (Document 6) as evidence of additional vegetation management steps resulting from the revised clearance requirements referenced above (See Document 5).

Document 7: Sample ITC "Hot Spot" Report

ITC submitted a sample "Hot Spot" Report (Document 7) identifying the species and sizes of dangerous trees and vegetation within the Wyatt – Sandusky Transmission Corridor.

Documents 8 through 10: Documents Relating to Easement Management

ITC submitted a sample Inadequate Easement Report which identifies easement restrictions affecting vegetation management (Document 8). ITC also submitted a process flow diagram depicting ITC's internal communication processes for vegetation management (Document 9). Finally, ITC submitted a process flow diagram depicting ITC's Vegetation Management Rights Analysis Process and the Analysis Packet Development Process (Document 10).

Document 11: ITC Training Document

ITC submitted revised Planner Specifications and Procedures which were provided to ITC staff to provide additional training (Document 11).

Document 12: ITC Transmission Vegetation Management Plan

ITC submitted its then-current TVMP to Reliability*First* at the September 23, 2008 audit. That TVMP indicated that it had been in effect as of 8/15/2008.

FAC-003-1, Requirement 1 states:

R1.2.2. *Clearance 2—The Transmission Owner shall determine and document specific radial clearances to be maintained between vegetation and conductors under all rated electrical operating conditions. These minimum clearance distances are necessary to prevent flashover between vegetation and conductors and will vary due to such factors as altitude and operating voltage. These Transmission Owner-specific minimum clearance distances shall be no less than those set forth in the Institute of Electrical and Electronics Engineers (IEEE) Standard 516-2003 (*Guide for Maintenance Methods on Energized Power Lines*) and as specified in its Section 4.2.2.3, Minimum Air Insulation Distances without Tools in the Air Gap.*

Evidence Submitted: Following Reliability*First*'s September 23, 2008 on-site audit of ITC, ITC submitted a revised TVMP. Effective September 24, 2008, this revised TVMP increased the Clearance 2 distances to a value no less than those set forth in IEEE Standard 516-2003. As a result, ITC and METC are now in full compliance with FAC-003-1, Requirement 1.2.2.

Review Results:

Reliability*First* reviewed the evidence that ITC submitted in support of its Certification of Completion. On April 2, 2009 Reliability*First* verified that the Mitigation Plan was completed in accordance with its terms and therefore ITC has been deemed compliant with the aforementioned NERC Reliability Standard.

Respectfully Submitted,

Robert K. Wargo
Manager of Compliance Enforcement
Reliability*First* Corporation

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment e

Notice of Filing

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

ITC Holdings, Corp.	)	Docket No. NP09-___-000
Michigan Electric Transmission Company, LLC	)	

NOTICE OF FILING
September 25, 2009

Take notice that on September 25, 2009, the North American Electric Reliability Corporation (NERC) filed a Notice of Penalty regarding ITC Holdings, Corp., and its subsidiaries, International Transmission Company and Michigan Electric Transmission Company, LLC in the Reliability*First* region.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211, 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a notice of intervention or motion to intervene, as appropriate. Such notices, motions, or protests must be filed on or before the comment date. On or before the comment date, it is not necessary to serve motions to intervene or protests on persons other than the Applicant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at http://www.ferc.gov. Persons unable to file electronically should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

This filing is accessible on-line at http://www.ferc.gov, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: [BLANK]

Kimberly D. Bose,
Secretary