

ISO New England Inc.

Financial Statements

For the Years Ended December 31, 2005 and 2004

ISO New England Inc.
Index
December 21, 2005 and 2004

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Report of Independent Auditors

To the Board of Directors and Members of ISO New England, Inc.:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of ISO New England, Inc. (the "Company") at December 31, 2005 and 2004, and the results of changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 16, 2006

ISO New England Inc.
Statements of Financial Position
For Years Ended December 31, 2005 and 2004

	2005	2004
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 138,927	\$ 40,562
Security deposits	144,281	67,643
Unbilled receivable, net	21,486	21,147
Prepaid expenses	636	606
Restricted cash on deposit	91,699	17,774
Noncurrent assets:		
Property and equipment in-service, net (Note 3)	33,088	52,667
Work in process (Note 3)	45,586	22,164
Deferred charges	297	364
Swap asset (Note 4)	53	156
Regulatory asset	1,956	1,504
	<u>478,009</u>	<u>224,587</u>
Total assets	\$	\$
Liabilities and Net Assets		
Current liabilities:		
Accounts payable:		
Settlement, net	\$ 133,114	\$ 26,151
Administration	9,335	7,878
Deposits payable	145,134	68,249
Interest payable	1,081	887
Revolving credit (Note 4)	1,968	-
Accrued expenses	9,022	7,782
Minimum pension liability (Note 5)	1,956	1,504
Regulatory liability	53	156
Deferred income - current	4,547	13,995
Restricted cash on deposit payable	67,176	17,774
Term loan payable-current (Note 4)	13,833	21,687
Long-term liabilities:		
Deferred income, net of current portion	3,667	2,357
Term loan, net of current portion (Note 4)	87,123	56,167
	<u>478,009</u>	<u>224,587</u>
Total liabilities	478,009	224,587
Unrestricted net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	\$ <u>478,009</u>	\$ <u>224,587</u>

The accompanying notes are an integral part of these financial statements.

ISO New England Inc.
Statements of Activities
For Years Ended December 31, 2005 and 2004

	2005	2004
	(In thousands)	
Changes in unrestricted net assets:		
Revenues (Note 1):		
ISO tariff revenues	\$ 122,327	\$ 115,262
Interest income	1,567	462
Fees and services	527	461
	<u>124,421</u>	<u>116,185</u>
Expenses:		
General and administrative:		
Salaries and benefits	50,947	46,310
Professional and consultants	17,400	16,127
Rents and leases	1,077	2,509
Computer services	4,064	3,684
Depreciation and amortization expense	38,921	35,227
Communication expense	1,578	1,586
Interest expense	2,458	2,561
Other	7,976	8,181
	<u>124,421</u>	<u>116,185</u>
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
Unrestricted net assets, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

ISO New England Inc.
Statements of Cash Flows
For Years Ended December 31, 2005 and 2004

	2005	2004
	(In thousands)	
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ -	\$ -
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation expense	38,850	34,481
Loss on disposal of asset	-	1,024
(Increase) in accounts receivable	(339)	(1,797)
Decrease in deferred charges	67	470
(Increase) in prepaid expense	(30)	(464)
(Increase)/decrease in regulatory asset	(452)	718
(Increase)/decrease swap asset	103	(156)
Increase/(decrease) in accounts payable:		
Settlement	106,963	25,658
Administration	(13)	(1,469)
(Decrease) in daily billing advance collections	-	(20,643)
Increase/(decrease) in minimum pension liability	452	(484)
(Decrease) in swap liability	-	(234)
Increase/(decrease) regulatory liability	(103)	156
Increase in accrued expenses	1,240	1,069
Increase in interest payable	194	595
Increase/(decrease) in deferred income	(8,138)	6,498
Net cash provided by operating activities	<u>138,794</u>	<u>45,422</u>
Cash flows from investing activities:		
Capital expenditures	<u>(41,223)</u>	<u>(25,930)</u>
Net cash used in investing activities	<u>(41,223)</u>	<u>(25,930)</u>
Cash flows from financing activities:		
(Increase)/decrease in security deposits	(76,638)	69,839
(Increase)/decrease in restricted cash on deposit	(73,925)	24,354
Increase/(decrease) in restricted cash on deposit payable	49,402	(24,354)
Increase/(decrease) in deposits payable	76,885	(70,053)
Proceeds from term loan	-	9,450
Repayment on term loan	(22,398)	(72,495)
Proceeds from private placement debt	-	39,000
Proceeds from tax-exempt bond financing	45,500	-
Net borrowings on working capital line	1,968	-
Net cash provided/(used) by financing activities	<u>794</u>	<u>(24,259)</u>
Net increase/(decrease) in cash and cash equivalents	98,365	(4,767)
Cash and cash equivalents, beginning of year	<u>40,562</u>	<u>45,329</u>
Cash and cash equivalents, end of year	<u>\$ 138,927</u>	<u>\$ 40,562</u>
Supplemental data:		
Amounts included in Accounts Payable - Administration related to work in process	<u>\$ 5,075</u>	<u>\$ 3,605</u>
Cash paid during the year for interest	<u>\$ 2,731</u>	<u>\$ 2,671</u>

The accompanying notes are an integral part of these financial statements.

ISO New England Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Description of Business

ISO New England Inc. (the "Company" or "ISO") commenced operations on July 1, 1997 as the New England electric transmission independent system operator for the New England Power Pool ("NEPOOL") in compliance with the requirements of the Federal Energy Regulatory Commission ("FERC"). On May 1, 1999, the competitive market place opened in the ISO New England control area. During the period from July 1997 through January 31, 2005, the Company was operating under the Interim ISO Agreement and administered NEPOOL's tariff.

On February 1, 2005, the ISO became the Regional Transmission Organization ("RTO") for New England, with enhanced responsibilities as the transmission provider for New England and new governing documents (Transmission Operating Agreement, Participants Agreement, Market Participants Service Agreement, ISO New England Transmission, Markets and Services Tariff) in place of the existing governing documents (the Interim ISO Agreement, NEPOOL Tariff).

Cash Equivalents

The Company considers cash on hand and short-term marketable securities with original maturities of three months or less to be cash equivalents. The cash equivalents at December 31, 2005 and 2004 were held in overnight repurchase agreements and also in direct and indirect obligations of the United States, with maturities of 3 months or less.

Accounts Receivable and Accounts Payable

In the course of bulk power transactions administered by the Company on behalf of the NEPOOL Participants, amounts for energy purchased and sold among Participants become payable to and receivable from such Participants. The Company summarizes and prices the energy transactions each week and provides an invoice or remittance advice to each Participant that summarizes the amount either receivable from or payable to each Participant.

Accounts payable on the balance sheet are segregated between the amounts owed for energy transactions and transmission, for which the ISO functions as paying agent, which are included in accounts payable settlement, net and for the administrative expenses incurred by the Company in the course of operations. The reference to "settlement, net" is used due to the nature of billing and payment for the amounts owed for energy transactions and transmission markets, which represents the customer's net amount due, less any amounts which may have been owed to them.

The net unbilled receivables, which have been determined as a result of the settlement process, include those amounts that will be billed and included in the invoice or remittance advice to Participants in the next weekly invoice issued. The net payables and receivables for those energy transactions stated above are settled with the Participants in the subsequent week.

Restricted Cash on Deposit

The balance of \$91.7 million and \$17.8 million in 2005 and 2004, respectively, recorded as Restricted Cash on Deposit represents the Congestion Revenue Fund, Net proceeds from tax-exempt bond financing, NRG Cost of Service Agreement Escrow and Pre-petition funds, which are restricted by Market Rule 1, FERC Orders or Bankruptcy Law. The balance is offset by liabilities on the Statement of Financial Position. The restricted cash on deposit at December 31, 2005 and 2004 were held in overnight repurchase agreements and also in direct and indirect obligations of the United States. Additionally, the net proceeds from the tax-exempt bond financing are held at cost. The fair market value as of December 31, 2005 and 2004 was \$91.7 million and \$17.8 million, respectively.

ISO New England Inc.

Notes to Financial Statements

Property and Equipment in Service and Work in Process

Property and equipment is stated at cost, net of accumulated depreciation.

The Company applies the provisions of Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Costs" ("FAS 34") and Statement of Financial Accounting Standards No. 62, "Capitalization of Interest Costs in situations involving certain tax-exempt borrowings and certain gifts and grants ("FAS 62"), an amendment of FASB Statement No. 34", which requires the Company to capitalize the interest and fees associated with the borrowings that the Company has entered into for the acquisition of assets related to a project that has a material effect on the Company's financial position.

In addition, the Company follows the provisions of the Statement of Position 98-1, "Accounting for the Costs of Computer Service Software Development" ("SOP 98-1") in capitalizing internal software development costs.

Depreciation

Depreciation is generally computed using straight-line methods over an estimated useful life ranging from three years to twenty-five years (computer hardware, software and accessories – 3 to 5 years, software development costs – 3 to 5 years, furniture and fixtures and machinery and equipment – 7 years, leasehold improvements – 10 years or remaining useful life whichever is shorter, vehicles – 3 years, building – 25 years). Capitalized interest and fees is amortized over the same useful life of the asset that it pertains to. No depreciation is recorded for assets classified as work in process (Note 3).

Derivative Policy

The Company follows the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended by FAS 138, in establishing its derivative policy. The policy states that the Company's Management will make the determination with the approval of the Company's Audit and Finance Committee to enter into fixed interest rate swaps when the fixed interest rate offered at the time will outweigh the risk of leaving the borrowings to fluctuations in the market, taking into consideration the length of the borrowing, the state of the economy and the direction in which the Management team believes the economy is moving.

Deferred Charges and Regulatory Assets and Liabilities

The Company applies the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("FAS 71"), which requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain charges or revenues because it is probable to be collected or refunded through future customer billings. ISO New England incurred pension cost and the purchase of land located at Sullivan Road, which were not included in the 2003 and 2004 ISO Tariff rates, respectively. Additionally in 2005, the ISO incurred costs associated with the Intra-Hour Transaction Scheduling Pilot Program ("ITS"), which were not included in the 2005 ISO Tariff Rates. A portion of these costs, which were deferred, have been included in the current year's ISO Tariff filing and will therefore be amortized. The remaining cost, also deferred, will be collected in future tariff filings.

ISO New England Inc.
Notes to Financial Statements

The following table is a detail of the balances as presented in the Statement of Financial Position:

Deferred Charges	2005	2004
ITS Pilot Program	4,000	-
Pension costs	142,000	213,000
Land located on Sullivan Road	151,000	151,000
	<u>\$ 297,000</u>	<u>\$ 364,000</u>
Regulatory Assets	2005	2004
Minimum pension liability	1,956,000	1,504,000
	<u>\$ 1,956,000</u>	<u>\$ 1,504,000</u>
Regulatory Liability	2005	2004
Swap asset	53,000	156,000
	<u>\$ 53,000</u>	<u>\$ 156,000</u>

Income Taxes

There is no provision for federal or state (Massachusetts and Connecticut) income taxes because the Company is exempt from such taxes under section 501(a) of the Internal Revenue Code (the "Code") and state law as an organization described in Code section 501(c)(3). The Company, previously determined to be a Code section 501(c)(4) organization, has been determined to be a Code section 501(c)(3) organization since May 27, 2004. The Company does not have liability for any tax on unrelated business income.

Security Deposits

The NEPOOL Participants are required to comply with the Financial Assurance Policy under ISO's Transmission, Markets & Services Tariff. In the case of non-investment grade rated Participants that meet certain criteria, the Company's Financial Assurance Policy requires these Participants to put in place alternate forms of financial assurance. There are several options allowed under the Company's Financial Assurance Policy for compliance, one of which is to post cash as collateral. The cash collateral deposits at December 31, 2005 and 2004 were approximately \$144,281,000 and \$67,643,000, respectively, and are recorded in deposits payable.

Revenue Recognition

The Company recovers its operating and debt service costs pursuant to the ISO's Transmission, Markets & Services Tariff, which provides for recovery of expenses through three schedules. Scheduling, System Control and Dispatch Service (Schedule 1), Energy Administration Service (Schedule 2) and Reliability Administration Service (Schedule 3) recover related cost through a pre-approved rate applied to each month's activity. Schedules 1, 2, and 3 are subject to true-up through subsequent years' rates, and any over or under collection is recorded as deferred charges or deferred income and will be recovered under future Tariff filings.

ISO New England Inc.

Notes to Financial Statements

Deferred Income

Deferred income represents the amount of the ISO Tariff for Schedules 1, 2, and 3 that was over/under collected from 2003 through 2005 and offsets to the net fixed assets of the Company that were purchased and placed in service in 1997 and 1998. The over/under collection amount of the ISO Tariff will be returned to the Participants through the true-up mechanism provided for within the ISO Tariff. The pre-funded fixed asset deferred income is being amortized to income over the life of the assets at the rate depreciation is recognized. The amortization of these assets was complete at December 31, 2005.

Concentrations

The Company's top 10 participants represented approximately 54% or \$61.8 million and 55% or \$67.2 million in tariff revenues for the years ended 2005 and 2004, respectively.

Fair Values of Financial Instruments

The carrying amounts reported in the statement of financial position for current assets and liabilities approximate their fair values.

Use of Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenses. Actual results could differ from those estimates.

Liquidity Information

In order to provide information about liquidity, assets have been sequenced according to their nearness to conversion to cash, and liabilities have been sequenced according to the nearness of their resulting use of cash.

Revised Classification

The classification of certain amounts on the financial statements of the prior year have been revised to conform with the current year's basis of presentation.

ISO New England Inc.
Notes to Financial Statements

2. Commitments and Contingencies

Capital Funding Tariff

The FERC accepted ISO's "capital funding tariff" ("CFT") filing for 2004 and 2005. These filings support the ISO's loan arrangements with various banks and note holders to fund the capital and working capital requirements of the Company.

Legal Proceedings

The Company is party to various legal actions incident to its business; however, management believes that no material awards against the Company will result from such proceedings.

Locational Installed Capacity Market Contingency

The Company is currently involved in on-going settlement hearings with the Participants in NEPOOL and the FERC regarding the Locational Installed Capacity Market ("LICAP"). The Company has capitalized, as a part of work in process, software development costs totaling approximately \$3,434,000 at December 31, 2005 associated with the development of the LICAP market. The outcome of the settlement may impair the carrying value of this asset. At this time, the outcome of these hearings and any related asset impairment are unknown.

3. Property and Equipment In-Service, net and Work in Process

	December 31,	
	2005	2004
Computer hardware, software and accessories	\$ 108,692,000	\$ 91,313,000
Software development costs	24,938,000	21,528,000
Furniture and fixtures	888,000	853,000
Machinery and equipment	59,000	-
Building and leasehold improvements	4,101,000	6,163,000
Capitalized interest and fees	4,325,000	3,885,000
Vehicles	85,000	75,000
	<u>143,088,000</u>	<u>123,817,000</u>
Less: accumulated depreciation and amortization	<u>(110,000,000)</u>	<u>(71,150,000)</u>
Property and Equipment In-Service, net	<u>\$33,088,000</u>	<u>\$ 52,667,000</u>
Work in process (WIP)	<u>\$ 45,586,000</u>	<u>\$ 22,164,000</u>

There were a number of new projects as of 2005 such as the building construction at the Main Control Center, Ancillary Service Markets phase II, Enterprise Data Architecture Plan and various other market enhancement projects, which have not been placed in service as of December 31, 2005, and are included in WIP. In accordance with "FAS 34" and "FAS 62", the associated interest cost, which was capitalized as work in process in 2005 and 2004 was \$949,000 and \$508,000, respectively. Of the capitalized interest included in WIP for 2005, \$68,000 has been carried over from 2004 and \$87,000 represents the net of interest income and interest expense earned or paid, on the building construction, which has been recorded in its entirety on the balance sheet.

ISO New England Inc.
Notes to Financial Statements

4. Credit Facilities

Revolving Credit Arrangement

In June 2004, the Company entered into a \$15 million revolving credit arrangement, of which the outstanding balances at December 31, 2005 and 2004 were \$1,968,000 and \$0, respectively. Interest accrues on the revolving credit at a London Inter-bank Offering Rate ("LIBOR") of which the Company has the option of selecting the 30, 60, 90, or 180-day rate, plus a .60% spread. Interest is paid at the earlier of the selected LIBOR term or 30 days. The arrangement expires June 1, 2009 and any outstanding balance must be paid by this date. The Company is charged an annual fee of .15% on the entire line of credit. The weighted average interest rate incurred for the year ended December 31, 2005 was 4.5%.

In June 2004, the Company also entered into a \$4 million revolving credit arrangement, which was requested as a result of the change in the billing policy under ISO's Transmission, Markets & Services Tariff to go from monthly billing to weekly billing. This arrangement serves as a line of credit to cover any potential payment defaults by a Participant. Interest accrues on the revolving credit at a London Inter-bank Offering Rate ("LIBOR") of which the Company has the option of selecting the 30, 60, 90, or 180-day rate, plus a .60% spread. Interest is paid at the earlier of the selected LIBOR term or 30 days. The arrangement expires July 1, 2009 and any unpaid balances must be paid as of this date. The Company is charged an annual fee of .15% on the entire line of credit. There have not been any borrowings on this debt since the establishment of this working capital line in June of 2004.

Term Loan

The Company entered into a \$43.0 million term loan in 2001, a \$40.0 million term loan in 2002, and \$24.5 million and \$20.0 million term loans in 2003. Principal is payable monthly with the final repayments due between June 2006 – June 2007. Interest accrues on the \$20.0 million term loan at LIBOR of which the Company has the option of selecting the 30, 60, 90, or 180-day rate, plus a 1.375% spread. For the years ended December 31, 2005 and 2004, the weighted average floating interest rate is approximately 3.85% and 3.21%, respectively.

The Company has entered into interest rate exchange agreements (Swaps) to mitigate the interest rate risks associated with its floating-rate term loans. On March 17, 2003, the Company entered into three interest rate exchange agreements whereby the Company pays at a fixed interest rate for predetermined notional amounts as scheduled at the time of execution of the agreements.

On July 1, 2004 interest rate Swaps number 2 and 3 were terminated and resulted in a net gain in 2004 of \$206,657, and \$73,998, respectively. The gain on these Swaps is reflected as a reduction of interest expense, in the accompanying Statement of Activities.

	Swap 1	Swap 2	Swap 3
Notional Amount at the time of execution	\$43,000,000	\$40,000,000	\$24,500,000
Notional Amount at December 31, 2005	\$7,200,000	\$0	\$0
Termination Date	June 1, 2006	July 1, 2004	July 1, 2004
Rate Paid	3.3750%	3.5550%	3.4550%
Rate Received	LIBOR plus 1.375%	LIBOR plus 1.375%	LIBOR plus 1.375%

The fair market value of the interest rate swap as of December 31, 2005 and 2004 was \$53,000 and \$156,000, respectively. The fair market values are derived from proprietary models. The offset is recorded as a liability on the Statement of Financial Position.

ISO New England Inc.

Notes to Financial Statements

Private Placement Debt Arrangement

In September 2004, the Company entered into a \$39.0 million private placement loan, which is made up of ten year 5.60% senior notes. Payment is due in full on September 2, 2014 with no mandatory prepayments.

Tax-Exempt Bond Financing

In February of 2005, the Company entered into tax exempt financing of \$45.5 million in the form of Multi-Mode Variable Rate Civic Facility Revenue Bonds, which were issued by the Massachusetts Development Finance Agency. The proceeds of the Bonds were loaned to the Company, to assist in financing and refinancing a project located at the main control center. Principal payments are scheduled to begin May 2007 with the final repayment due on February 1, 2032. Interest accrues on the \$45,500,000 tax exempt bonds, at a weekly variable rate based upon the Bond Market Association "BMA" Swap Index plus an average spread of 2 basis points. For the years ended December 31, 2005 and 2004, the weighted average floating interest rate is approximately 2.59% and 0%, respectively.

The total outstanding debt at December 31, 2005 and 2004 was \$101.0 million and \$77.9 million, respectively.

Principal payments on the term loan, private placement debt, and tax-exempt bonds are due annually as follows:

2006	\$ 13,833,000
2007	3,988,000
2008	1,820,000
2009	1,820,000
2010	1,820,000
Thereafter	<u>77,675,000</u>
	<u>\$ 100,956,000</u>

These credit agreements contain both affirmative and negative covenants, the most restrictive of which is the maintenance of a financial ratio related to revenue and expense plus debt service. The Company was in compliance with these ratios at December 31, 2005 and 2004.

Interest incurred on the revolving credit, the term loans, and private placement debt for the years ended December 31, 2005 and 2004 was approximately \$3,253,000 and \$3,259,000, respectively. Interest capitalized from the term loans and private placement debt for the years ended December 31, 2005 and 2004 was approximately \$794,000 and \$508,000, respectively.

ISO New England Inc.
Notes to Financial Statements

5. Pension and Other Employee Benefits

The Company sponsors defined benefit pension and postretirement plans, which cover substantially all union and nonunion employees and provide retirement income, medical, dental and life insurance benefits.

The Company sponsors two defined benefit pension plans, which are funded solely by Company contributions. Benefits are determined based on years of service and average compensation.

The Company sponsors two defined benefit postretirement plans which provide medical, dental and life insurance benefits for union and nonunion eligible employees and their beneficiaries. The medical benefits are contributory with participants' contributions adjusted annually and participants are responsible for deductible and coinsurance amounts. Dental benefits are non-contributory but participants are responsible for deductible and coinsurance amounts. The life insurance benefits are noncontributory.

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,		Years Ended December 31,	
	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation at beginning of year	\$40,336,000	\$34,493,000	\$3,337,000	\$2,786,000
Service cost	2,910,000	2,536,000	498,000	427,000
Interest cost	2,338,000	2,064,000	186,000	161,000
Benefits paid	(696,000)	(560,000)	(73,000)	(43,000)
Plan participants' contributions	-	-	8,000	6,000
Actuarial (gain) loss	2,656,000	1,803,000	29,000	-
Benefit obligation at end of year	47,544,000	40,336,000	3,985,000	3,337,000
Change in plan assets:				
Fair value of plan assets at beginning of year	29,847,000	24,360,000	3,359,000	2,674,000
Actual return on plan assets	2,680,000	2,908,000	313,000	305,000
Employer contributions	3,416,000	3,139,000	468,000	417,000
Plan participants' contributions	-	-	8,000	6,000
Benefits paid	(696,000)	(560,000)	(73,000)	(43,000)
Fair value of plan assets at end of year	35,247,000	29,847,000	4,075,000	3,359,000
Funded status	(12,297,000)	(10,489,000)	90,000	22,000
Unrecognized transition obligation	1,062,000	1,187,000	642,000	697,000
Unrecognized net actuarial (gain) loss	11,204,000	9,268,000	(865,000)	(904,000)
Unrecognized prior service cost	31,000	34,000	133,000	185,000
Prepaid (accrued) benefit cost	\$ -	\$ -	\$ -	\$ -

Amounts recognized in the statement of financial position consist of:

	Pension Benefits		Other Benefits	
	12/31/2005	12/31/2004	12/31/2005	12/31/2004
(Accrued) benefit cost	\$ (1,956,000)	\$(1,504,000)	-	-
Regulatory Assets	1,956,000	1,504,000	-	-
Net amount recognized	-	-	-	-

The accumulated benefit obligation for all defined benefit pension plans was:

	December 31,	
	2005	2004
Projected benefit obligation	\$47,544,000	\$40,336,000
Accumulated benefit obligation	\$37,210,000	\$30,791,000
Fair value of plan assets	\$35,247,000	\$29,847,000

ISO New England Inc.
Notes to Financial Statements

The Company follows the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", and Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and other Post Retirement Benefits", in determining the minimum liability requirements. A liability has been recorded on the Statements of Financial Position in the amount of \$1,956,000 and \$1,504,000 for the years ended December 31, 2005 and December 31, 2004, respectively. The accumulated benefit obligation exceeded the fair value of plan assets for one defined benefit plan, which was in an under funded position, as follows:

	December 31,	
	2005	2004
Accumulated benefit obligation	\$ 35,832,000	\$ 29,506,000
Fair value of plan assets	(33,994,000)	(28,433,000)
Prepaid benefit cost	118,000	431,000
Minimum pension liability	<u>\$ 1,956,000</u>	<u>\$ 1,504,000</u>

The Company has determined that the minimum pension liability is probable of recovery through the ISO Tariff and has recorded a regulatory asset at December 31, 2005 and December 31, 2004.

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31,		Years ended December 31,	
	2005	2004	2005	2004
Components of net periodic benefit cost:				
Service cost	\$ 2,910,000	\$ 2,536,000	\$ 498,000	\$ 426,000
Interest cost	2,338,000	2,064,000	185,000	161,000
Expected return on plan assets	(2,347,000)	(1,947,000)	(265,000)	(213,000)
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	388,000	359,000	-	-
Amortization of unrecognized Prior Service	2,000	2,000	51,000	51,000
Amortization of unrecognized (gain)/loss	-	-	(57,000)	(64,000)
Net periodic benefit cost	<u>\$ 3,416,000</u>	<u>\$ 3,139,000</u>	<u>\$ 468,000</u>	<u>\$ 417,000</u>

The primary economic assumptions used to value these liabilities are summarized in the following chart. These assumptions are selected as the measurement data based on prevailing economic conditions.

Weighted-average assumptions used to determine net periodic benefit cost for the following years ended:

	Pension Benefits		Other Benefits	
	12/31/2005	12/31/2004	12/31/2005	12/31/2004
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Health Care cost trend rates - initial	-	-	7.00%	7.00%
Health Care cost trend rates - ultimate	-	-	4.00%	4.00%
Ultimate year	-	-	2007	2007

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Weighted-average assumptions used to determine benefit obligation for the following years ended:

	Pension Benefits		Other Benefits	
	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2004</u>
Discount Rate	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

A one percentage point change in the assumed health care cost trend rates would increase the Accumulated Post Retirement Benefit (APBO) as of December 31, 2005 by approximately \$169,000 or decrease the APBO by approximately \$154,000. Additionally, a one percentage point change in the assumed health care cost trend rates would increase or decrease the net post retirement cost for 2005 by approximately \$40,000 and \$36,000, respectively.

ISO's pension plan and postretirement benefit plan weighted-average asset allocations and expected returns by asset category are as follows:

Pension and Postretirement Plan Assets	Target	Percentage of Plan		Weighted Average
	Allocation	Assets at December 31		
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Rate of Return - 2005</u>
Equity Securities	60%	62%	65%	5.35%
Debt Securities	40%	38%	35%	2.15%
Total	100%	100%	100%	7.50%

The forward-looking estimates of total return are generated through combined assessment of current valuation measures, income, economic growth and inflation forecasts, and historical risk premiums. The long-term bond forecast is derived from the expected long-term return of a portfolio of corporate, government and high yield debt instruments. The equity forecasts are based on the long-term real returns of a portfolio of US large cap, US small cap, international developed markets and emerging markets equity securities.

The Plan's investment portfolio is to be invested to provide benefits for qualified employees of ISO New England. Investments are to be compatible with the liquidity requirements determined by the plan's actuary. An optimal target allocation of 60/40 between equities and fixed income investments is to be kept with an allowance of fifteen percent (15%) over/under deviation from the optimal allocation target.

The Company expects to contribute \$3,767,000 to its pension plan and \$540,000 to its postretirement benefit plan in 2006.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
2006	\$ 778,000	\$ 132,000
2007	851,000	143,000
2008	962,000	158,000
2009	1,111,000	187,000
2010	1,280,000	263,000
Years 2011-2015	<u>9,847,000</u>	<u>2,470,000</u>
Total	<u>\$ 14,829,000</u>	<u>\$ 3,353,000</u>

6. 401(k) Savings Plan:

The Company has a 401(k) Retirement and Savings Plan open to substantially all employees. This savings plan provides for employee contributions up to specified limits. The Company matches employee contributions up to 3% of eligible compensation and provides a 50% match on the next 2% of eligible compensation. The matching contributions for the Company were \$1,344,000 and \$1,131,000 for 2005 and 2004, respectively.

7. Leases

The following is a schedule by year of future minimum rental payments for all noncancelable-operating leases:

2006	\$ 940,000
2007	570,000
2008	<u>42,000</u>
Total minimum lease payments	<u>\$ 1,552,000</u>

The Company currently houses its back-up facilities at a separate location for a nominal annual payment.

Additionally, the Company leases office space in one other building. The additional office space is leased with an initial term of six years with an automatic month-to-month renewal option ending on July 1, 2007.

For fiscal years 2005 and 2004, actual rental payments for operating leases were \$958,000 and \$2,277,000, respectively.