



# **ISO New England Inc.**

**Financial Statements**

**For the Years Ended December 31, 2007 and 2006**

**ISO New England Inc.**  
**Index**  
**December 31, 2007 and 2006**

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	<b>Page(s)</b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 – 15



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## Independent Auditors' Report

The Board of Directors  
ISO New England Inc.:

We have audited the accompanying statements of financial position of ISO New England Inc. as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ISO New England Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, the Company implemented the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefits and Other Post Retirement Plans*, as of December 31, 2007.

**KPMG LLP**

March 18, 2008

**ISO New England Inc.**  
**Statements of Financial Position**  
**For Years Ended December 31, 2007 and 2006**

	2007	2006
	(In thousands)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 49,318	\$ 6,705
Security deposits	290,437	194,474
Unbilled receivable, net	18,671	18,488
Prepaid expenses and other assets	547	895
Regulatory assets – current (Note 1)	2,135	-
Restricted cash on deposit	8,934	26,416
Noncurrent assets:		
Property and equipment in-service, net (Note 3)	74,813	76,193
Work in process (Note 3)	13,720	17,491
Deferred charges (Note 1)	136	151
Regulatory assets, net of current portion (Note 1)	10,887	1,309
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 469,598</u>	<u>\$ 342,122</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable:		
Settlement, net	\$ 40,567	\$ 2,999
Administration	8,890	10,827
Deposits payable	296,674	196,177
Interest payable	1,068	1,143
Revolving credit (Note 4)	6,500	7,182
Accrued compensation	11,588	9,813
Deferred income – current	-	5,305
Restricted cash on deposit payable	8,592	21,553
Long-term debt-current portion (Note 4)	1,820	3,988
Long-term liabilities:		
Deferred income, net of current portion	1,697	-
Pension benefit liability (Note 5)	10,887	-
Long-term debt (Note 4)	81,315	83,135
	<u>          </u>	<u>          </u>
Total liabilities	469,598	342,122
Unrestricted net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 469,598</u>	<u>\$ 342,122</u>

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

**ISO New England Inc.**  
**Statements of Activities**  
**For Years Ended December 31, 2007 and 2006**

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	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
Changes in unrestricted net assets:		
Revenues (Note 1):		
ISO tariff revenues	\$ 115,657	\$ 112,485
Interest income	3,315	2,231
Fees and services	306	222
	<u>119,278</u>	<u>114,938</u>
Total unrestricted revenues		
Expenses:		
General and administrative:		
Salaries and benefits	57,761	54,057
Professional and consultants	14,539	14,660
Rents and leases	633	1,071
Computer services	5,401	4,379
Depreciation and amortization expense	25,571	24,012
Loss on impaired asset (Note 3)	-	3,530
Communication expense	1,471	1,693
Insurance expense	1,660	1,759
NPCC Dues	2,160	1,427
Interest expense	3,886	3,029
Other	6,196	5,321
	<u>119,278</u>	<u>114,938</u>
Total expenses		
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	<u>-</u>	<u>-</u>
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, 2007 and 2006**

	2007	2006
	(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 and amortization expense	25,571	24,012
Loss on impaired asset	-	3,530
Effect of the pension accounting change adoption	10,887	-
(Increase)/decrease in unbilled receivable, net	(183)	2,998
Decrease/(increase) in prepaid expense	348	(259)
(Increase)/decrease in regulatory assets	(11,713)	647
Decrease in swap asset	-	53
Increase/(decrease) in accounts payable:		
Settlement	37,568	(130,115)
Administration	1,072	1,000
(Decrease) in pension benefit liability	-	(1,956)
(Decrease) regulatory liability	-	(53)
Increase in accrued compensation	1,775	791
(Decrease)/increase in interest payable	(75)	62
(Decrease) in deferred income	(3,608)	(2,909)
Net cash provided/(used in) by operating activities	<u>61,642</u>	<u>(102,199)</u>
Cash flows from investing activities:		
Capital expenditures	<u>(23,414)</u>	<u>(41,914)</u>
Net cash used in investing activities	<u>(23,414)</u>	<u>(41,914)</u>
Cash flows from financing activities:		
(Increase) in security deposits	(95,963)	(50,193)
Decrease in restricted cash on deposit	17,482	65,283
(Decrease) in restricted cash on deposit payable	(12,961)	(45,623)
Increase in deposits payable	100,497	51,043
Repayment on long-term debt	(3,988)	(13,833)
(Decrease)/increase in net borrowings on working capital line	(682)	5,214
Net cash provided by financing activities	<u>4,385</u>	<u>11,891</u>
Net increase/(decrease) in cash and cash equivalents	42,613	(132,222)
Cash and cash equivalents, beginning of year	<u>6,705</u>	<u>138,927</u>
Cash and cash equivalents, end of year	<u>\$ 49,318</u>	<u>\$ 6,705</u>
Supplemental data:		
Amounts included in Accounts Payable - Administration related to work in process	<u>\$ 2,558</u>	<u>\$ 5,567</u>
Cash paid during the year for interest, net of interest capitalized	<u>\$ 4,524</u>	<u>\$ 3,612</u>

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

# ISO New England Inc.

## Notes to Financial Statements

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### 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 Inc. 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, 2007 and 2006 were held in overnight repurchase agreements and also in direct and indirect obligations of the United States, with original maturities of three 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 (i) the amounts owed for energy transactions and transmission, for which the ISO functions as paying agent, which are included in accounts payable as "settlement, net," and (ii) 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, and 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 approximately \$8,900,000 and \$26,400,000 at December 31, 2007 and 2006, respectively, recorded as restricted cash on deposit represents the Congestion Revenue Fund and net proceeds from tax-exempt bond financing. The balance is offset by liabilities on the Statements of Financial Position. The restricted cash on deposit at December 31, 2007 and 2006 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, 2007 and 2006 were approximately \$8,900,000 and \$26,400,000, respectively.

**ISO New England Inc.**  
**Notes to Financial Statements**

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**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. 71, “Accounting for the Effects of Certain Types of Regulation” (“FAS 71”) 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 (e.g., computer hardware, software and accessories – three to five years; software development costs – three to five years; furniture and fixtures and machinery and equipment – seven years; building and leasehold/building improvements – ten years or remaining life of the lease; vehicles – three years; building – twenty-five years). Capitalized interest and fees is amortized over the same useful life of the asset to which it pertains, principally software development costs and building. No depreciation is recorded for assets classified as work in process until the assets are placed into service (Note 3).

**Deferred Charges and Regulatory Assets and Liabilities**

The Company applies the provisions of 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. The Company incurred costs with the purchase of land located at Sullivan Road. A portion of these costs, which were deferred, have been included in the current year’s ISO Tariff filing and therefore amortized. The remaining cost, also deferred, will be collected in future tariff filings.

The following table is a detail of the deferred charges and regulatory assets balances as presented in the Statements of Financial Position:

<b>Deferred charges</b>	<b>2007</b>	<b>2006</b>
Land located on Sullivan Road	136,000	151,000
	<u>\$ 136,000</u>	<u>\$ 151,000</u>
<b>Regulatory assets - current</b>	<b>2007</b>	<b>2006</b>
Projected 2007 under collection true-up	826,000	-
2006 under collection true-up	1,309,000	-
	<u>\$ 2,135,000</u>	<u>\$ -</u>
<b>Regulatory assets, net of current portion</b>	<b>2007</b>	<b>2006</b>
Projected 2006 over collection true-up	-	1,309,000
Asset related to pension benefit liability (Note 5)	10,887,000	-
	<u>\$ 10,887,000</u>	<u>\$ 1,309,000</u>

## **ISO New England Inc.**

### **Notes to Financial Statements**

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#### **Income Taxes**

The Company is an entity organized as a non-stock corporation under the General Corporation Law, as amended, of the State of Delaware. In a letter dated November 10, 2004 (the "Determination Letter"), the Internal Revenue Service (the "IRS") determined (i) that the Company is generally exempt from Federal income tax under Internal Revenue Code ("IRC") Section 501(c)(3), and (ii) that contributions to the Company are deductible under IRC Section 170. The Company is in its advance ruling period with respect to its status as a private foundation or a public charity. The Company's advance ruling period ends on December 31, 2008. In the IRS Determination Letter, the IRS stated that, during the advance ruling period, the Company will be treated as a public charity, and not as a private foundation. The Company must submit IRS Form 8734 to the IRS by March 31, 2009, so that the IRS can determine whether the Company has met the requirements of the applicable public charity support test during its advance ruling period. If the Company does not meet the public support requirements, the IRS will classify the Company as a private foundation for future tax periods.

#### **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, 2007 and 2006 were approximately \$290,400,000 and \$194,500,000, 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 costs 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.

#### **Deferred Asset/Income**

Deferred asset/income represents the amount of the ISO Tariff for Schedules 1, 2, and 3 that was over/under collected from 2004 through 2007. 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.

#### **Concentrations**

The Company's top 10 participants represented approximately 51% or \$56,400,000 and 52% or \$55,900,000 in tariff revenues for the years ended 2007 and 2006, respectively. The Company's top 10 participants represented approximately 66% or \$12,300,000 and 68% or \$12,100,000 in accounts receivables as of December 31, 2007 and 2006, respectively.

## **ISO New England Inc.**

### **Notes to Financial Statements**

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#### **Fair Values of Financial Instruments**

The carrying amounts reported in the Statements of Financial Position for assets and liabilities approximate their fair values.

#### **Use of Estimates**

U.S. generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingencies, 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.

**ISO New England Inc.**  
**Notes to Financial Statements**

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**2. Commitments and Contingencies**

**Capital Funding Tariff**

The FERC accepted ISO's "capital funding tariff" ("CFT") filing for 2007 and 2006. 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.

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

	December 31,	
	2007	2006
Computer hardware, software and accessories	\$ 141,445,000	\$ 139,342,000
Software development costs	32,982,000	30,354,000
Furniture and fixtures	2,720,000	2,002,000
Machinery and equipment	64,000	59,000
Building and leasehold/building improvements	44,431,000	32,218,000
Capitalized interest and fees	6,292,000	6,000,000
Vehicles	10,000	10,000
	<u>227,944,000</u>	<u>209,985,000</u>
Less: accumulated depreciation and amortization	(153,131,000)	(133,792,000)
Property and equipment in-service, net	<u>\$ 74,813,000</u>	<u>\$ 76,193,000</u>
Work in process (WIP)	<u>\$ 13,720,000</u>	<u>\$ 17,491,000</u>

Costs represented in WIP includes Forward Capacity Market phase I, which began in 2006 and a number of new projects which began in 2007, such as Forward Capacity Market phase II, Long Term FTR's, Security Enhancements, Compliance & CAPA Tool Project and various other market enhancement projects that have not been placed in service as of December 31, 2007. In accordance with FAS 71, the associated interest cost capitalized for the years ended December 31, 2007 and 2006 was approximately \$559,000 and \$1,095,000, respectively. A portion of which is contained in the work in process balance at December 31, 2007 and 2006 of \$445,000 and \$178,000, respectively. Of the capitalized interest included in WIP for 2007, \$6,000 has been carried over from 2006.

In 2006, the Company reached a settlement agreement with FERC and the Participants in NEPOOL to abandon Locational Installed Capacity Market ("LICAP") in place of a Forward Capacity Market. The result of this settlement necessitated the Company's disposal of assets related to LICAP. This asset disposal resulted in a loss of \$3,530,000 in 2006, and is reflected in "loss of impaired asset" on the accompanying Statements of Activities.

# ISO New England Inc.

## Notes to Financial Statements

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### 4. Credit Facilities

#### **Revolving Credit Arrangement**

In June 2004, the Company entered into a \$15,000,000 revolving credit arrangement, of which the outstanding balances at December 31, 2007 and 2006 were \$6,500,000 and \$7,182,000, respectively. Interest accrues on the revolving credit at either Base Rate or 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 outstanding balance must be paid by this date. The Company is charged an annual fee of .15% on the entire line of credit. For the years ended December 31, 2007 and 2006, the weighted average interest rate is approximately 5.98% and 5.83% respectively.

In June 2004, the Company also entered into a \$4,000,000 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. The outstanding balance at December 31, 2007 and 2006 was \$0 for both years. This arrangement serves as a line of credit to cover any potential payment defaults by a Participant. Interest accrues on the revolving credit at either Base Rate or 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 were no borrowings for the year ended December 31, 2007. For the year ended December 31, 2006 the weighted average interest rate is approximately 8.25%.

#### **Term Loan**

The Company entered into a \$20,000,000 term loan in 2003 and final repayment was made on the first business day in January 2007. The Company entered into a \$43,000,000 term loan in 2001 and a \$24,500,000 term loan in 2003, both of which have been paid off as of December 31, 2006. For the years ended December 31, 2007 and 2006, the weighted average floating interest rate is approximately 0% and 4.44%, respectively.

#### **Private Placement Debt Arrangement**

In September 2004, the Company entered into a \$39,000,000 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 and interest accrues bi-annually. This loan is included in long-term debt on the Statements of Financial Position.

#### **Tax-Exempt Bond Financing**

In February of 2005, the Company entered into tax exempt financing of \$45,500,000 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 of \$455,000 paid quarterly, began in May 2007 with the final repayment due on February 1, 2032. Interest accrues quarterly 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 two basis points. For the years ended December 31, 2007 and 2006, the weighted average floating interest rate is approximately 3.66% and 3.46%, respectively.

## ISO New England Inc.

### Notes to Financial Statements

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The total long-term debt at December 31, 2007 and 2006 was \$83,100,000 and \$87,100,000, respectively. Principal payments on the private placement debt, and tax-exempt bonds are due annually as follows:

2008	\$ 1,820,000
2009	1,820,000
2010	1,820,000
2011	1,820,000
2012	1,820,000
Thereafter	74,035,000
	<u>\$ 83,135,000</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, 2007 and 2006.

Interest incurred on the revolving credit, the term loans, private placement debt, and tax-exempt bonds for the years ended December 31, 2007 and 2006 was approximately \$4,513,000 and \$3,834,000, respectively. Interest capitalized from the term loans and private placement debt for the years ended December 31, 2007 and 2006 was approximately \$627,000 and \$805,000, respectively.

#### **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 (one for union and the other for nonunion employees), each of which is funded solely by Company contributions. Benefits are determined based on years of service and average compensation.

The Company sponsors two defined benefit postretirement plans (one for union and the other for nonunion employees), which provide medical, dental and life insurance benefits for 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. The measurement date used to determine pension and other postretirement benefit obligations for the pension plans and the postretirement benefit plan is December 31.

The Company has adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("FASB 158"). FASB 158 requires the booking of an asset, if the plan is over funded or a liability, if the plan is under funded, rather than disclosing the funded status in a note to the financial statements. The amount recorded is the difference between the fair value of plan assets and the benefit obligation. FASB 158 is effective for the Company at the end of the fiscal year ending after June 15, 2007 and the Company adopted the provision for the year ended December 31, 2007.

**ISO New England Inc.**  
**Notes to Financial Statements**

The following table sets forth the plans' benefit obligations, fair value of the plans' assets, and the plans' funded status:

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,		Years Ended December 31,	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 52,003,000	\$ 47,544,000	\$ 5,097,000	\$ 3,985,000
Service cost	3,392,000	3,329,000	665,000	577,000
Interest cost	2,976,000	2,618,000	340,000	226,000
Benefits paid	(1,194,000)	(923,000)	(212,000)	(144,000)
Change in plan provisions	-	-	(18,000)	-
Plan participants' contributions	-	-	29,000	19,000
Actuarial (gain) loss	311,000	(565,000)	860,000	434,000
Benefit obligation at end of year	<u>57,488,000</u>	<u>52,003,000</u>	<u>6,761,000</u>	<u>5,097,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	42,763,000	35,247,000	5,066,000	4,075,000
Actual return on plan assets	2,446,000	4,675,000	262,000	551,000
Employer contributions	3,433,000	3,764,000	769,000	565,000
Plan participants' contributions	-	-	29,000	19,000
Benefits paid	(1,194,000)	(923,000)	(212,000)	(144,000)
Fair value of plan assets at end of year	<u>47,448,000</u>	<u>42,763,000</u>	<u>5,914,000</u>	<u>5,066,000</u>
Funded status at end of the year	(10,040,000)	(9,240,000)	(847,000)	(31,000)
Transition obligation	-	937,000	-	586,000
Net actuarial (gain) loss	-	8,274,000	-	(639,000)
Prior service cost	-	29,000	-	84,000
Net amount recognized as non-current liabilities	<u>\$(10,040,000)</u>	<u>\$ -</u>	<u>\$(847,000)</u>	<u>\$ -</u>

The 2007 pension liability was recorded based upon requirements of FAS 158, whereas, 2006 pension liability was classified based upon the requirements of FAS 87. The Company has determined that the pension liability is probable of recovery through the ISO Tariff and has recorded a regulatory asset as of December 31, 2007.

As of December 31, 2006, since the fair value of the plan assets exceeded the accumulated benefit obligation no minimum pension liability is required. The accumulated benefit obligation was \$41,271,000, the projected benefit obligation was \$52,003,000, and the fair value of plan assets was \$42,763,000 as of December 31, 2006.

**ISO New England Inc.**  
**Notes to Financial Statements**

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	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>Years ended December 31,</b>		<b>Years ended December 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Components of net periodic benefit cost:				
Service cost	\$ 3,392,000	\$ 3,329,000	\$ 665,000	\$ 577,000
Interest cost	2,976,000	2,618,000	340,000	225,000
Expected return on plan assets	(3,290,000)	(2,756,000)	(397,000)	(320,000)
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	228,000	446,000	-	-
Amortization of unrecognized Prior Service Cost	2,000	2,000	51,000	51,000
Amortization of unrecognized gain	-	-	0	(24,000)
Net periodic benefit cost	<u>\$ 3,433,000</u>	<u>\$ 3,764,000</u>	<u>\$ 715,000</u>	<u>\$ 565,000</u>

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>Years ended December 31,</b>		<b>Years ended December 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Prepaid benefit cost at beginning of year	\$ -	\$ -	\$ -	\$ -
Employer contributions	3,433,000	3,764,000	769,000	565,000
Net periodic benefit cost	<u>(3,433,000)</u>	<u>(3,764,000)</u>	<u>(715,000)</u>	<u>(565,000)</u>
Prepaid benefit cost at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,000</u>	<u>\$ -</u>

The following table sets forth the amount expected to be amortized into net periodic benefit cost over the next fiscal year ending December 31, 2008:

	<b><u>Pension Benefits</u></b>	<b><u>Other Benefits</u></b>
Expected amortization of transition obligation	125,000	56,000
Expected amortization of net actuarial loss	235,000	-
Expected amortization of prior service cost	2,000	15,000

## ISO New England Inc. Notes to Financial Statements

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	
	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
Discount rate	5.75%	5.50%	5.75%	5.50%
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	-	-	8.00%	5.00%
Health Care cost trend rates - ultimate	-	-	5.00%	4.00%
Ultimate year	-	-	2010	2007

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

	Pension Benefits		Other Benefits	
	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
Discount Rate	5.75%	5.75%	5.75%	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 either increase the Accumulated Post Retirement Benefit (“APBO”) as of December 31, 2007 by approximately \$304,000 or decrease the APBO by approximately \$277,000. Additionally, a one percentage point change in the assumed health care cost trend rates would increase or decrease the net post retirement cost for 2007 by approximately \$62,000 and \$55,000, 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		Weighted Average Expected Long-Term Rate of Return - 2008
	Target Allocation	Percentage of Plan Assets at December 31	
	<u>2008</u>	<u>2007</u> <u>2006</u>	
Equity Securities	60%	59%      60%	5.10%
Debt Securities	40%	41%      40%	2.40%
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 Inc. 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.

**ISO New England Inc.**  
**Notes to Financial Statements**

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The Company expects to contribute \$3,570,000 to its pension plan and \$749,000 to its postretirement benefit plan in 2008.

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

	<u>Pension Benefits</u>	<u>Other Benefits</u>
2008	\$ 1,248,000	\$ 307,000
2009	1,355,000	342,000
2010	1,507,000	420,000
2011	1,648,000	505,000
2012	1,899,000	553,000
Years 2013-2017	<u>13,321,000</u>	<u>4,083,000</u>
Total	<u>\$ 20,978,000</u>	<u>\$ 6,210,000</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 \$1,508,000 and \$1,427,000 for 2007 and 2006, respectively.

**7. Leases**

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

2008	46,000
2009	46,000
2010	46,000
2011	<u>27,000</u>
Total minimum lease payments	<u>\$165,000</u>

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

Additionally, the Company was leasing office space in one other building. The lease had an initial term of six years with an automatic month-to-month renewal option ending on July 31, 2007. The company terminated this lease on July 1, 2007, paying an early termination payment of \$37,000, representing 50% of the last month's rent.

For fiscal years 2007 and 2006, rental payments for operating leases were \$511,000 and \$944,000, respectively.