



2009 Financial Report

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Letter from the CEO

ISO New England is pleased to present its *2009 Financial Report*. The document includes our audited financial statements prepared by independent public accounting firm KPMG LLP, preceded by Management's Discussion and Analysis (MD&A). The MD&A provides an overview of last year's operations and explains the impacts on our financial position.

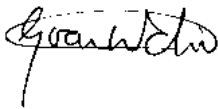
Departing from our traditional format, the company has published separately a *2010 Regional Electricity Outlook*. That report, available in hard copy and on our Web site, identifies the risks and complexities confronting the region's electricity industry and options and strategies for addressing those challenges.

The industry is experiencing a significant rate of change, driven by federal and state policy combined with rapid technological innovation and a desire by consumers and investors to push toward cleaner energy resources. ISO New England, in collaboration with regional stakeholders, has recently completed several major initiatives and has many more underway to help fulfill evolving reliability and environmental expectations. As always, we strive to accomplish these goals and perform our extensive day-to-day responsibilities while ensuring that our business operations are well-managed and fiscally responsible.

As a not-for-profit, our company largely measures success through our ability to provide quality outcomes in our services, resulting in high levels of customer satisfaction. We also are dedicated to being efficient and responsive and place great emphasis on controlling costs, accountability and transparency, and maintaining strong internal controls. This is evident in our ability to develop a responsible annual budget with the support of our stakeholders.

On behalf of ISO New England, I thank industry participants, state officials, consumers, and other electricity stakeholders for a productive year in 2009. I look forward to working with you to tackle the tough challenges ahead in bringing about further progress for the region.

Sincerely,



Gordon van Welie
President and Chief Executive Officer

Management's Discussion and Analysis

The Company

ISO New England Inc. (the ISO) is a regional transmission organization serving Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. The ISO meets the electricity demands of the region's economy and people by fulfilling three primary responsibilities:

- Minute-to-minute reliable operation of New England's bulk electric power system, providing centrally dispatched direction for the generation and flow of electricity across the region's interstate high-voltage transmission lines and thereby ensuring the constant availability of electricity for New England's residents and businesses.
- Development, oversight, and fair administration of New England's wholesale electricity marketplace, through which bulk electric power has been bought, sold, and traded since 1999. These competitive markets provide positive economic and environmental outcomes for consumers and improve the ability of the power system to meet ever-increasing demand efficiently.
- Management of comprehensive bulk electric power system and wholesale markets' planning processes that address New England's electricity needs well into the future.

The ISO 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 Internal Revenue Service (the IRS) determined that (i) the ISO is generally exempt from Federal income tax under Internal Revenue Code Section 501(c)(3), and (ii) contributions to the ISO are deductible under Internal Revenue Code Section 170. Prior to November 2004, the ISO was recognized as a 501(c)(4) organization.

The ISO elected to update its filing with the IRS for the change in status in order to secure the most cost-effective financing for upgrading its control center and consolidation of facilities, all of which was completed in 2007. The change in status of the organization enabled the financing of the new building using tax-exempt debt.

The ISO's advance ruling period, as defined in the IRS' November 10, 2004 letter, ended on December 31, 2008. On November 10, 2008, the IRS issued a letter to the company stating that donors can rely on the company's current advance ruling letter.

Current Environment

ISO New England has identified numerous priorities for 2010 and beyond that correspond to its three core objectives. ISO New England fulfills these responsibilities while ensuring that its business operations are well-managed, cost-effective, and responsive to New England's market participants, state officials, and other electricity stakeholders.

Each year, ISO New England creates a work plan that highlights various projects and initiatives. This work plan is developed based on input from ISO management and discussion with stakeholders as a part of the business planning and budget processes. After its development, the work plan is presented to stakeholders to gain consensus on key priorities for the year, which then transitions into the budgeting process.

Projects and initiatives for 2010 can be categorized by three types: Planning and Operations; Wholesale Markets; and, Capital Project Plans. New among initiatives for 2010 are enhancements to the planning process to include consideration of non-transmission alternatives; participation in the Eastern Interconnection Planning Collaborative; development of smart grid standards; implementation of the synchrophasor project with matching U.S. Department of Energy funds; integration of wind resources; a focus on compliance; and, guideline development of quantitative and qualitative analyses of major ISO initiatives.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires: (1) management to make estimates and assumptions that affect the reported amounts of assets and liabilities, (2) disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amounts of revenues and expenses during the reported period. Significant items subject to such estimates and assumptions include: the useful lives of fixed assets; pension and postretirement benefits including earnings rates, discount rates, healthcare cost trends and reserve for employee benefit obligation; and other contingencies. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Accounting Policies

The Fair Value Measurement Topic of the Financial Accounting Standards Board Accounting Standards Codification defines fair value, establishes guidelines for measuring fair value, and expands disclosures about fair value measurements. This Fair Value Measurement Topic does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The ISO has evaluated the impact of this Topic and has determined that it has no material impact on the Statements of Financial Position and Statements of Activities.

The Fair Value Option for Financial Assets and Financial Liabilities Topic of the Financial Accounting Standards Board Accounting Standards Codification gives entities the option to measure many financial instruments and certain other items at fair value. The ISO has elected to forgo the fair valuing of financial assets and financial liabilities for the year-ended December 31, 2009, and believes that this decision has no material impact on the financial statements.

In compliance with the Subsequent Event Topic of the Financial Accounting Standards Board Accounting Standards Codification, issued in May 2009, the ISO considered and determined that no events or transactions occur after the Statements of Financial Position, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

In June 2009, the Financial Accounting Standards Board issued an Accounting Standards Update on Codification. The Codification does not change U.S. generally accepted accounting principles. Rather, it combines into a comprehensive, topically organized online database all authoritative standards issued by organizations that are in levels A through D of the generally accepted accounting principles hierarchy, such as the Financial Accounting Standards Board, American Institute of Certified Public Accountants, and Emerging Issues Task Force. No accounting impact is expected since this is an accumulation of existing guidance. The Codification became effective September 30, 2009. The ISO implemented Sarbanes Oxley 302 (SOX 302) compliance in 2003. SOX 302 is a set of internal procedures designed to ensure accurate financial disclosure and to ensure that material information relating to the ISO is made known to its signing officers. In 2009, the ISO added a

critical vendor matrix to its SOX 302 disclosure. This matrix, prepared by the Vice President of Information Services and the Chief Operating Officer, identifies those companies that provide very specialized goods or services to the ISO. The critical vendor matrix includes the identification of the risk as well as a mitigation plan for the risk, where applicable. The ISO also developed disclosure checklists which represent the essential internal controls for maintaining financial accuracy. The disclosure checklists are completed quarterly by department managers, senior officers, and the Chief Executive Officer (CEO). The Chief Financial Officer (CFO) reports the results of the disclosures and matrices quarterly to the Audit & Finance Committee of the Board of Directors. The Audit & Finance Committee requires that the SOX 302 disclosure be reviewed by them prior to the release of the quarterly unaudited financial statements.

Tariff Recovery

Each year since its inception, the ISO has filed with the Federal Energy Regulatory Commission (FERC) a new tariff to recover each of its operating costs and its capital expenditure program for the subsequent year. The ISO's Administrative Costs Services Tariff and Capital Funding Tariff recovery start with the annual budgeting process. In preparing the budgets, which ultimately become the revenue requirement collected under the Administrative Costs Services Tariff and the anticipated capital expenditures, the ISO goes through a rigorous process to ensure that the budgets submitted to stakeholders for review and FERC for approval are in line with the initiatives and goals the ISO has established for the upcoming year and are just and reasonable.

The planning and budget process occurs throughout the year leading up to the budget year. Senior Management begins to develop the business plan at the beginning of the preceding year and reviews the plan with the ISO's Board of Directors as well as the stakeholders prior to establishing the budgets. In the spring and summer, the ISO typically meets with the New England Power Pool (NEPOOL), New England Conference of Public Utilities Commissioners, the New England States Committee on Electricity, other state officials, and other interested stakeholders, to obtain feedback from them for input into the business plan and ultimately the budgets.

The budgets are constructed based on the business plan initiatives for the upcoming year as well as future years. The ISO's department managers are responsible for submitting their budgets by a specified due date in July of each year. The budgets are reviewed by the Senior Managers including the CFO and CEO. Budgets are then adjusted as a result of the senior staff review. The ISO prepares a comprehensive presentation for review and amendment by the ISO's Audit & Finance Committee. The presentation includes information including the budget process, new initiatives, summarized budget data, budget details, depreciation and interest rates, the capital budget with explanations for each project, cash flow and pro forma financial projections for future years, and comparison of cost data and services provided by other Independent System Operators and Regional Transmission Organizations.

Subsequent to the meeting with the Board Audit & Finance Committee, the budgets are presented in August to the NEPOOL Budget and Finance Subcommittee for review, input, and recommendation to the NEPOOL Participants Committee, which reviews and votes on the budget at its October meeting. During this time, the ISO solicits input on the budget from state officials. The ISO's full Board of Directors must then approve the budgets in October of each year before they are considered complete and ready for filing with FERC.

The administrative costs budget and the capital budget that are approved by the NEPOOL Participants Committee and the Board of Directors provide the basis for the Administrative Costs Services Tariff and Capital Funding Tariff that are filed with FERC on November 1 of each year. Pursuant to the

Tariff, the ISO recovers its operating costs via the following three tariff schedules: Schedule 1 is for Scheduling, System Control, and Dispatch Service; Schedule 2 is for Energy Administration Service; and Schedule 3 is for Reliability Administration Service. Each year during the budget completion process, department managers allocate their budgeted costs by activity. Each activity has an allocation to the three schedules. An activity can be attributable to one, two, or all three tariff schedules. This process allows the ISO to compile the applicable year's budget broken down by the three tariff schedules. The costs applicable to each schedule or set of activities become the revenue requirement for that schedule. The costs are then allocated to market participants based on the billing determinants that comprise the collection of the revenue requirement for that schedule, to arrive at the billable rates. The billing determinants are both volumetric and transactional unit based, depending on the schedule.

Since actual costs will vary from the budgeted costs, as well as the projected billing determinants, the Administrative Costs Services Tariff contains a true-up provision. The true-up provision is a two-step process whereby an estimate of any over- or under-collections for a year are included in the subsequent year's filing, and the final over- or under-collection is included in the filing two years later. The adjustments for the true-up either increase or decrease the cost recovery in the year of the filing.

Liquidity and Capital Resources

As a non-stock, non-profit organization, the ISO has neither equity nor any accumulated reserves. In order to fund its working capital needs, the ISO has a \$15 million line of credit provided by a bank. In addition, the ISO has a \$4 million line of credit provided by a bank that is used to support shortfall payments under the ISO New England Billing Policy. In July of 2009, the ISO refinanced the expiring lines of credit for a new three-year term, which will expire on July 1, 2012. The Capital Funding Tariff is the backstop to all of the ISO's borrowings in the event that any of the debt repayments are accelerated.

As discussed above, the ISO files an annual Capital Funding Tariff for approval of capital spending for the upcoming year. In 2004, the ISO completed a ten-year plan of funding for future capital expenditures. The program included funding for an average of \$20-\$24 million in capital spending for the next ten years. The ISO reviewed many financing options that were available to cost-effectively meet the needs of the spending program. As a result, the ISO issued ten-year Private Placement fixed rate notes in the amount of \$39 million and discontinued its practice of securing new term-loan debt each year. The fixed rate for the private placement debt is 5.6%. By issuing the ten-year notes, the ISO saves the cost of borrowing new money each year, as well as the cost of filing with FERC, and instills budgetary discipline in the capital expenditure program. As projects are placed in service and begin to depreciate, the depreciation expense is recovered under the Administrative Costs Services Tariff and becomes available for funding future capital spending requirements.

As noted above, in 2005, the ISO secured \$45.5 million of tax-exempt debt to finance its new control center and renovate and consolidate its existing office facilities. The debt is comprised of Multi-Mode Variable Rate Civic Facility Revenue Bonds, which re-price weekly. The bonds were issued by the Massachusetts Development Finance Agency and are being repaid over 25 years. The current weekly interest rate is .22%. The weighted average cost of the debt for 2009, including the direct pay letter of credit, was 1.98%.

FERC Audit of Form 1 and 3Q

In November 2008, the FERC Division of Audits in the Office of Enforcement, through the normal course of business, began an audit to evaluate the ISO's compliance with FERC's accounting regulations contained in the Uniform System of Accounts at 18 C.F.R. Part 101 (2008), the financial reporting requirements contained in the FERC Form Nos. 1 and 3-Q, and related regulations. The audit, which is on FERC Docket number FA09-6-000, covered the period from January 1, 2007, to September 30, 2008, and was completed in May 2009. FERC issued the final audit report on August 24, 2009. There was one finding, which was a result of the pension liability being improperly reported in Account 254, rather than Account 228.3. The ISO has corrected the misclassification and added some additional controls over proper classification of line items to FERC accounts.

Regulatory Update

On the federal level, legislation is under consideration to mandate national renewable portfolio standards and transmission planning requirements and to limit carbon emissions. In addition, the U. S. Department of Energy (DOE) has awarded a grant to the entity established to conduct interconnection-wide transmission planning for the Eastern Interconnection. As a key participant in this entity, the ISO is required to provide ongoing information about the current and future state of New England's transmission system, participate in an array of stakeholder meetings, and report the progress of the effort to New England stakeholders including numerous state regulatory authorities.

Separately, the ISO has also received a grant from DOE to implement smart grid technologies on the New England transmission system. Working in collaboration with the region's transmission companies, ISO information technology engineers will design and implement the installation of several phasor measurement units aimed at gathering large quantities of data from the transmission system that can be used by system operators to enhance reliable and efficient operations. Both of the Department of Energy grants will be implemented over a three-year period and will require significant reporting to DOE.

Results of Actual Operations

The following table summarizes the actual amounts and percentage of total expenses for the years ended December 31, 2009 and 2008:

Table 1
Actual Amounts and Percentage of Total Expenses

Year Ended December 31,	2009	2009	2008	2008
Salaries and benefits	\$ 66.9	54.2%	\$ 60.2	50.0%
Depreciation and amortization expense	23.2	18.8	26.5	22.0
Professional and consultants	12.4	10.0	12.9	10.7
Computer services	4.7	3.8	5.7	4.7
Northeast Power Coordinating Council dues	4.0	3.2	2.5	2.1
Interest expense	2.2	1.8	2.8	2.3
Communication expense	1.8	1.5	1.7	1.4
Insurance expense	1.7	1.4	1.7	1.4
Utilities	1.0	0.8	1.0	0.8
Board of Directors	0.9	0.7	0.9	0.7
Building services	0.9	0.7	0.9	0.7
Other	3.8	3.1	3.8	3.2
Total	\$ 123.5	100.0%	\$ 120.6	100.0%

Total expenses increased by \$2.9 million or 2.4% in 2009 over 2008. Expenses net of depreciation, amortization, and interest increased \$6.8 million or 7.4% in 2009 over 2008. Changes resulted primarily from the following factors:

- Salaries and benefits increased \$6.7 million or 11.1% in 2009. The increase was primarily due to an increase in pension and postretirement benefit expenses, cost of living increases, and increased headcount to support new initiatives such as transmission planning, demand-resource integration, compliance with new North American Electric Reliability Corporation (NERC) and FERC standards, and Forward Capacity Market.
- Depreciation and amortization expense decreased by \$3.3 million or 12.5% in 2009. The variance was a result of the Ancillary Services Reserve Market, Web Architecture Redesign, and the Enterprise Application Integration Infrastructure Readiness Projects all being fully depreciated in late 2008 and early 2009.
- Computer Services decreased by \$1.0 million or 17.5% in 2009. This decrease was due in large part to the non-recurrence of one time purchases made in 2008, most notably, restructuring of certain licensing arrangements and less reliance on external maintenance support.

- Northeast Power Coordinating Council dues increased \$1.5 million or 60.0% in 2009 due to an increase in that organization’s budget as well as a change in the dues assessment method, resulting in a higher pro rata share to the ISO. For 2010, the allocation method was changed back to its historical method.
- Interest expense decreased in 2009 by \$600,000, primarily due to lower interest rates on the tax-exempt debt.

Capital Spending

FERC approved capital expenditure budget for 2009 was \$24.5 million. Actual spending was under budget by \$687,100.

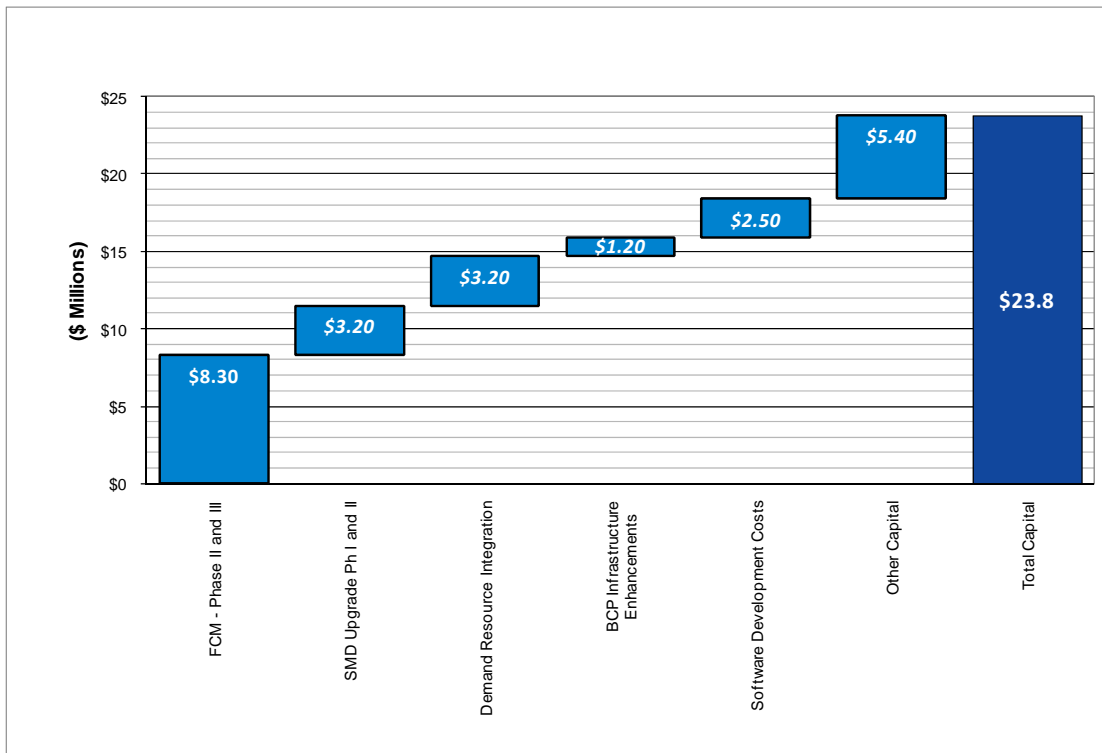


Figure 1: 2009 capital spending.

Major projects in 2009 included:

Forward Capacity Market (FCM) Phases II and III. Phase II of FCM covered the work necessary to implement features of FCM, including reconfiguration auctions, bilateral transaction functionality, and the registration and management of FCM resources. This phase encompassed changes to the Financial Assurance software, and the Forward Capacity Tracking and Customer Asset Management Systems. The primary focus of the FCM Phase III project, which is expected to be complete in the second quarter of 2010, is the implementation of an FCM settlements system, measurement of resource performance, Reconfiguration Auctions, Bilateral Transactions, and associated Financial Assurance provisions. Combined, these projects totaled \$8.3 million in 2009.

Standard Market Design (SMD) Upgrade Phases I and II. Phase I introduced new technology known as Mixed Integer Programming Solution. The implementation of this technology has improved the

efficiency of the commitment in the Day-Ahead Market and Resource Adequacy Analysis process and significantly enhanced the capability to respond to future modeling needs. Phase I also encompasses the addition of new platform technology for the Simultaneous Feasibility Test application used in the Day-Ahead and Financial Transmission Rights markets. Phase I was complete in the second quarter of 2009. Phase II of this project enhanced and upgraded core elements such as user interfaces, underlying databases, architecture, and certain applications like day-ahead unit commitment. The project also enabled the ISO to manage the risk of technology obsolescence, meet increased performance requirements, and provide more flexibility. Phase II will be complete in the second quarter of 2010 and, together, costs for these projects are estimated to be \$3.2 million.

Demand Resource Integration. Under FCM, demand response, energy efficiency, and other demand resources are treated as capacity. Therefore, the Demand Resource Integration project is focused on integrating demand resources into the ISO's system planning, system and market operations, and information technology systems. This is a multi-year project spanning 2008-2010. Spending for 2009 was \$3.2 million.

Business Continuity Plan Infrastructure Enhancements. This is a multi-phase project estimated to cost \$2.4 million for phases I and II. This project will significantly upgrade and enhance the Business Continuity Plan infrastructure, in order to maintain a high level of reliability and comply with emerging NERC requirements. The upgrade also will improve overall utilization of the Backup Control Center by having real-time Energy Management System and markets data on-line for increased systems redundancy, thereby reducing the time to restore applications to service from a backup. The first phase of this project is expected to be complete in the third quarter of 2010, and \$1.2 million was invested in phase I in 2009.

Software Development Costs. In addition to the major projects described above, the ISO incurred \$2.5 million in software development costs. These costs supported a multitude of enhancements to existing software systems.

Other. Many additional capital projects were undertaken in 2009, all of which enhanced the functionality of existing systems or implemented new technology to gain efficiencies. Examples of these projects include Outage Coordination Economic Analysis, Baseline Telemetry System, and Market Monitoring Enhancements.

Risks

The ISO is exposed to financial risk in the three primary areas of interest rates, legal, and regulatory. The ISO has historically included in its annual budget two contingency funds to address unknown costs—a CEO Emerging Work allowance of \$700,000 and a Board Contingency of \$1.0 million. These contingencies typically represent a combined 1.0% to 1.5% of the total amount to be recovered each year under the Administrative Costs Services Tariff. The CEO emerging work allowance is used as part of the normal course of business and disbursements are controlled by the CFO and CEO. The Board contingency has never been utilized and is subject to use only through Board approval. Since the ISO does not have any capital to draw upon for unknown expenses, these two contingencies are necessary for the ISO to operate efficiently.

A changing interest rate environment can impact the costs of the ISO in several ways. Specifically, as discussed below, the ISO earns interest on the settlement funds it collects from market participants, pays a floating interest rate on its tax exempt bonds, and uses interest rate assumptions in establishing costs for its pension and postretirement benefit plans.

Historically the average float in the settlement account has been consistently higher than the outstanding principal of the tax-exempt debt and therefore, an effective hedge against interest expense rates. A decrease in settlement float will negatively impact the hedge against increasing interest rates. However, in 2009, the gap between the settlement float and the outstanding tax-exempt debt shrunk dramatically, from an average in 2008 of 36% to 11% in 2009. The low interest income rates experienced at the end of 2008 have persisted throughout 2009, which has continued to negatively impact this hedge mechanism -- however, not to the extent that it is no longer effective. In addition, the margin between the tax-exempt rates and the taxable rates has shrunk in the second half of 2009, to become almost non-existent. The ISO regularly analyzes the variable interest rate environments to ensure that its debt structure is as cost-effective as possible.

Interest rates are also used in the discount rate assumptions for establishing the costs associated with the pension and postretirement plans. A decrease in rates will increase costs.

The ISO also has an exposure to costs resulting from litigation. The ISO does not budget for unforeseen litigation costs during the normal budgeting process. Therefore, any material unexpected litigation that arises during the course of the year would pose a risk to the ISO's ability to operate within the approved budget.

The ISO is always subject to new regulatory orders issued by FERC and NERC. If the ISO is not aware of the new requirement when the budget is prepared and submitted for approval to FERC, the ISO could be at risk for any additional cost associated with the new requirement.

Billing and Credit

The ISO is responsible for billing related to the wholesale electricity markets for New England's bulk power generation and transmission system, as well as ensuring that proper measures are in place to mitigate participants' exposure to credit risk from transacting in the ISO's administered markets.

Prior to July 2004, the ISO issued invoices on a monthly basis for all market services. This resulted in unpaid financial obligations extending to as many as 50 days. As of July 2004, energy market activity, which represents more than 80% of the dollars cleared in the ISO's markets, has been billed on a weekly basis. The change to weekly billing, along with revisions to the billing policy in early 2009 to allow for separate billing of the Day-Ahead and Real-Time energy markets from the other hourly markets and shortening the time to pay the invoices by one day, reduced that unpaid exposure for hourly markets by about two-thirds to approximately 14 days. The change to weekly billing and these other changes have produced a reduction in credit risk, and the ISO amended its financial assurance policies to accommodate for the reduced risk. Currently, the reduction of a single day's worth of hourly market credit risk would permit a reduction in financial assurance requirements of approximately \$17 million.

The ISO believes further opportunities exist to reduce the credit risk for market participants. The ISO is continuing to work closely with its participants to reduce the settlement cycle time by shortening the billing and payment cycle.

In early 2009, the ISO and the participants agreed in principal to implement significant modifications to the Financial Assurance and Billing Policies that would serve to further limit participants' exposure in case of a payment default by a market participant. The principal elements of this initiative are: further shortening the settlement cycle by moving from weekly billing of hourly charges to twice

weekly billing; elimination of the extension of unsecured credit for market participants that do not serve retail load at government-established rates; distinction between the ISO serving as a clearing agent for energy market activity and performing as a billing and collection agent largely for the Transmission Owners; reallocating the costs of defaults where unsecured credit is still used; segregating the billing and collateralization of transmission charges from other ISO charges; and improving the quality of security that is provided. The changes were approved at the June 5, 2009 NEPOOL Participants Committee meeting and the amendments were filed with FERC on March 26, 2010, with an implementation date no earlier than December 1, 2010.

Various Market Services and Participation Data

The following table compares key settlement market information for the years ended 2008 and 2009 related to the markets that the ISO oversees.

**Table 2
Settlement Market Information**

Key Settlement Market Data for the Year's Ended: ^(a)	2009	2008
	\$ in Millions	
Energy Markets		
Day-Ahead Energy	\$5,927	\$12,457
Real-Time Energy	(\$9)	(\$274)
Total Energy Markets	<u>\$5,918</u>	<u>\$12,183</u>
Real-Time Load Obligation (Mwh) ^(b)	135,296,095	143,017,753
Net Commitment Period Compensation (NCPC)	<u>\$56</u>	<u>\$257</u>
Total NCPC	<u>\$56</u>	<u>\$257</u>
Reserve Markets		
Forward Reserve Markets, Net	\$144	\$171
Real-Time Reserve Markets	\$6	\$16
Total Reserve Markets	<u>\$150</u>	<u>\$187</u>
Regulation Market	<u>\$23</u>	<u>\$51</u>
Total Regulation Market	<u>\$23</u>	<u>\$51</u>
ICAP Transition Payments	<u>\$1,767</u>	<u>\$1,505</u>
Total ICAP Transition Payments	<u>\$1,767</u>	<u>\$1,505</u>
Financial Transmission Rights - Long Term Auction	\$57	\$75
Financial Transmission Rights - Monthly Auction	\$14	\$42
Total Auction Revenue Rights	<u>\$71</u>	<u>\$117</u>
OATT Charges		
RNS/TOU	\$1,077	\$803
Black Start	\$10	\$10
VAR Capacity Cost	\$23	\$25
Total OATT Charges	<u>\$1,110</u>	<u>\$838</u>
Demand-Response Payments	<u>\$5</u>	<u>\$16</u>
Total Demand-Response Payments	<u>\$5</u>	<u>\$16</u>

(a) Data shown in the table above reflects settled operational days January 1 through December 31 of the respective years.

(b) The Real-Time Load Obligation shown in the table above reflects load at all pricing locations in New England, including Exports at the external nodes.

The ISO's aggregate customer base has remained essentially at the same level year over year, with customers totaling 430 in 2009 and 423 in 2008. The ISO's customers include generators, suppliers, publicly owned entities, transmission owners, demand response resources, alternative resources and end users. The cash cleared in 2009 was \$5.7 billion compared to \$9.9 billion in 2008, which is a decrease of approximately 42%. A similar reduction has also been seen in many areas that are indicators of the cash that clears through the ISO. For example, the total cost of electric energy fell approximately 50% and prices for all major fuel types were lower in 2009, with natural gas prices dropping 54%. The following chart depicts the cash clearing amounts since inception of the ISO.

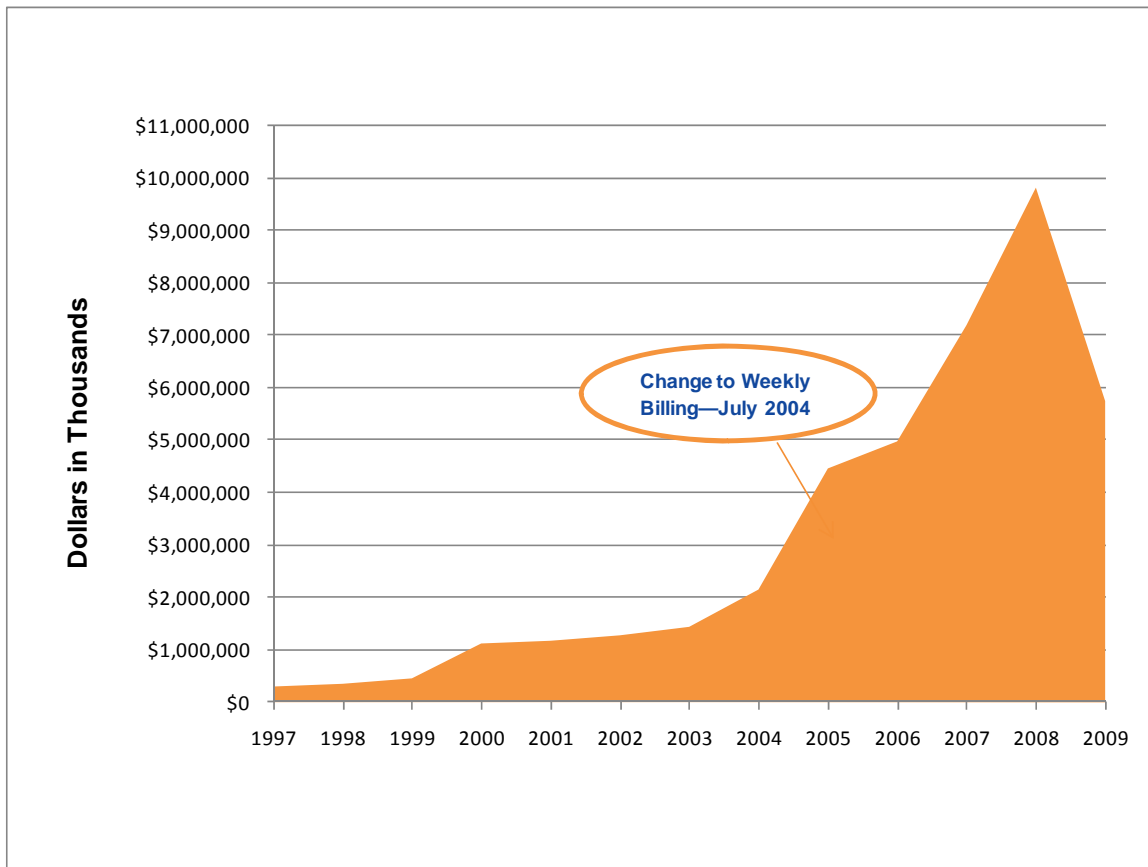


Figure 2: Annual historical market clearing activity.

Note: 1997 & 1998 are estimated data.

ISO New England Inc.

Financial Statements

For the Years Ended December 31, 2009 and 2008

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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, 2009 and 2008, 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 also 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, 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 17, 2010

ISO New England Inc.
Statements of Financial Position
For Years Ended December 31, 2009 and 2008

	2009	2008
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 140,846	\$ 114,192
Security deposits	324,250	274,389
Unbilled receivable, net	20,372	21,285
Prepaid expenses and other assets	1,443	389
Regulatory assets – current (Note 1)	4,161	-
Restricted cash on deposit	1,798	18,659
Noncurrent assets:		
Property and equipment in-service, net (Note 3)	62,658	64,059
Work in process (Note 3)	20,700	18,886
Deferred charges (Note 1)	106	121
Regulatory assets, net of current portion (Note 1)	17,821	26,980
	<u>594,155</u>	<u>538,960</u>
Total assets	\$	\$
Liabilities and Net Assets		
Current liabilities:		
Accounts payable:		
Settlement, net	\$ 139,089	\$ 105,373
Administration	4,762	6,106
Deposits payable	331,422	281,902
Interest payable	830	886
Revolving credit (Note 4)	5,000	-
Accrued compensation	11,436	12,428
Deferred income – current	-	4,953
Restricted cash on deposit payable	1,798	18,659
Long-term debt - current portion (Note 4)	1,820	1,820
Long-term liabilities:		
Deferred income, net of current portion	2,502	358
Pension and post retirement benefit liability (Note 5)	17,821	26,980
Long-term debt (Note 4)	77,675	79,495
	<u>594,155</u>	<u>538,960</u>
Total liabilities	594,155	538,960
Unrestricted net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	\$ <u>594,155</u>	\$ <u>538,960</u>

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

ISO New England Inc.
Statements of Activities
For Years Ended December 31, 2009 and 2008

	2009	2008
	(In thousands)	
Changes in unrestricted net assets:		
Revenues (Note 1):		
ISO tariff revenues	\$ 122,829	\$ 118,457
Interest income	303	1,776
Fees and services	413	338
	<hr/>	<hr/>
Total unrestricted revenues	123,545	120,571
	<hr/>	<hr/>
Expenses:		
General and administrative:		
Salaries and benefits	66,904	60,155
Professional and consultants	12,435	12,882
Computer services	4,707	5,650
Depreciation and amortization expense	23,195	26,514
Communication expense	1,798	1,706
Insurance expense	1,697	1,667
Utilities	1,000	1,032
Board of directors	930	942
Building services	932	859
Northeast Power Coordinating Council Dues	3,949	2,511
Interest expense	2,171	2,853
Other	3,827	3,800
	<hr/>	<hr/>
Total expenses	123,545	120,571
	<hr/>	<hr/>
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
	<hr/>	<hr/>
Unrestricted net assets, end of year	\$ -	\$ -
	<hr/>	<hr/>

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

ISO New England Inc.
Statements of Cash Flows
For Years Ended December 31, 2009 and 2008

	2009	2008
	(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	23,195	26,514
Loss on disposal	220	144
Decrease/(increase) in unbilled receivable, net	913	(2,614)
(Increase)/decrease in prepaid expense	(1,054)	158
(Increase)/decrease in regulatory assets	(4,161)	2,135
Increase/(decrease) in accounts payable:		
Settlement	33,716	64,806
Administration	(406)	(1,519)
(Decrease) in accrued compensation	(992)	(130)
(Decrease) in interest payable	(56)	(182)
(Decrease)/increase in deferred income	(2,809)	3,614
Net cash provided by operating activities	<u>48,566</u>	<u>92,926</u>
Cash flows from investing activities:		
Capital expenditures	<u>(24,751)</u>	<u>(21,350)</u>
Net cash used in investing activities	<u>(24,751)</u>	<u>(21,350)</u>
Cash flows from financing activities:		
(Increase)/decrease in security deposits	(49,861)	16,048
Decrease/(increase) in restricted cash on deposit	16,861	(9,725)
(Decrease)/increase in restricted cash on deposit payable	(16,861)	10,067
Increase/ (decrease) in deposits payable	49,520	(14,772)
Repayment on long-term debt	(1,820)	(1,820)
Borrowing on working capital line	39,000	12,500
Repayment on working capital line	(34,000)	(19,000)
Net cash provided by/(used in) financing activities	<u>2,839</u>	<u>(6,702)</u>
Net increase in cash and cash equivalents	26,654	64,874
Cash and cash equivalents, beginning of year	<u>114,192</u>	<u>49,318</u>
Cash and cash equivalents, end of year	<u>\$ 140,846</u>	<u>\$ 114,192</u>
Supplemental data:		
Amounts included in Accounts Payable - Administration related to work in process	<u>\$ 1,325</u>	<u>\$ 2,263</u>
Cash paid during the year for interest, net of interest capitalized	<u>\$ 2,248</u>	<u>\$ 3,037</u>
Non-cash activity - Change in pension liability is net of regulatory assets	<u>\$ (9,159)</u>	<u>\$ 16,093</u>

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

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2009 and 2008

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, 2009 and 2008 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 Market 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, the majority of 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 a subsequent weekly invoice issued. The balance at the end of the year represent mainly ISO tariff revenues. The net payables and receivables for those energy transactions stated above are settled with the Participants in the same week.

Restricted Cash on Deposit

The balance of approximately \$1,798,000 and \$18,659,000 at December 31, 2009 and 2008, respectively, recorded as restricted cash on deposit, represents the Congestion Revenue Fund for both years. The balance has a corresponding liability on the Statements of Financial Position. The restricted cash on deposit at December 31, 2009 and 2008 was held in overnight repurchase agreements and also in direct and indirect obligations of the United States, with original maturities of three months or less.

ISO New England Inc.
Notes to Financial Statements for Years Ended December 31, 2009 and 2008

Property and Equipment in Service and Work in Process

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

The Company capitalizes the interest and fees associated with 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 as required by the Accounting of Certain Types of Regulation Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

In addition, the Company capitalizes internal software development costs as required by the Cost of Computer Service Software Development Topic of the FASB ASC.

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; vehicles – three to seven years; furniture and fixtures and machinery and equipment – seven years; building and leasehold/building improvements - one to twenty-five years or remaining life of the lease or building; building – twenty-five years). Capitalized interest and fees are 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 as a regulated entity, in appropriate circumstances, establishes regulatory assets or liabilities, and thereby defers the income statement impact of certain charges or revenues because it is probable to be collected or refunded through future customer billings as required by the Accounting of Certain Types of Regulation Topic of the FASB ASC. 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 Administrative Cost Services Tariff ("ACT") filing and therefore amortized. The remaining cost, also deferred, will be collected in future ACT filings.

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

Deferred charges	2009	2008
Land located on Sullivan Road	\$ 106,000	\$ 121,000
	<u>\$ 106,000</u>	<u>\$ 121,000</u>
Regulatory assets - current	2009	2008
Projected 2009 under collection true-up	\$ 2,823,000	\$ -
2008 under collection true-up	1,338,000	-
	<u>\$ 4,161,000</u>	<u>\$ -</u>
Regulatory assets, net of current portion	2009	2008
Asset related to pension benefit liability (Note 5)	\$ 17,821,000	\$ 26,980,000
	<u>\$ 17,821,000</u>	<u>\$ 26,980,000</u>

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2009 and 2008

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. 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's advance ruling period ended on December 31, 2008. On November 10, 2008, the IRS issued a letter to the Company stating that donors can rely on the Company's current advance ruling letter. The Company's public charity status remains unless the IRS changes that status based on the Company no longer meeting an applicable public support test and a notice of change is published.

The Company has determined prior to recording any benefit in the financial statements that it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authorities, as required by the Accounting for Uncertainty in Income Taxes Topic of the FASB ASC. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The Company determined that upon adoption of this position in January 2008 there was no impact on the Statement of Financial Position and Statement of Activities.

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, 2009 and 2008 were approximately \$324,250,000 and \$274,389,000, 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 ACT filings.

Deferred Asset/Income

Deferred asset/income represents the amount of the ISO tariff revenues for Schedules 1, 2, and 3 that was over/under collected from 2007 through 2009. The over/under collection amount of the ISO Tariff will be returned to or collected from the Participants through the true-up mechanism provided for within the ACT.

Concentrations

The Company's top 10 Participants represented approximately 44% or \$50,916,000 and 47% or \$58,907,000 in tariff revenues for the years ended 2009 and 2008, respectively. The Company's top 10 Participants represented approximately 41% or \$8,317,000 and 44% or \$9,459,000 in accounts receivables as of December 31, 2009 and 2008, respectively.

Fair Values of Financial Instruments

The carrying amounts reported in the Statements of Financial Position for assets and liabilities approximate their fair values except as noted in (Note 4) – private placement debt arrangement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S.”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowance for doubtful accounts, reserve for employee benefit obligation and other contingencies. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

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.

Recently Issued Accounting Standards

The Fair Value Measurement (FVM) Topic of the FASB ASC defines fair value, establishes guidelines for measuring fair value and expands disclosures about fair value measurements. This FVM Topic does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The Company has evaluated the impact of the FVM Topic and has determined that it has no material impact on the Statements of Financial Position and Statements of Activities.

The Fair Value Option for Financial Assets and Financial Liabilities Topic of the FASB ASC gives entities the option to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company has elected to forgo the fair valuing of financial assets and financial liabilities for the year-ended December 31, 2009.

In May 2009, the Subsequent Event Topic of the FASB ASC was issued which defines the subsequent events or transaction period, those circumstances under which the events or transactions should be recognized, and disclosures regarding subsequent events or transactions. The Company considered and determined there are no events or transactions that occur after the Statements of Financial Position, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on March 17, 2010 and subsequent events have been evaluated through that date.

In June 2009, the FASB issued an Accounting Standards Update (“ASU”) on Codification. The Codification does not change U.S. generally accepted accounting principles, but combines all authoritative standards issued by organizations that are in levels A through D of the generally accepted accounting principles hierarchy, such as the FASB, American Institute of Certified Public Accountants, and Emerging Issues Task Force, into a comprehensive, topically organized online database. No accounting impact is expected since this is an accumulation of existing guidance. The Codification became effective September 30, 2009.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2009 and 2008

2. Commitments and Contingencies

Capital and Administrative Funding Tariff

The FERC accepted ISO's "capital funding tariff" ("CFT") and ACT filing for 2009 and 2008. 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 involved in various claims and legal proceedings of a nature considered normal to its business. The claims are in various stages and some may ultimately be brought to trial. While it is not feasible to predict or determine the outcome of any of these claims, it is the opinion of management that final outcome of these claims will not materially impact the Company's financial position.

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

	December 31,	
	2009	2008
Computer hardware, software and accessories	\$ 149,892,000	\$ 139,474,000
Software development costs	42,749,000	36,151,000
Furniture and fixtures	2,864,000	2,752,000
Machinery and equipment	77,000	70,000
Building and leasehold/building improvements	44,386,000	44,536,000
Capitalized interest and fees	7,666,000	6,769,000
Vehicles	55,000	55,000
	<u>247,689,000</u>	<u>229,807,000</u>
Less: accumulated depreciation and amortization	<u>(185,031,000)</u>	<u>(165,748,000)</u>
Property and equipment in-service, net	<u>\$ 62,658,000</u>	<u>\$ 64,059,000</u>
Work in process (WIP)	<u>\$ 20,700,000</u>	<u>\$ 18,886,000</u>

Costs represented in WIP include Business Continuity Plan Infrastructure Enhancements, Standard Market Design Software Upgrade Phase II, Long Term Transmission Rights, Outage Coordination Economic Analysis and Demand Resource Integration, which all began in 2008. Additionally, a number of new projects began in 2009, such as Forward Capacity Market ("FCM") Phase III, System Enhancements for 2009 including Load Forecast User Interface Upgrade to .Net and Upgrade to JBOSS for server cluster management, Baseline Telemetry System, FCM Enhancements, Market Mitigation and various other market enhancement projects that have not been placed in service as of December 31, 2009.

ISO New England Inc.
Notes to Financial Statements for Years Ended December 31, 2009 and 2008

As required by the Accounting of Certain Types of Regulation Topic of the FASB ASC, the associated interest cost capitalized for the years ended

	December 31,	
	<u>2009</u>	<u>2008</u>
Interest capitalized from the revolving credit arrangement, private placement debt and tax-exempt debt bond financing	\$ 802,000	\$ 533,000
Net interest income and interest expense earned or paid on the building construction	<u>-</u>	<u>(3,000)</u>
Interest cost capitalized and recorded on the Statements of Financial Position	<u>\$ 802,000</u>	<u>\$ 530,000</u>

The amount of the interest capitalized and recorded on the Statements of Financial Position that was included in WIP for years ended December 31, 2009 and 2008 was \$403,000 and \$498,000, respectively.

Depreciation and amortization expense was \$23,195,000 and \$26,514,000 for 2009 and 2008, respectively.

4. Credit Facilities

Revolving Credit Arrangement

In June 2004, the Company entered into a \$15,000,000 revolving credit arrangement which expired on July 1, 2009. Interest accrued at either Base Rate or a London Inter-bank Offering Rate ("LIBOR") of which the Company had the option of selecting the 30, 60, 90, or 180-day rate, plus a .60% spread. Interest was paid at the earlier of the selected LIBOR term or 30 days and the Company was charged an annual fee of .15% on the entire line of credit.

In June 2009, the Company entered into a new \$15,000,000 revolving credit arrangement which expires on July 1, 2012 and any outstanding balance must be paid by this date. In April 2009, the Company filed a 204 filing with the FERC to issue this new debt which was approved in May 2009. Interest accrues on the revolving credit at either Base Rate or a LIBOR of which the Company has the option of selecting the 30, 60, 90, or 180-day rate, plus a 1.50% spread. Interest is paid at the earlier of the selected LIBOR term or 30 days. The Company is charged an annual fee of .15% on the entire line of credit. The Company incurred \$73,000 in debt issuance costs as a result of the refinancing. These costs have been capitalized and are being amortized on a straight-line basis over remaining life of the arrangement. Total amortization expense for 2009 was approximately \$12,000.

The outstanding balances at December 31, 2009 and 2008 were \$5,000,000 and \$0 respectively. For the years ended December 31, 2009 and 2008, the weighted average interest rate is approximately 2.53% and 4.21% respectively.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2009 and 2008

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 credit arrangement expired on July 1, 2009. This arrangement served as a line of credit to cover any potential payment defaults by a Participant. Interest accrued on the revolving credit at either Base Rate or LIBOR of which the Company had the option of selecting the 30, 60, 90, or 180-day rate, plus a .60% spread. Interest was paid at the earlier of the selected LIBOR term or 30 days and the Company was charged an annual fee of .15% on the entire line of credit.

The Company entered into a new \$4,000,000 revolving credit arrangement on June 30, 2009 which expires on July 1, 2012 and any unpaid balances must be paid as of this date. This arrangement continues to serve 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 LIBOR of which the Company has the option of selecting the 30, 60, 90, or 180-day rate, plus a 1.50% spread. Interest is paid at the earlier of the selected LIBOR term or 30 days and the Company is charged an annual fee of .15% on the entire line of credit.

The outstanding balance at December 31, 2009 and 2008 was \$0 for both years with no borrowings made in the reported periods.

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 accrued and paid semi-annually. This loan is included in long-term debt on the Statements of Financial Position. The fair market value of the private placement loan at December 31, 2009 was estimated at \$41,975,000.

In 2004, the Company incurred \$202,000 in debt issuance costs. These costs have been capitalized and are being amortized on a straight-line basis over the term of the loan. Total amortization expense for 2009 and 2008 was approximately \$20,000 for each year.

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 ("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. The tax exempt financing is backed by a letter of credit ("LOC") that the Company entered into in February of 2005 which was replaced on August 2009 with an alternative credit facility not to exceed \$41,609,688 which expires on August 31, 2012. 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 prior to August 2009 and based upon the Securities Industry and Financial Markets Association "SIFMA" Swap Index with a weighted average of .41% then after. For the years ended December 31, 2009 and 2008, the weighted average floating interest rate was approximately 0.95% and 2.33%, respectively. The Company was charged an annual fee of .70% paid quarterly based on the balance of the LOC at the end of each quarter prior to the refinancing. After the refinancing, the Company was charged an annual fee of 1.50% paid quarterly based on the maximum amount available to be drawn under the LOC including principal and interest commitments.

The Company incurred \$233,000 in debt issuance costs as a result of the refinancing. These costs have been capitalized and are being amortized on a straight-line basis over remaining life of the Bonds. Total amortization expense for 2009 was \$5,000.

ISO New England Inc.
Notes to Financial Statements for Years Ended December 31, 2009 and 2008

The total long-term debt at December 31, 2009 and 2008 was \$79,495,000 and \$81,315,000, respectively. Principal payments on the private placement debt and tax-exempt bonds are due annually as follows:

2010	\$ 1,820,000
2011	1,820,000
2012	1,820,000
2013	1,820,000
2014	1,820,000
Thereafter	70,395,000
	<u>\$ 79,495,000</u>

Interest incurred on the revolving credit arrangement, private placement debt, and tax-exempt bonds for the years ended December 31, 2009 and 2008 was approximately \$2,667,000 and \$3,386,000, 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 a postretirement benefit plan other than pension which provides 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 accounts for the booking of an asset, if the plan is over funded or a liability, if the plan is underfunded, rather than disclosing the funded status in a note to the financial statements as required in the Accounting for Defined Benefit Pension and Other Postretirement Plans Topic of the FASB ASC. The amount recorded is the difference between the fair value of plan assets and the benefit obligation. Additionally, the Company discloses net periodic benefit cost for the Defined Benefit Pension and Other Postretirement Benefit Plan Assets for each annual period for which a statement of income is presented as required by the Employers' Disclosures about Postretirement Benefit Plan Assets Topic of the FASB ASC.

ISO New England Inc.
Notes to Financial Statements for Years Ended December 31, 2009 and 2008

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,	
	2009	2008	2009	2008
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 59,321,000	\$ 57,488,000	\$ 9,318,000	\$ 6,761,000
Service cost	3,686,000	3,654,000	766,000	896,000
Interest cost	3,603,000	3,260,000	510,000	495,000
Benefits paid	(1,400,000)	(1,289,000)	(339,000)	(290,000)
Change in plan provisions	-	-	(716,000)	-
Plan participants' contributions	-	-	57,000	30,000
Actuarial (gain) loss	1,735,000	(3,792,000)	240,000	1,426,000
Benefit obligation at end of year	<u>66,945,000</u>	<u>59,321,000</u>	<u>9,836,000</u>	<u>9,318,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	36,544,000	47,448,000	5,115,000	5,914,000
Actual return on plan assets	10,793,000	(13,260,000)	1,574,000	(1,683,000)
Employer contributions	5,560,000	3,645,000	1,056,000	1,144,000
Plan participants' contributions	-	-	57,000	30,000
Benefits paid	(1,400,000)	(1,289,000)	(339,000)	(290,000)
Fair value of plan assets at end of year	<u>51,497,000</u>	<u>36,544,000</u>	<u>7,463,000</u>	<u>5,115,000</u>
Funded status at end of the year	(15,448,000)	(22,777,000)	(2,373,000)	(4,203,000)
Transition obligation	-	-	-	-
Net actuarial (gain) loss	-	-	-	-
Prior service cost	-	-	-	-
Net amount recognized as non-current liabilities	<u>\$ (15,448,000)</u>	<u>\$ (22,777,000)</u>	<u>\$ (2,373,000)</u>	<u>\$ (4,203,000)</u>

The Company has determined that the pension liability is probable of recovery through the ACT and has recorded a regulatory asset as of December 31, 2009 and 2008 in the accompanying Statements of Financial Position.

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31,		Years ended December 31,	
	2009	2008	2009	2008
Components of net periodic benefit cost:				
Service cost	\$ 3,686,000	\$ 3,654,000	\$ 766,000	\$ 896,000
Interest cost	3,603,000	3,261,000	510,000	494,000
Expected return on plan assets	(2,898,000)	(3,640,000)	(410,000)	(460,000)
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	1,042,000	244,000	263,000	143,000
Amortization of unrecognized Prior Service Cost	2,000	2,000	(129,000)	15,000
Net periodic benefit cost	<u>\$ 5,560,000</u>	<u>\$ 3,646,000</u>	<u>\$ 1,056,000</u>	<u>\$ 1,144,000</u>

ISO New England Inc.
Notes to Financial Statements for Years Ended December 31, 2009 and 2008

	Pension Benefits		Other Postretirement	
	Years ended December 31, 2009	2008	Years ended December 31, 2009	2008
Prepaid benefit cost at beginning of year	\$ -	\$ -	\$ 54,000	\$ 54,000
Employer contributions	5,560,000	3,646,000	1,056,000	1,144,000
Net periodic benefit cost	<u>(5,560,000)</u>	<u>(3,646,000)</u>	<u>(1,056,000)</u>	<u>(1,144,000)</u>
Prepaid benefit cost at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,000</u>	<u>\$ 54,000</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, 2010:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
Expected amortization of transition obligation	\$ 125,000	\$ 56,000
Expected amortization of net actuarial loss	531,000	159,000
Expected amortization of prior service cost	2,000	(129,000)

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:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Discount rate	6.13%	5.75%	6.27%	5.75%
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	-	-	9.25%	10.00%
Health Care cost trend rates - ultimate	-	-	5.00%	5.00%
Ultimate year	-	-	2015	2015

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

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Discount rate	5.98%	6.13%	5.71%	6.27%
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, 2009 by approximately \$420,000 or decrease the APBO by approximately \$381,000. Additionally, a one percentage point change in the assumed health care cost trend rates would increase or decrease the net post retirement cost for 2009 by approximately \$78,000 and \$69,000, respectively.

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The methodology for selecting the discount rate for the plan is to match the plan's expected benefit payments to that of a yield curve that provides the equivalent yield on zero-coupon corporate bonds and estimate a single interest rate that produces a present value equal to the present value produced by the full yield curve as of the annual measurement date, subject to change each year.

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 Allocation 2010	Percentage of Plan Assets at December 31		Weighted Average Expected Long-Term Rate of Return - 2010
		2009	2008	
Equity Securities	59%	65%	61%	5.25%
Debt Securities	36%	35%	39%	1.82%
Other	5%	0%	0%	0.43%
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.

The fair values of our pension plan assets at December 31, 2009 by asset category are as follows:

Asset Category	Market Value at 12/31/09	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities	\$ 33,370,000	\$ 3,362,000	\$ 30,008,000	\$ -		
Debt Securities	18,127,000	1,826,000	16,301,000	-		
Total	\$ 51,497,000	\$ 5,188,000	\$ 46,309,000	\$ -		

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The fair values of our other postretirement benefit plan assets at December 31, 2009 by asset category are as follows:

<u>Asset Category</u>	<u>Market Value at 12/31/09</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equity Securities	\$ 4,836,000	\$ 489,000	\$ 4,347,000	\$ -
Debt Securities	2,627,000	265,000	2,362,000	-
Total	\$ 7,463,000	\$ 754,000	\$ 6,709,000	\$ -

The Company expects to contribute \$4,670,000 to its pension plans and \$940,000 to its postretirement benefit plan in 2010.

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

	<u>Pension Benefits</u>	<u>Other Benefits</u>
2010	\$ 1,550,000	\$ 415,000
2011	1,662,000	463,000
2012	1,931,000	509,000
2013	2,263,000	572,000
2014	2,569,000	684,000
Years 2015-2019	19,983,000	4,618,000
Total	\$ 29,958,000	\$ 7,261,000

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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 \$1,796,000 and \$1,616,000 for 2009 and 2008, respectively.

7. Leases

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

2010	\$	46,000
2011		<u>27,000</u>
Total minimum lease payments	\$	<u>73,000</u>

The Company currently houses its back-up facilities at a separate location on a net lease basis which includes the cost of utilities with three year renewal periods through 2017. For fiscal years 2009 and 2008, rental payments for operating leases were \$46,000 in each year.