



2010 Financial Report

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2010 Financial Statements

Management's Discussion and Analysis

The Company

ISO New England Inc. (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 the comprehensive planning processes for the bulk electric power system and wholesale markets to address New England's electricity needs well into the future.

The ISO is an entity organized as a nonstock corporation under the *General Corporation Law, as amended*, of the State of Delaware. The company has been recognized by The Internal Revenue Service as an organization described in Internal Revenue Code (IRC) 501(c)(3) and is generally exempt from income taxes under IRC Section 501(a).

Current Environment

ISO New England has identified numerous priorities for 2011 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.

Projects and initiatives for 2011 will encompass three major strategic areas: planning and operations, wholesale markets, and, capital project plans. The major projects and initiatives to be undertaken in 2011 are reflected below and incorporate all three strategic areas of focus.

- Consideration of market resource (nontransmission) alternatives
- Evaluation of new applications that provide for increased optimization of the power system as a result of the wind study conducted in 2010 (e.g., adaptive line ratings)
- Development of smart grid standards
- Improved user interface technology
- Forward Capacity Market redesign
- Generation control application
- Price-responsive demand
- Backup Control Center functionality

- Automation of market and mitigation tools
- North American Electric Reliability Corporation (NERC) and Federal Energy Regulatory Commission (FERC) compliance initiatives
- Development of the analytic framework and tools to provide quantitative and qualitative analyses of major ISO initiatives
- Implementation of the synchrophasor project with matching US Department of Energy (DOE) funds

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reporting of the 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 obligations and other contingencies.

Accounting Policies

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 ending December 31, 2010, 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 issuance of financial statements on March, 25, 2011. This provides added evidence regarding certain estimates or identifies matters that require additional disclosure.

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 as well as the disclosure of material information about the ISO 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 (COO), identifies those companies that provide very specialized goods or services to the ISO. The critical vendor matrix identifies 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 and Finance Committee of the board of directors. The Audit and Finance Committee must review the SOX 302 disclosure before the release of the quarterly unaudited financial statements.

In 2010, the ISO implemented a modified *Sarbanes Oxley 404 (SOX 404)* compliance process to compliment the SOX 302 procedures. SOX 404 is used to evaluate the control environment associated with financial reporting. To perform this evaluation, the ISO developed a principle evaluation matrix, which contains specific questions covering each of the seven principles that address the control environment component of the Committee of Sponsoring Organizations' guidance. Key individuals in the

company complete the matrix annually, and the CEO and CFO review it for completeness and effectiveness. In addition, the controller annually assesses the risk of the Statement of Financial Position and the Statement of Activities to measure the risk of fraud, control, and various other risk profiles that certain accounts and activities have. The CEO and CFO review the results of the risk assessment and make recommendations for additional controls, as needed.

Tariff Recovery

Each year since its inception, the ISO has filed with the FERC a new tariff to recover its operating costs and fund its capital expenditure program for the subsequent year. The ISO's funding recovery process is defined in Section IV of the *Transmission, Markets, and Services Tariff*.¹ The funding recovery process begins with the development of the annual budgets, which ultimately become the revenue requirement collected under Section IV.A of the tariff (Recovery of ISO Administrative Expenses) and the anticipated capital expenditures. In preparing the budgets, the ISO executes a rigorous process to ensure that the budgets submitted to stakeholders for review and FERC for approval are in line with the ISO's initiatives and goals and are just and reasonable.

The budgets are constructed on the basis of business plan initiatives the ISO sets for the coming five years. Senior management begins to develop the business plan at the start of the year preceding the budget year. The ISO reviews the plan with the board of directors as well as the stakeholders in the spring and early summer before establishing the budgets. The ISO meets with and obtains feedback from 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.

Based on the business plan, the ISO's department managers are responsible for submitting their budgets 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 and Finance Committee. The presentation includes information on 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 Audit and 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 August to October timeframe, the ISO solicits input on the budget from state officials. The ISO's full board of directors then must 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 approved by the NEPOOL Participants Committee and the board of directors provide the basis for Section IV.A of the tariff filed with FERC on November 1 of each year. Pursuant to Section IV.A, the ISO recovers its operating costs through the following three tariff schedules:

¹ *ISO New England Inc. Transmission, Markets, and Services Tariff* (ISO tariff), Section IV (2010), http://www.iso-ne.com/regulatory/tariff/sect_4/index.html.

- Schedule 1—Scheduling, System Control, and Dispatch Service
- Schedule 2—Energy Administration Service
- Schedule 3—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. To arrive at billable rates, the costs are then allocated to market participants on the basis of the billing determinants that comprise the collection of the revenue requirements for that schedule. The billing determinants are based on both volumetric and transactional units, depending on the schedule.

Because actual costs will vary from the budgeted costs, as well as the projected billing determinants, Section IV.A of the tariff contains a true-up provision. The true-up provision is a two-step process whereby an estimate of any over- or undercollections for a year are included in the subsequent year's filing, and the final over- or undercollection 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 nonstock, nonprofit organization, the ISO has neither equity nor any accumulated reserves. To fund its working capital needs, the ISO has a \$15 million revolving credit agreement provided by a bank. In addition, to support shortfall payments under the ISO New England Billing Policy, the ISO has a \$4 million revolving credit agreement by a bank. In July 2009, the ISO refinanced the expiring lines of credit for a new three-year term, which will expire on July 1, 2012. Section IV.B of the tariff (Capital Funding Arrangements) is the backstop to all of the ISO's borrowings in the event that any of the debt repayments are accelerated.

In 2004, the ISO completed a 10-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 10 years. The ISO reviewed many available financing options for cost effectively meeting the needs of the spending program. As a result, the ISO issued 10-year private-placement fixed-rate notes in the amount of \$39 million which is made up of ten year 5.60% senior notes 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 10-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 Section IV.A of the tariff and becomes available for funding future capital spending requirements.

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 reprice weekly. The bonds were issued by the Massachusetts Development Finance Agency and are being repaid over 25 years. The current weekly interest rate is 0.18%. The weighted average cost of the debt for 2010, including the direct pay letter of credit, was 1.73%.

Regulatory Update

On the federal level, the US Environmental Protection Agency plans to issue several new regulations aimed at controlling emissions from power plants. New rules governing cooling water and hazardous emissions for implementation in the 2014 to 2018 timeframe are expected to have the largest impact on generators, particularly older fossil units. President Obama and members of the US Congress are considering legislation to create a clean energy standard. In contrast to prior efforts to adopt a federal renewable energy standard, a clean energy standard may also include contributions from natural gas and nuclear power resources, among others.

The ISO continues to support DOE efforts to promote interconnection-wide transmission analysis and is an active participant in the Eastern Interconnection Planning Collaborative (EIPC). In this regard, the ISO receives funding from DOE to support the EIPC effort, which is providing ongoing information about the current and future state of New England's transmission system; participating in an array of stakeholder meetings; supporting the analysis and transmission costing aspects; and reporting on the progress of the effort to New England stakeholders, including numerous state regulatory authorities.

The ISO continues to utilize a \$7.9 million grant from DOE received in 2010 to install smart grid technologies on the New England transmission system. Working in collaboration with the region's transmission companies, the ISO is coordinating the implementation of approximately 30 phasor measurement units aimed at gathering large quantities of data from the transmission system and assisting system operators in enhancing reliable and efficient operations.

The ISO anticipates FERC orders on major issues, including those associated with the efficiency of the energy and capacity markets in New England and on transmission planning and cost allocation for interregional and public policy-based transmission projects. These orders are expected to require major compliance efforts on the part of the ISO, states, and stakeholders in 2011 and beyond.

Results of Actual Operations

The following table summarizes the actual amounts and percentage of total expenses for the years ending December 31, 2010, and 2009:

Table 1
Actual Amounts and Percentage of Total Expenses

Year Ending December 31,	2010	2010	2009	2009
Salaries and benefits	\$ 70.8	55.3%	\$ 66.9	54.2%
Depreciation and amortization expense	22.2	17.3	23.2	18.8
Professional and consultants fees	13.1	10.2	12.4	10.0
Computer services	5.7	4.4	4.7	3.8
Northeast Power Coordinating Council dues	4.2	3.3	4.0	3.2
Interest expense	1.9	1.5	2.2	1.8
Communication expense	1.8	1.4	1.8	1.5
Insurance expense	1.7	1.3	1.7	1.4
Building services	1.1	0.9	0.9	0.7
Utilities	0.9	0.7	1.0	0.8
Board of directors	0.9	0.7	0.9	0.7
Other	3.8	3.0	3.8	3.1
Total	\$ 128.1	100.0%	\$ 123.5	100.0%

Total expenses increased by \$4.6 million, or 3.7%, in 2010 over 2009. Expenses net of depreciation, amortization, and interest increased \$5.9 million, or 6.0%, in 2010 over 2009. The changes primarily were the result of the following factors:

- Salaries and benefits increased \$3.9 million, or 5.8%, in 2010. The increase was attributable to cost of living increases and an increased headcount to support initiatives. These initiatives include System Planning work to increase the throughput of analyzing transmission solutions and performing and overseeing generator interconnection analysis and economic planning studies. Other initiatives include compliance with new NERC and FERC standards and adding control room operator positions to provide sufficient depth and flexibility of staff.
- Depreciation and amortization expense decreased by \$1.0 million, or 4.3%, in 2010. The reduction was due to capital projects, reaching full depreciation during the middle of 2009, including an ancillary services reserve market project and a web architecture project. The decrease also was attributable to the full depreciation in mid-2010 of the project on pricing of external nodes and the upgrade to the Energy Management System. This decrease was largely offset by capital projects that went into service in mid-2009 or 2010, including phases II and III

or the Forward Capacity Market, phases I and II of the software upgrades to Standard Market Design (SMD), and demand-resource integration.

- Professional and consultants fees increased \$0.7 million, or 5.6%, in 2010. Increases included work for study and litigation costs associated with the Forward Capacity Market, information delivery operational excellence, and activities associated with auditing demand-resources. The Information Delivery Operational Excellence project goal is to help the ISO develop and implement a comprehensive information delivery management process that addresses the quality, transparency, responsiveness, and cost-effectiveness of the information it provides to its stakeholders. More specifically, this new process must provide for an ongoing assessment of stakeholder satisfaction, the identification of deficiencies, and the basis for achieving continuous improvement in the supporting processes, the underlying web infrastructure, and organizational performance. The Demand-Resource Audit work included consulting help to supplement existing resources to review meter data for demand resources, perform analysis to identify trends and potential issues with meter data, and assist with customer inquiries.
- Computer services increased by \$1.0 million, or 21.3%, in 2010. This increase was due to software license additions for the Energy Management System, for new products put into production, and for increased licenses of existing products. Additional cyber-security-related licenses were purchased for new hardware servers put in place during 2010; other increased costs were for desktop-licenses and maintenance for system virtualization software.
- Interest expense decreased \$0.3 million, or 13.6%, in 2010. The decrease primarily was due to a reduction in interest rates on the company's tax-exempt building notes outstanding.
- Building services increased \$0.2 million, or 22.2%, in 2010. This increase resulted from the purchase of replacement batteries for the uninterruptible power supply for the company's control room and facilities.

Capital Spending

The FERC-approved capital expenditure budget for 2010 was \$28.0 million. Actual spending was under budget by \$4,198,000, primarily as a result of the ISO's not receiving federal funding for the Smart Grid Regional Demonstration Transmission System project; a delay in the start of the Smart Grid-Synchrophasor Infrastructure Data Utilization project, which did receive DOE funding; and a delay in the final rules being developed, filed, and approved for price-responsive demand.

Major projects in 2010, some of which are ongoing and multi-year, are as follows:

Forward Capacity Market (FCM) Phase III and Enhancements. The primary focus of the FCM Phase III project was the implementation of an FCM settlements system, measurement of resource performance, reconfiguration auctions, bilateral transactions, and associated financial-assurance provisions. The FCM enhancements project concentrated on implementing new functionalities, including conditional qualification, competitive offers for external transactions, and FCM capacity charges. It also included making changes to the descending-clock auction and applications of the Forward Capacity Tracking System to accommodate the conditional qualification rules. These projects were completed in the second and third quarters of 2010.

Standard Market Design Upgrade Phases II and III. Phase II of the SMD upgrade included improving the SMD platform architecture so that all market applications run on the same technology thereby increasing their performance; upgrading user interfaces to eliminate discontinued third-party technologies; improving operational flexibility through increased process automation; and enhancing functionality. Phase III will upgrade the framework of the eMarket and eFTR user interface. The market operator interface also will be enhanced to allow for directly sending to generators the manual dispatch instructions entered by control room operators via remote terminal units when the market system is unavailable.

Demand-Resource Integration. Under the FCM, demand response, energy efficiency, and other demand resources are treated as capacity. Therefore, the Demand-Resource Integration project focused on integrating demand resources into the ISO's system planning, system and market operations, and information technology systems. This multiyear project spanning 2008 to 2010 was completed in the second quarter of 2010.

Business Continuity Plan Infrastructure Enhancements. This multiphase project will significantly upgrade and enhance the Business Continuity Plan infrastructure to maintain a high level of reliability and comply with emerging NERC requirements. The upgrade also will improve the overall use of the Backup Control Center by having the real-time Energy Management System and markets data online for increased systems redundancy, thereby reducing the time to restore applications to service from a backup. This new capability to operate the Backup Control Center as a hot standby site will increase power system reliability by reducing the time required to restart the Energy Management System from three hours to approximately 30 minutes. The enhancements also will allow employees to provide noncritical business functions from the Backup Control Center in the event of a prolonged loss of the Master Control Center. The project also will enhance the infrastructure at the Master Control Center in Holyoke. The first phase of this project was completed in the fourth quarter of 2010; the second phase is expected to be completed in the fourth quarter of 2011.

Operational Enhancements. This project improved operational efficiency, reduced risk exposure resulting from manual processing, and used information from reported issues and market rule changes to further enhance operations. This project provided new automation to administer equivalent-planned-outage hours, enhanced functionality of resource qualification associated with the Forward Capacity Market, and several other system improvements. This project was completed on April 1, 2011.

Facility Outage Scheduler Phase II. The overall project included further customization to the Control Room Operations Window (CROW) system, to satisfy the ISO's generation requirements and provided improved communication and reporting for Local Control Centers, transmission and generation owners, and other participants. More specifically, the project enhanced the control room window application, to include generation outage requests, changes to transmission outage requests, reporting, financial-settlement flagging and data bridging, and network model maintenance changes. In addition, with these enhancements to the CROW application, the Short-Term Outages, Annual Maintenance and Must Runs (SAM) application was retired. This phase was completed in the fourth quarter of 2010.

Software Development Costs. In addition to the major projects described above, the ISO incurred \$2.8 million in software development costs. These costs supported a multitude of enhancements to existing software systems.

Credit and Billing Enhancements. The primary focus of this project was to reduce credit exposure for participants in New England's wholesale electricity markets, which includes reducing unsecured credit limits and accelerating payment and settlement procedures. Modifications under the Credit and Billing Enhancements project include the acceleration to twice-weekly billing, the elimination of corporate guarantees, modifications to the limit on unsecured credit for market participants, separate billing and

collateralization of various charge types, and changes in the allocation of cash shortfalls resulting from payment defaults by market participants. This project was complete in January 2011.

Risks

The ISO is exposed to financial risk in the three primary areas of interest rates, legal, and regulatory. The ISO historically has included in its annual budget two contingency funds to address unknown costs—a CEO emerging-work allowance and a board contingency. These contingencies typically represent a combined 1.0% to 1.5% of the total amount to be recovered each year under Section IV.A of the 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, subject to use only through board approval, has never been used. Because the ISO does not have any capital to draw on for unknown expenses, these two contingencies are necessary for the ISO to operate efficiently.

Fluctuating interest rates can have an impact on 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 the settlement float will have a negative impact on the hedge against increasing interest rates. In 2010, the settlement float increased on average approximately 16% over 2009 levels. This increase in float has been beneficial coupled with the decreasing balance of tax-exempt debt. Both interest income and interest expense rates have remained low in 2010. In addition, the average taxable interest income and expense rates were almost the same. The ISO regularly analyzes the interest-rate environments to ensure that its debt structure is as cost-effective as possible, in addition to reviewing all debt and funding needs.

Interest rates also are used in the discount rate assumptions for establishing the costs associated with the pension and postretirement plans. Lower rates result in increased 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 always is 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 billings associated with 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-administered markets. Since its inception in 1999, the ISO has continually reviewed the billing and financial-assurance policies and, since 2004, has made great strides in reducing the credit risk for market participants.

The most recent modifications to the financial-assurance and billing policies approved and implemented in January 2011 will further limit participants' exposure in case of a payment default by a market participant. The principal elements of this initiative are as follows:

- Further shortening the settlement cycle by moving from weekly billing of hourly charges to twice weekly billing
- Reducing unsecured credit limits for market participants
- Distinguishing between the ISO's 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
- Improving the quality of security provided

On October 21, 2010, FERC issued a final rule on *Credit Reforms in Organized Wholesale Electricity Markets*.² This credit rule addresses a number of areas including shortening the settlement cycle; using unsecured credit; eliminating unsecured credit for Financial Transmission Rights; allowing market participants to offset market obligations and the effect of this feature in a bankruptcy; establishing minimum criteria for market participation; using material adverse change to modify credit requirements; and setting a minimum grace period to "cure" collateral calls. The modifications the ISO has made to the credit and billing policies over the last several years has positioned the company for readily complying with this order. The ISO and its stakeholders currently are working on and preparing a compliance filing for a few of these areas not yet fully addressed in the current financial-assurance and billing policies. The order requires a compliance filing on all aspects of the rule by June 30, 2011, with implementation by October 1, 2011. An exception to the rule pertains to the ability to offset market obligations, which has a delayed implantation date of January 1, 2012. The ISO fully expects to comply with this rule within the established timeframes.

The ISO will continue to work closely with its participants to reduce default risk including minimizing the settlement cycle time.

Various Market Services and Participation Data

The following table compares key settlement market information for the years ending 2009 and 2010 for the markets the ISO oversees.

² FERC, *Credit Reforms in Organized Wholesale Electricity Markets* Docket No. RM10-13-000; Order No. 741, (October 27, 2010).

**Table 2
Settlement Market Information**

Key Settlement Market Data for the Year's Ending: ^(a)	2010	2009
	\$ in Millions	
Energy Markets		
Day-Ahead Energy	\$7,095	\$5,927
Real-Time Energy	\$258	(\$9)
Total Energy Markets	<u>\$7,353</u>	<u>\$5,918</u>
Real-Time Load Obligation (MWh) ^(b)	140,080,160	135,297,303
Net Commitment-Period Compensation (NCPC)	<u>\$95</u>	<u>\$56</u>
Total NCPC	<u>\$95</u>	<u>\$56</u>
Reserve Markets		
Forward Reserve Markets, Net	\$113	\$144
Real-Time Reserve Markets	\$16	\$6
Total Reserve Markets	<u>\$129</u>	<u>\$150</u>
Regulation Market	<u>\$14</u>	<u>\$23</u>
Total Regulation Market	<u>\$14</u>	<u>\$23</u>
ICAP Transition Payments	\$790	\$1,768
FCM Payments ^(c)	\$856	\$0
Total ICAP Transition Payments	<u>\$1,646</u>	<u>\$1,768</u>
Financial Transmission Rights—Long Term Auction	\$19	\$57
Financial Transmission Rights—Monthly Auction	\$12	\$14
Total Auction Revenue Rights	<u>\$31</u>	<u>\$71</u>
Open Access Transmission Charges (OATT)		
Regional Network Service/Through or Out	\$1,377	\$1,077
Black Start	\$10	\$10
Volt Ampere Reactive Capacity Cost	\$23	\$23
Total OATT Charges	<u>\$1,410</u>	<u>\$1,110</u>
Demand-Response Payments	<u>\$9</u>	<u>\$5</u>
Total Demand-Response Payments	<u>\$9</u>	<u>\$5</u>

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

(b) The real-time load obligation shown in the table reflects load at all pricing locations in New England, including exports at the external nodes.

(c) The FCM was implemented on June 1, 2010.

The ISO’s aggregate customer base has increased year to year, with 479 customers in 2010 up from 430 customers in 2009. The ISO’s customers include generators, suppliers, publicly owned entities, transmission owners, demand-response resources, alternative resources, and end users. The cash cleared in 2010 was \$6.8 billion compared with \$5.7 billion in 2009, which is an increase of approximately 19.3%. Energy market transactions that cleared through the ISO were \$7.4 billion compared with \$5.9 billion in 2009, which is an increase of approximately 24.2%. In addition, the all-in energy market cost increased 12%, and average natural gas prices increased by approximately 9%. All of these measures are key indicators of the cash that clears through the ISO.

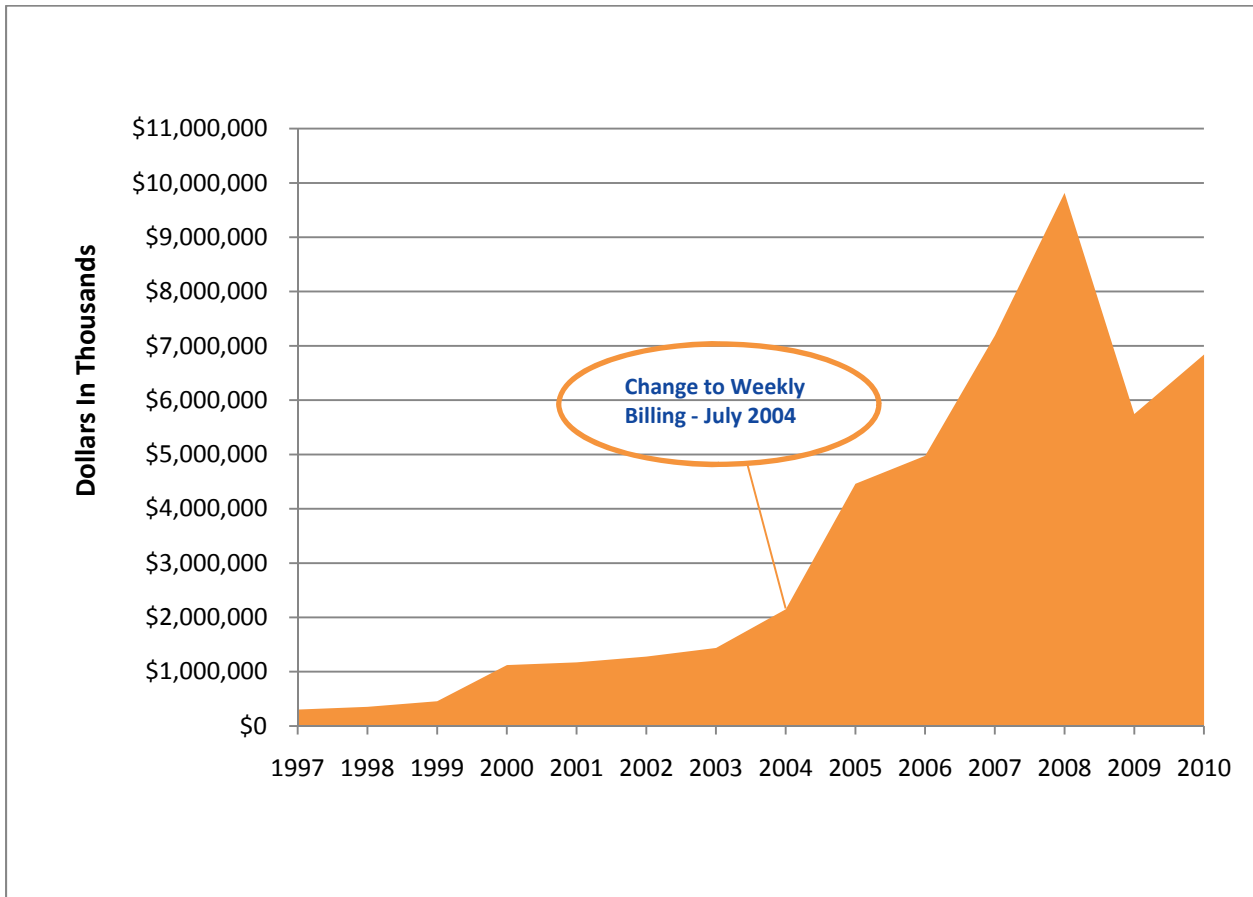


Figure 2: Annual historical market-clearing activity.

Note: Data for 1997 and 1998 are estimated.

Management's Responsibility for Financial Reporting

The management of ISO New England Inc. (ISO) is responsible for the preparation, objectivity, and presentation of the following financial statements, as well as the integrity of these statements. These financial statements have been prepared to conform to accounting principles generally accepted in the United States of America and, where required, include amounts that represent management's best judgments and estimates. The ISO's management also is responsible for the preparation of other information in this annual report and for its accuracy and consistency with the financial statements.

To aid in carrying out this responsibility, we, along with all other members of management, maintain a system of internal accounting control modeled after the Committee of Sponsoring Organizations of the Treadway Commission, or the "COSO" framework. In the opinion of management, the overall system of internal accounting control provides reasonable assurance that the ISO's assets are safeguarded and that transactions are executed in accordance with the management's authorization and are properly recorded for the preparation of financial statements. In addition, management believes the overall system of internal accounting control provides reasonable assurance that, in the normal course of their duties, employees prevent or detect material errors or irregularities on a timely basis. Any system of internal accounting control, no matter how well designed, has inherent limitations, including the possibility that controls can be circumvented or overridden and misstatements due to error or fraud can occur and not be detected. Also, because of changing conditions, the effectiveness of internal control can vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance about the preparation and reporting of financial statements.

The system of internal accounting control is supported by written policies and guidelines, the selection and training of qualified employees, an organizational structure that provides an appropriate division of responsibility, and a program of internal auditing. The ISO's written policies include a Code of Conduct that states management's policy on conflict-of-interest and ethical conduct. All personnel annually confirm their compliance with the Code of Conduct.

Gordon van Welie
President & Chief Executive Officer

Robert C. Ludlow
Vice President, Chief Financial and
Compliance Officer



ISO New England Inc.

Financial Statements

For the Years Ended December 31, 2010 and 2009

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KPMG LLP
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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, 2010 and 2009, 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, 2010 and 2009, 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 25, 2011

ISO New England Inc.
Statements of Financial Position
For Years Ended December 31, 2010 and 2009

	2010	2009
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 156,518	\$ 140,846
Security deposits	331,579	324,250
Unbilled receivable, net	24,582	20,372
Prepaid expenses and other assets	855	1,443
Regulatory assets – current	-	4,161
Restricted cash on deposit	4,285	1,798
Noncurrent assets:		
Property and equipment in-service, net	72,252	62,658
Work in process	12,734	20,700
Deferred charges	90	106
Regulatory assets, net of current portion	21,861	17,821
	<u>624,756</u>	<u>594,155</u>
Total assets	\$ 624,756	\$ 594,155
Liabilities and Net Assets		
Current liabilities:		
Accounts payable:		
Settlement, net	\$ 146,418	\$ 139,089
Administration	5,926	4,762
Deposits payable	340,077	331,422
Interest payable	834	830
Revolving credit	-	5,000
Accrued compensation	12,143	11,436
Deferred income – current	9,664	-
Restricted cash on deposit payable	4,285	1,798
Long-term debt - current portion	1,820	1,820
Long-term liabilities:		
Deferred income, net of current portion	5,873	2,502
Pension and post retirement benefit liability	21,861	17,821
Long-term debt	75,855	77,675
	<u>624,756</u>	<u>594,155</u>
Total liabilities	624,756	594,155
Unrestricted net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	\$ 624,756	\$ 594,155

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

ISO New England Inc.
Statements of Activities
For Years Ended December 31, 2010 and 2009

	2010	2009
	(In thousands)	
Changes in unrestricted net assets:		
Revenues:		
ISO tariff revenues	\$ 127,342	\$ 122,829
Grant revenues	245	-
Interest income	100	303
Fees and services	437	413
	<hr/>	<hr/>
Total unrestricted revenues	128,124	123,545
	<hr/>	<hr/>
Expenses:		
General and administrative:		
Salaries and benefits	70,828	66,904
Professional and consultants	13,093	12,435
Computer services	5,730	4,707
Depreciation and amortization expense	22,190	23,195
Communication expense	1,767	1,798
Insurance expense	1,691	1,697
Utilities	928	1,000
Board of directors	930	930
Building services	1,049	932
Northeast Power Coordinating Council dues	4,214	3,949
Interest expense	1,916	2,171
Other	3,788	3,827
	<hr/>	<hr/>
Total expenses	128,124	123,545
	<hr/>	<hr/>
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
	<hr/>	<hr/>
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, 2010 and 2009

	2010	2009
	(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	22,190	23,195
Loss on disposal	-	220
(Increase)/decrease in unbilled receivable, net	(4,210)	913
Decrease/(increase) in prepaid expenses and other assets	588	(1,054)
Decrease/(increase) in regulatory assets	4,161	(4,161)
Increase/(decrease) in accounts payable:		
Settlement	7,329	33,716
Administration	345	(406)
Increase/(decrease) in accrued compensation	707	(992)
Increase/(decrease) in interest payable	4	(56)
Increase/(decrease) in deferred income	13,035	(2,809)
	<hr/>	<hr/>
Net cash provided by operating activities	44,149	48,566
	<hr/>	<hr/>
Cash flows from investing activities:		
Capital expenditures	(22,983)	(24,751)
	<hr/>	<hr/>
Net cash used in investing activities	(22,983)	(24,751)
	<hr/>	<hr/>
Cash flows from financing activities:		
(Increase) in security deposits	(7,329)	(49,861)
(Increase)/decrease in restricted cash on deposit	(2,487)	16,861
Increase/(decrease) in restricted cash on deposit payable	2,487	(16,861)
Increase in deposits payable	8,655	49,520
Repayment on long-term debt	(1,820)	(1,820)
Borrowing on working capital line	16,000	39,000
Repayment on working capital line	(21,000)	(34,000)
	<hr/>	<hr/>
Net cash (used in)/provided by financing activities	(5,494)	2,839
	<hr/>	<hr/>
Net increase in cash and cash equivalents	15,672	26,654
Cash and cash equivalents, beginning of year	140,846	114,192
	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 156,518</u>	<u>\$ 140,846</u>
Supplemental data:		
Amounts included in Accounts Payable – Administration related to work in process	<u>\$ 2,144</u>	<u>\$ 1,325</u>
Cash paid during the year for interest, net of interest capitalized	<u>\$ 1,919</u>	<u>\$ 2,248</u>
Non-cash activity - Change in pension liability is net of regulatory assets	<u>\$ 4,040</u>	<u>\$ (9,159)</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, 2010 and 2009

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 Participant Services Agreement, and ISO New England Transmission, Markets and Services Tariff (the "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, 2010 and 2009 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 ("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 Statements of Financial Position 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 subsequently issued weekly invoice. 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 \$4,285,000 and \$1,798,000 at December 31, 2010 and 2009, 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, 2010 and 2009 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, 2010 and 2009

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; and 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 amortized, as they were included in the current year's filing pursuant to Section IV.A. of the Tariff (titled "Recovery of ISO Administrative Expenses"). The remaining cost, also deferred, will be collected in future 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	2010	2009
Land located on Sullivan Road	\$ 90,000	\$ 106,000
	<u>\$ 90,000</u>	<u>\$ 106,000</u>
Regulatory assets - current	2010	2009
Projected 2010 under collection true-up	\$ -	\$ 2,823,000
2009 under collection true-up	-	1,338,000
	<u>\$ -</u>	<u>\$ 4,161,000</u>
Regulatory assets, net of current portion	2010	2009
Asset related to pension and postretirement benefit liabilities (Note 5)	\$ 21,861,000	\$17,821,000
	<u>\$ 21,861,000</u>	<u>\$17,821,000</u>

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

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 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.

Security Deposits

The NEPOOL Participants are required to comply with the Financial Assurance Policy under ISO's 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, 2010 and 2009 were approximately \$331,579,000 and \$324,250,000, respectively, and are recorded in deposits payable.

Revenue Recognition

The Company recovers its operating and debt service costs pursuant to Section IV of the ISO's Tariff, which provides for recovery of expenses through three schedules to Section IV.A. 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 filings to recover the ISO's expenses.

Government Grants

The Company recognizes government grants when there is reasonable assurance that the ISO will comply with the conditions attached to the grant arrangement and the grant will be received. Government grants are recognized in the Statement of Activities and in the Statement of Financial Position in the period in which the related costs are recognized that the government grant is intended to compensate.

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 2008 through 2010. 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 Section IV.A. of the Tariff.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

Concentrations

The Company's top 10 Participants represented approximately 45% or \$64,720,000 and 44% or \$50,916,000 in tariff revenues for the years ended December 31, 2010 and 2009, respectively. The Company's top 10 Participants with accounts receivable balances represented approximately 45% or \$10,789,000 and 41% or \$8,317,000 as of December 31, 2010 and 2009, 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.

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, 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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

In October 2009, the FASB issued guidance on revenue arrangements with multiple deliverables which was effective in June 2010. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. Adoption of the new guidance did not impact our financial statements for the year ended December 31, 2010.

2. Commitments and Contingencies

Capital and Administrative Funding Tariff

The FERC accepted ISO's capital funding filings to recover administrative expenses for 2010 and 2009. These filings, made pursuant to Section IV of the Tariff, support the ISO's loan arrangements with various banks and note holders to fund the capital and working capital requirements of the Company.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

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,	
	2010	2009
Computer hardware, software and accessories	\$ 172,674,000	\$ 149,892,000
Software development costs	50,096,000	42,749,000
Furniture and fixtures	2,875,000	2,864,000
Machinery and equipment	82,000	77,000
Building and leasehold/building improvements	44,646,000	44,386,000
Capitalized interest and fees	8,314,000	7,666,000
Vehicles	55,000	55,000
	<u>278,742,000</u>	<u>247,689,000</u>
Less: accumulated depreciation and amortization	<u>(206,490,000)</u>	<u>(185,031,000)</u>
Property and equipment in-service, net	<u>\$ 72,252,000</u>	<u>\$ 62,658,000</u>
Work in process ("WIP")	<u>\$ 12,734,000</u>	<u>\$ 20,700,000</u>

Costs represented in WIP include System Restoration and Blackstart Resource, Market Mitigation Enhancements, Credit and Billing Enhancements, Auditing and Testing and SMD Software Upgrade Phase III, which all began in 2009. Additionally, a number of new projects began in 2010, such as Smart Grid SIDU, Issue Resolution, Web Infrastructure Improvements, Generation Control Applications, Client and Asset Management, Outage Coordination Economic Analysis Phase II, Business Intelligence, Enhancements of the Avalanche application used by the Control room, EMS application enhancements and various other market enhancement projects that have not been placed in service as of December 31, 2010.

As required by the Accounting of Certain Types of Regulation Topic of the FASB ASC, the interest capitalized from the revolving credit arrangement, private placement and tax-exempt debt bond financing and recorded on the Statements of Financial Position for the years ended December 31, 2010 and 2009 was \$494,000 and \$802,000, respectively. The amount of the interest capitalized and recorded on the Statements of Financial Position that was included in WIP for years ended December 31, 2010 and 2009 was \$249,000 and \$403,000, respectively.

Depreciation and amortization expense was \$22,190,000 and \$23,195,000 for the years ended December 31, 2010 and 2009, respectively.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

4. Credit Facilities

Revolving Credit Arrangement

In June 2004, the Company entered into a \$15,000,000 revolving credit arrangement that 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 \$15,000,000 revolving credit arrangement that expires on July 1, 2012, and any outstanding balance must be paid by this date. In April 2009, the Company filed a Section 204 filing with the FERC to issue this new debt. The filing 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 the life of the arrangement. Total amortization expense was approximately \$24,000 and \$12,000 for the years ended December 31, 2010 and 2009, respectively.

The outstanding balances at December 31, 2010 and 2009 were \$0 and \$5,000,000, respectively. For the years ended December 31, 2010 and 2009, the weighted average interest rate was approximately 2.21% and 2.53% respectively.

In June 2004, the Company 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 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 \$4,000,000 revolving credit arrangement on June 30, 2009 that 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 for each of the years ended December 31, 2010 and 2009 was \$0.

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, 2010 was estimated at \$46,826,000.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

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 the years ended December 31, 2010 and 2009 was approximately \$20,000.

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 in August 2009 with an alternative credit facility not to exceed \$41,609,688 that expires on August 31, 2012. Interest accrues quarterly on the \$45,500,000 tax exempt bonds, at a weekly variable rate based upon the Securities Industry and Financial Markets Association “SIFMA” Swap Index with a weighted average of 0.27% and 0.41% for the years ended December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, the weighted average floating interest rate on the Bonds was approximately 0.23% and 0.95%, respectively. The Company was charged an annual fee of .70% paid quarterly based on the balance of the letter of credit 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 letter of credit including principal and interest commitments.

The Company incurred \$238,000 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 the remaining life of the Bonds. Total amortization expense was approximately \$11,000 and \$5,000 for the years ended December 31, 2010 and 2009, respectively.

The total long-term debt at December 31, 2010 and 2009 was \$77,675,000 and \$79,495,000, respectively. Principal payments on the private placement debt and tax-exempt bonds are due annually as follows:

2011	\$ 1,820,000
2012	1,820,000
2013	1,820,000
2014	40,820,000
2015	1,820,000
Thereafter	<u>29,575,000</u>
	<u>\$ 77,675,000</u>

Interest incurred on the revolving credit arrangement, private placement debt, and tax-exempt bonds for the years ended December 31, 2010 and 2009 was approximately \$2,406,000 and \$2,667,000, respectively.

5. Pension and Other Employee Benefits

The Company sponsors defined benefit pension and postretirement plans (the “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.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

The Company sponsors a postretirement benefit plan other than pension that 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 recording 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.

In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The Health Care Acts include several provisions that may affect a company's postretirement benefit plans, including imposing an excise tax on high cost coverage, eliminating lifetime and annual coverage limits, reducing subsidies to Medicare Advantage plans, and extending coverage for adult children until age 26. The Company has evaluated the effects of the Health Care Acts and concluded that the provision that affects its postretirement benefit plan is the excise taxes on high cost coverage or "Cadillac plans". The effect of the provision, estimated to be \$290,000, has been included in the measurement of the postretirement benefit obligation as of December 31, 2010. The Company is accounting for the effect of the Health Care Acts as an actuarial loss. The Company does not provide benefits that are actuarially equivalent to the Medicare prescription drug benefit in its postretirement benefit plan.

ISO New England Inc.
Notes to Financial Statements for Years Ended December 31, 2010 and 2009

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,	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 66,945,000	\$ 59,321,000	\$ 9,836,000	\$ 9,318,000
Service cost	4,048,000	3,686,000	946,000	766,000
Interest cost	3,986,000	3,603,000	589,000	510,000
Benefits paid	(1,649,000)	(1,400,000)	(324,000)	(339,000)
Change in plan provisions	-	-	-	(716,000)
Plan participants' contributions	-	-	58,000	57,000
Actuarial loss	8,557,000	1,735,000	1,547,000	240,000
Benefit obligation at end of year	<u>81,887,000</u>	<u>66,945,000</u>	<u>12,652,000</u>	<u>9,836,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	51,497,000	36,544,000	7,463,000	5,115,000
Actual return on plan assets	8,639,000	10,793,000	1,184,000	1,574,000
Employer contributions	4,761,000	5,560,000	1,049,000	1,056,000
Plan participants' contributions	-	-	58,000	57,000
Benefits paid	(1,649,000)	(1,400,000)	(324,000)	(339,000)
Fair value of plan assets at end of year	<u>63,248,000</u>	<u>51,497,000</u>	<u>9,430,000</u>	<u>7,463,000</u>
Funded status at end of the year	(18,639,000)	(15,448,000)	(3,222,000)	(2,373,000)
Transition obligation	-	-	-	-
Net actuarial (gain) loss	-	-	-	-
Prior service cost	-	-	-	-
Net amount recognized as non-current liabilities	<u>\$ (18,639,000)</u>	<u>\$ (15,448,000)</u>	<u>\$ (3,222,000)</u>	<u>\$ (2,373,000)</u>

The Company has determined that the pension liability is probable of recovery through Section IV.A. of the Tariff and has recorded a regulatory asset as of December 31, 2010 and 2009 in the accompanying Statements of Financial Position.

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31,		Years ended December 31,	
	2010	2009	2010	2009
Components of net periodic benefit cost:				
Service cost	\$ 4,048,000	\$ 3,686,000	\$ 946,000	\$ 766,000
Interest cost	3,986,000	3,603,000	589,000	510,000
Expected return on plan assets	(3,976,000)	(2,898,000)	(582,000)	(410,000)
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	576,000	1,042,000	223,000	263,000
Amortization of unrecognized prior service cost	2,000	2,000	(129,000)	(129,000)
Net periodic benefit cost	<u>\$ 4,761,000</u>	<u>\$ 5,560,000</u>	<u>\$ 1,103,000</u>	<u>\$ 1,056,000</u>

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

	Pension Benefits		Other Postretirement	
	Years ended December 31, 2010	2009	Years ended December 31, 2010	2009
Prepaid benefit cost at beginning of year	\$ -	\$ -	\$ 54,000	\$ 54,000
Employer contributions	4,761,000	5,560,000	1,049,000	1,056,000
Net periodic benefit cost	<u>(4,761,000)</u>	<u>(5,560,000)</u>	<u>(1,103,000)</u>	<u>(1,056,000)</u>
Prepaid benefit cost at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2011:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
Expected amortization of transition obligation	\$ 125,000	\$ 56,000
Expected amortization of net actuarial loss	576,000	201,000
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:

	Pension Benefits		Other Benefits	
	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Discount rate	5.98%	6.13%	5.71%	6.27%
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	-	-	8.50%	9.25%
Health Care cost trend rates - ultimate	-	-	5.00%	5.00%
Ultimate year	-	-	2018	2015

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

	Pension Benefits		Other Benefits	
	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Discount rate	5.51%	5.98%	5.14%	5.71%
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, 2010 by approximately \$685,000 or decrease the APBO by approximately \$561,000. Additionally, a one percentage point change in the assumed health care cost trend rates would increase or decrease the net post retirement cost as of December 31, 2010 by approximately \$97,000 and \$87,000, respectively.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

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 2011	Percentage of Plan Assets at December 31		Weighted Average Expected Long-Term Rate of Return - 2011
		2010	2009	
Equity Securities	59%	59%	65%	5.25%
Debt Securities	36%	36%	35%	1.82%
Other	5%	5%	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.

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Notes to Financial Statements for Years Ended December 31, 2010 and 2009

The fair values of the pension plan assets at December 31, 2010 and 2009 by asset category are as follows:

	Market Value at 12/31/10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term investment strategies:				
Fixed income:				
U.S. Treasury inflation-protected	\$ 2,944,000	\$ -	\$ 2,944,000	\$ -
U.S. and global core fixed income funds	16,586,000	-	16,586,000	-
U.S. High Yield Bond Funds	1,952,000	1,952,000	-	-
Total	<u>21,482,000</u>	<u>1,952,000</u>	<u>19,530,000</u>	<u>-</u>
Domestic equities:				
Traditional equity index funds	24,526,000	-	24,526,000	-
Total	<u>24,526,000</u>	<u>-</u>	<u>24,526,000</u>	<u>-</u>
Global (ex-U.S.) equities:				
Developed markets	7,628,000	7,628,000	-	-
Emerging markets value (actively managed)	2,320,000	2,320,000	-	-
Total	<u>9,948,000</u>	<u>9,948,000</u>	<u>-</u>	<u>-</u>
Real assets:				
U.S. real estate investment trust funds	3,518,000	-	3,518,000	-
Commodities - oil and energy	3,308,000	-	3,308,000	-
Total	<u>6,826,000</u>	<u>-</u>	<u>6,826,000</u>	<u>-</u>
Cash and cash equivalents	466,000	466,000	-	-
Total long-term investments	<u>\$ 63,248,000</u>	<u>\$ 12,366,000</u>	<u>\$ 50,882,000</u>	<u>\$ -</u>

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Notes to Financial Statements for Years Ended December 31, 2010 and 2009

	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)
Long-term investment strategies:				
Fixed income:				
U.S. Treasury inflation-protected	\$ 5,174,000	\$ -	\$ 5,174,000	\$ -
U.S. and global core fixed income funds	7,758,000	-	7,758,000	-
U.S. High Yield Bond Funds	5,188,000	5,188,000	-	-
Total	<u>18,120,000</u>	<u>5,188,000</u>	<u>12,932,000</u>	<u>-</u>
Domestic equities:				
Traditional equity index funds	24,580,000	-	24,580,000	-
Total	<u>24,580,000</u>	<u>-</u>	<u>24,580,000</u>	<u>-</u>
Global (ex-U.S.) equities:				
Developed markets	5,655,000	-	5,655,000	-
Emerging markets value (actively managed)	3,142,000	-	3,142,000	-
Total	<u>8,797,000</u>	<u>-</u>	<u>8,797,000</u>	<u>-</u>
Total long-term investments	<u>\$ 51,497,000</u>	<u>\$ 5,188,000</u>	<u>\$ 46,309,000</u>	<u>\$ -</u>

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

The fair values of the other postretirement benefit plan assets at December 31, 2010 and 2009 by asset category are as follows:

	Market Value at 12/31/10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term investment strategies:				
Fixed income:				
U.S. Treasury inflation-protected	\$ 438,000	\$ -	\$ 438,000	\$ -
U.S. and global core fixed income funds	2,489,000	-	2,489,000	-
U.S. High Yield Bond Funds	292,000	292,000	-	-
Total	<u>3,219,000</u>	<u>292,000</u>	<u>2,927,000</u>	<u>-</u>
Domestic equities:				
Traditional equity index funds	3,660,000	-	3,660,000	-
Total	<u>3,660,000</u>	<u>-</u>	<u>3,660,000</u>	<u>-</u>
Global (ex-U.S.) equities:				
Developed markets	1,078,000	1,078,000	-	-
Emerging markets value (actively managed)	361,000	361,000	-	-
Total	<u>1,439,000</u>	<u>1,439,000</u>	<u>-</u>	<u>-</u>
Real assets:				
U.S. real estate investment trust funds	524,000	-	524,000	-
Commodities - oil and energy	495,000	-	495,000	-
Total	<u>1,019,000</u>	<u>-</u>	<u>1,019,000</u>	<u>-</u>
Cash and cash equivalents	93,000	93,000	-	-
Total long-term investments	<u>\$ 9,430,000</u>	<u>\$ 1,824,000</u>	<u>\$ 7,606,000</u>	<u>\$ -</u>

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Notes to Financial Statements for Years Ended December 31, 2010 and 2009

	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)
Long-term investment strategies:				
Fixed income:				
U.S. Treasury inflation-protected	\$ 752,000	\$ -	\$ 752,000	\$ -
U.S. and global core fixed income funds	1,127,000	-	1,127,000	-
U.S. High Yield Bond Funds	754,000	754,000	-	-
Total	<u>2,633,000</u>	<u>754,000</u>	<u>1,879,000</u>	<u>-</u>
Domestic equities:				
Traditional equity index funds	3,557,000	-	3,557,000	-
Total	<u>3,557,000</u>	<u>-</u>	<u>3,557,000</u>	<u>-</u>
Global (ex-U.S.) equities:				
Developed markets	818,000	-	818,000	-
Emerging markets value (actively managed)	455,000	-	455,000	-
Total	<u>1,273,000</u>	<u>-</u>	<u>1,273,000</u>	<u>-</u>
Total long-term investments	<u>\$ 7,463,000</u>	<u>\$ 754,000</u>	<u>\$ 6,709,000</u>	<u>\$ -</u>

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2010 and 2009

The Company expects to contribute \$5,247,000 to its pension plans and \$1,180,000 to its postretirement benefit plan in 2011.

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

	Pension Benefits	Other Benefits
2011	\$ 1,836,000	\$ 566,000
2012	2,067,000	598,000
2013	2,339,000	626,000
2014	2,644,000	752,000
2015	3,066,000	865,000
Years 2016-2020	<u>22,680,000</u>	<u>5,418,000</u>
Total	<u>\$ 34,632,000</u>	<u>\$ 8,825,000</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 \$1,886,000 and \$1,796,000 for the years ended December 31, 2010 and 2009, respectively.

7. Regulatory Liabilities

At December 31, 2010 and 2009, the Company recorded the following amounts as regulatory liabilities:

	2010	2009
Projected 2009 over collection	\$ -	\$ 2,502,000
Actual 2009 over collection	2,502,000	-
Projected 2010 over collection	7,162,000	-
Additional actual 2010 over collection	<u>5,873,000</u>	<u>-</u>
Total	15,537,000	2,502,000
Less current portion	<u>(9,664,000)</u>	<u>-</u>
Long-term portion	<u>\$ 5,873,000</u>	<u>\$ 2,502,000</u>

The Company recovers its operating expenses through a filed rate assessed to Participants via the Tariff. To the extent that transactional volumes billed under Rate Schedules 1, 2 and 3 of Section IV.A. exceed the amount expected when the rate schedule charges are established, the Company reflects a regulatory liability for the over collection amounts.

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Notes to Financial Statements for Years Ended December 31, 2010 and 2009

8. Leases

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

2011	\$	47,000
2012		48,000
2013		48,000
2014		<u>28,000</u>
Total minimum lease payments	\$	<u>171,000</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 2010 and 2009, rental payments for operating leases were \$46,000 in each year.

9. Smart Grid Program

On October 27, 2009, the U.S. Department of Energy (“DOE”) announced that the Company will receive \$7.9 million in federal stimulus funding to install about 30 new Phasor Measurement Units with multiple synchrophasors at various transmission locations in New England to communicate to 8 Phasor Data Concentrators executing OpenPDC architecture. This project will provide the Smart Grid technology platform upon which advanced analysis and visualization tools can be deployed to enhance situational awareness. With this project, the entire New England region is expected to realize reliability benefits via increased response time to real time system events and wide area monitoring.

The agreement with the DOE was executed on June 3, 2010 and became effective on July 1, 2010. The Company is eligible to receive reimbursement of \$7.9 million or up to 50 percent of the total project costs, which are \$18.1 million. Through December 31, 2010, \$.4 million and \$1.1 million of operating and capital expenses were incurred, respectively, of the total \$18.1 million project costs. The Company has submitted requests for reimbursement of \$.7 million and has received \$.3 million to date. The 50% of costs not reimbursed by the DOE will be incurred by the Company and the transmission owners.

10. Eastern Interconnection Planning Collaborative

On December 18, 2009, the DOE announced that the Eastern Interconnection Planning Collaborative (“EIPC”) will receive \$16 million in federal stimulus funding to perform interconnection-wide transmission analysis. EIPC members have worked together to “roll-up” existing regional plans to craft a model of the Eastern Interconnection that will serve as the platform for the analysis. Under the guidance of a multi-constituency stakeholder steering committee established as a requirement of the DOE project, EIPC will perform economic analysis on eight stakeholder selected scenarios as part of the first phase of the project and then perform transmission expansion and reliability analysis and costing on three stakeholder selected scenarios as part of the second and final phase of the project. The first phase of the project is scheduled for completion in late 2011 with the second phase slated for completion late in 2012.

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Notes to Financial Statements for Years Ended December 31, 2010 and 2009

Although all twenty-six EIPC members will support the DOE project work, eight members will serve as Principal Investigators under the project and are the only EIPC members eligible to receive reimbursements from the funding under a contractual arrangement established between the Principal Investigators and the DOE. The ISO is one of the eight Principal Investigators and is eligible to receive up to \$755,113 in reimbursements for work performed in support of the project. Work started on March 1, 2010 and monthly invoicing began in October of 2010 with reimbursements expected to commence as the invoices are processed.

11. Subsequent Events

Management has evaluated subsequent events through March 25, 2011, which is the date that the financial statements were available to be issued.