2012 Financial Report

May 14, 2013

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2012 Financial Statements

Letter from the CEO

ISO New England is pleased to issue its *2012 Financial Report.* This document includes a summary of last year's operations and our financial position, as well as our financial statements audited by independent public accounting firm KPMG LLP.

Since our inception in 1997, ISO New England has remained dedicated to being efficient and responsive. As a not-for-profit, we place great emphasis on controlling costs, being accountable and transparent, and maintaining strong internal controls. This is evident in our ability to develop a responsible annual budget with the support of stakeholders. Throughout this time, growth in our budget has reflected the expansion of our services as required by federal regulations and prescribed by stakeholders, the increased complexity of projects caused by rapid changes taking place in our industry, and inflationary factors.

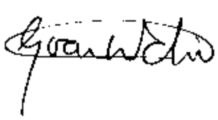
Our company measures success by our ability to provide high-quality outcomes through a fiscally responsible budget and well managed business operations. Over the past 15 years, our services have helped yield a more reliable, cost-effective power system. More than 14,000 megawatts (MW) of new power plant projects have been interconnected to the grid, more than 2,000 MW of demand resources are available to reduce demand and bolster reliability, and $5 billion in transmission investment has been made, reenergizing New England's high-voltage infrastructure and nearly eliminating congestion. The combined effect of these improvements, along with low natural gas prices, have created substantial savings for the region, reducing the value of the wholesale electric energy markets from $12 billion in 2008 to approximately $5 billion in 2012.

Today, federal and state energy and environmental policies, market forces, and technological innovation are rapidly affecting resources on the power system, which in turn is affecting how we operate the grid. Through a multi-year Strategic Planning Initiative, we identified the most significant challenges facing the power system: resource performance and flexibility, dependency on natural gas to generate electricity, the potential retirement of oil- and coal-fired power plants, and the integration of variable resources. Addressing these risks has been the primary force driving our business plan and budget for the past two years and will continue to be so for the coming few years.

The *2012 Financial Report* reflects ISO New England's extensive work last year on this initiative as we shifted from building consensus on the strategic challenges to the development of immediate-, short-, and long-term solutions to mitigate those risks. In 2013, we continue development and are beginning to implement solutions, which predominantly take the form of enhancements to market rules and system operating procedures. Many of the projects have substantial scope, and meeting the proposed deadlines will require a focused effort by the ISO and regional stakeholders. For more information on the initiative, please read the ISO's *2013 Regional Electricity Outlook* and view our Strategic Planning Initiative webpage.

On behalf of ISO New England, I thank the market participants, federal and state officials, and other electricity stakeholders for a productive year in 2012. I look forward to working with you to tackle the tough challenges ahead as we continue to serve the 14 million New England residents who depend on a reliable power system.

Sincerely,



Gordon van Welie
President and Chief Executive Officer

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 2013 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 2013 will encompass three major strategic areas: planning and operations, wholesale markets, and capital project plans—many of which are related specifically to addressing challenges identified through the strategic planning process: retirement of uneconomic capacity; dependence on natural gas system infrastructure for power system operations; and the performance and flexibility of the current system resources. Listed below are the major projects and initiatives to be undertaken in 2013:

- Changes in the Day-Ahead Energy Market timing
- Winter 2013/2014 reliability solutions
- Changes in energy market supply offers (intra-day reoffers)
- Consideration of market resource (nontransmission) alternatives (e.g., wind integration)
- Provide mechanisms to reduce seams issues between neighboring control areas
- Forward Capacity Market reform
- Generation control application Phase II

- Backup Control Center (BCC) functionality
- North American Electric Reliability Corporation (NERC) and Federal Energy Regulatory Commission (FERC) compliance 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 the following tasks:

- Management must make estimates and assumptions that affect the reported amounts of assets and liabilities
- Contingent assets and liabilities must be disclosed at the date of the financial statements
- The amounts of revenues and expenses during the reported period must be reported.

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

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs*. The new standards do not extend the use of fair value but rather provide guidance about how fair value should be applied where it already is required or permitted under International Financial Reporting Status (IFRS) or United States generally accepted accounting principles (US GAAP). For US GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. ASU 2011-04 was amended in 2012 to add language clarifying fair value issues and expand disclosure requirements, especially for Level 3 fair values. A nonpublic entity is required to apply the ASU prospectively for annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the financial statements.

On January 1, 2013, ISO New England became central counterparty to market transactions that flow through the ISO. This status change was a result of filings related to FERC Order 741 and 741A. The ISO now defines counterparty as follows: "Counterparty means the status in which the ISO acts as the contracting party, in its name and own right and not as an agent, to an agreement or transaction with a Customer (including assignments involving Customers) involving sale to the ISO, and/or purchase from the ISO, of Regional Transmission Service and market and other products and services, and other transactions and assignments involving Customers, all as described in the Tariff." Appropriate Tariff provision modifications were made and also approved by FERC effective January 1, 2013, to reflect the new status (see page 12 for more information). Because this status change took place after the Statements of Financial Position and before the issuance of financial statements on March 15, 2013, the ISO is disclosing this status change as a subsequent event, in compliance with the *Subsequent Event Topic* of the FASB Accounting Standards Codification issued in May 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 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 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 to 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 Board 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 Board 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

[1] *ISO New England Inc. Transmission, Markets, and Services Tariff* (ISO tariff), Section IV (2011), http://www.iso-ne.com/regulatory/tariff/sect_4/index.htmlhttp://www.iso-ne.com/regulatory/tariff/sect_4/index.html.

Participants Committee, which reviews and votes on the budgets at its October meeting. During this August to October timeframe, the ISO solicits input on the budgets 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 recommended by the NEPOOL Participants Committee and approved by the board of directors provide the basis for Section IV.A of the tariff filed with FERC on or before November 1 of each year. Pursuant to Section IV.A, the ISO recovers its operating costs through the following three tariff schedules:

- Schedule 1— Scheduling, System Control, and Dispatch Service
- Schedule 2—Energy Administration Service
- Schedule 3—Reliability Administration Service

Each year during the tariff development 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. Any over- or under-collection is recorded as deferred charges or deferred income, and the adjustment for the true-up either increases or decreases the cost recovery in a subsequent tariff filing.

Liquidity and Capital Resources

In the first quarter of 2012, the ISO reevaluated the current and projected financing needs for ongoing project work, working capital and the new Backup Control Center. The result of that analysis led to refinancing the ISO's working capital line at a slightly higher level (from $15 million to $20 million), obtaining additional private-placement debt, and issuing tax-exempt bonds to finance the new BCC.

As a nonstock, nonprofit organization, the ISO has neither equity nor any accumulated reserves. To fund its working capital needs, the ISO has a $20 million line of credit provided by a bank. In addition, to support shortfall payments under the ISO New England Billing Policy, the ISO has a $4 million line of credit provided by a bank. In July 2012, the ISO refinanced the expiring lines of credit for a new three-year term, which will expire on July 1, 2015. 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 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 2012, the ISO completed a revised 10-12 year plan of funding for future capital expenditures. The program included funding for an average of $28 million in capital spending for the next 12 years. Increased project work, arising from the stakeholder process as well as regulations, and longer project-implementation lead times because of increased complexity over the past several years, indicated that the company requires additional funding to support the capital project program. Accordingly, the ISO issued 12-year private-placement fixed-rate interest-only notes in the amount of $11 million in November 2012. The fixed rate for the private placement debt is 3.15%. The continuation with issuing private-placement notes aligns with our philosophy of budgetary discipline and saving the cost of new borrowing each year.

In 2005, the ISO secured $45.5 million of tax-exempt debt to finance its new main 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 0.15%. The weighted average cost of the debt for 2012, including the direct-pay letter of credit, was 0.76%.

The ISO is in the process of building a new Backup Control Center, as stated above in the strategic initiatives. The current BCC cannot accommodate expansion of systems and people needed, as the complexity of the operating environment has increased greatly over the last eight years. To finance the new BCC, the ISO has obtained $36 million of tax-exempt debt financing as the primary resource for funding the new BCC. The debt is comprised of multi-mode variable-rate civic-facility revenue bonds, which reprice weekly. Connecticut Innovations Incorporated issued the bonds, which are interest-only during the construction period and will be repaid over 25 years. Principal repayments begin in August 2014. The current weekly interest rate is 0.15%. The weighted average cost of the debt for 2012, including the direct pay letter of credit, was 0.49%. The new BCC is anticipated to be completed in the first quarter of 2014.

Regulatory Update

It has been several years since the US Congress passed comprehensive energy legislation; nevertheless, energy issues did receive some attention in 2012. A bill to extend the *Production Tax Credit* through 2013 was signed into law. Legislative committees debated issues such as electric grid cyber security, legal protection for generators forced to violate certain environmental laws, and federal support for energy efficiency and renewable and alternative energy measures. Pending and anticipated Environmental Protection Agency (EPA) regulations were thoroughly debated, including ongoing implementation of the closely-scrutinized *2011 Mercury and Air Toxics Standard*. The EPA finalized an update on national air quality standards for harmful particulate matter, delayed an expected announcement on a cooling water rule, and continued to support its *Cross State Air Pollution Rule*.

ISO New England submitted its initial compliance filing on FERC's landmark Order 1000 on transmission planning and cost allocation. In its filing, the ISO noted the successes that the region has achieved in building new transmission infrastructure over the last decade, and argued for allowing the current planning and cost allocation process to continue. Order 1000 requires an additional compliance filing on interregional planning in April 2013. FERC also continues to recognize the importance of addressing the natural gas-electric industry interdependencies, an issue at the core of ISO's Strategic Planning Initiative. FERC convened five technical conferences on the subject in August 2012, including one session in Boston, MA, that included participation from the ISO's Chief Operating Officer. In order to assist operations through Winter 2012/2013, FERC accepted short-term changes to information-sharing practices between the ISO and natural gas pipelines. The

ISO has already filed a suite of additional enhancements, including changes to the Day-Ahead Energy Market schedule, with additional measures that will be filed later this year to address near-term reliability needs and long-term market incentives.

The ISO and transmission owners are in the final stages of implementing a Smart Grid Investment Grant from the US Department of Energy. The goal of the project is to install phasor measurement units (PMUs or synchrophasors) and related communications infrastructure at 40 substations across the transmission system. To date, PMUs at 39 substations are installed and currently streaming data to ISO. All work associated with this grant should be complete by the scheduled date of June 30, 2013.

In 2012, New England continued its substantial intraregional and interregional planning activities on the federal level. The ISO participated in the Eastern Interconnection Planning Collaborative as Phase II of the multi-year modeling exercise came to a close. In addition, work continued on the US Department of Energy's 2012 National Electric Transmission Congestion Study, with its expected release in 2013.

Results of Actual Operations

The following table summarizes the actual amounts and percentage of total expenses for the years ending December 31, 2012, and 2011:

Table 1
Actual Amounts and Percentage of Total Expenses

Year Ending December 31,	2012	2012	2011	2011
	Actual	% of Expenses	Actual	% of Expenses
Salaries and benefits	$ 87.6	58.9%	$ 78.6	56.3%
Depreciation and amortization expense	25.1	16.9	24.6	17.6
Professional and consultants fees	11.0	7.4	12.3	8.8
Computer services	7.6	5.1	6.8	4.9
Northeast Power Coordinating Council dues	5.0	3.4	4.5	3.2
Communication expense	2.0	1.3	2.0	1.4
Interest expense	1.8	1.2	1.7	1.2
Insurance expense	1.7	1.1	1.7	1.2
Board of directors	1.1	0.7	1.1	0.8
Building services	0.9	0.6	0.9	0.7
Utilities	0.9	0.6	0.9	0.7
Other	4.1	2.8	4.5	3.2
Total	$ 148.8	100.0%	$ 139.6	100.0%

Total expenses increased by $9.2 million, or 6.6%, in 2012 over 2011. Expenses net of depreciation, amortization, and interest increased $8.6 million, or 7.6%, in 2012 over 2011. The changes primarily were the result of the following factors:

- Salaries and benefits increased $9.0 million, or 11.5%, in 2012. The changes were attributable to increases for the cost of living, Pension and Post Retirement benefit costs, and additional staff. The increased pension and post-retirement benefit costs were primarily a result of a decrease in the effective discount rate used to calculate future asset returns. The increase in staffing was required to support strategic initiatives and other identified company needs. More specifically, the new positions were in the areas of System Planning for the Alignment of Planning and Markets; Market Operations to integrate price-responsive demand into the energy markets; Market Development to develop impact analysis for major market design and rule changes; Reliability Compliance to ensure the ISO meets FERC and NERC standards; and Market Monitoring and related systems support. The increased staffing also includes support positions, many of which were former temporary positions converted to full-time employees at various points during 2011, which had a full-year impact on 2012. The company determined these positions were providing services that will be ongoing for the foreseeable future.

- Professional and consultants fees decreased $1.3 million, or 10.6%, in 2012. Reductions included recruiter fees as a result of the hiring of an experienced internal recruiter, and reduced temporary employee fees as a result of several individuals being converted to full-time employees during 2011. In addition, 2011 fees that were non-recurring in 2012 included a Benchmark Analysis for the Forward Capacity Market (FCM); FCM enhancements by the Program Management Office; System Operations' Generator Black Start and System Restoration analysis; a study regarding the establishment of a baseline for demand resources variable load data; and lower legal fees for FCM and tax related matters.

- Computer services increased by $0.8 million, or 11.8%, in 2012. This increase was a result of vendor support with the introduction of several software enhancements in 2012, including those related to Market Monitoring Automation, Price Response Demand, and the upgrade of the Energy Management Platform. In addition, market and cyber security system maintenance costs increased related to software purchases made in recent years to handle an increase in internal and external users of company systems and reports. Also contributing to the variance were costs for increased data domain storage; traffic management software to manage users of the company's external website; and purchases of updated computer monitors.

- Northeast Power Coordinating Council (NPCC) dues increased $0.5 million or 11.1% in 2012. ISO New England is assessed a portion of the costs to fund the NPCC which is a regional electric reliability council covering portions of the northeast United States and eastern Canada.

- The "Other" expense line decreased $0.4 million or 8.9% in 2012. The decrease is the result of a reduction in losses on the disposal of capitalized assets and reduced loan fees on the ISOs lines of credit. During 2011, the unamortized balance of loan fees was written off upon the renegotiation of the fees on the company's working capital line of credit and the letter of credit supporting the $45.5 million tax-exempt debt. In addition, in 2011, costs were written off for two projects that were originally being capitalized which were determined to be obsolete; these reductions were partially offset by costs for a new management training program initiated by the company during 2012.

Capital Spending

The FERC-approved capital expenditure budget for 2012 was $28.0 million. During the year, the company requested and received approval to increase the budget by $3.8 million, to $31.8 million, to fund work in 2012 on the new Backup Control Center. The increased funding was needed until the permanent financing, a $36 million tax-exempt bond, was in place. Actual spending for 2012 was under budget by $3,413,800. The reduced spending was primarily a result of delays in the design and approval for the Price Responsive Demand Final Solution, the Coordinated Transaction Scheduling project, and the Business Continuity Plan Infrastructure Enhancements Phase III project, all of which are now forecasted to be completed in 2013 and beyond. A number of other smaller dollar changes occurred in 2012 capital spending.

Major projects in 2012, some of which are ongoing and multi-year, are as follows:

Simultaneous Feasibility Test (SFT) and Market System Upgrade. This project proposes to upgrade the Market System, specifically the market-application servers, to align with upgrades made for the Energy Management System Upgrade and Enhancements Project (as explained below). The project also includes a number of upgrades to the market system that will be necessary in the future, such as redesign of loss sensitivity calculations to address Pool Transmission Facility (PTF) to Non-PTF mapping for loss compensation and an upgrade to the current version of the AIMMS/CPLEX optimization software. In addition, the project addresses ISO Market Administration requests for improvement in the recognition of reserves on units that cannot provide reserves and will enhance the Simultaneous Feasibility Testing application. Finally, the project resolves a number of issues recorded in recent years regarding the Resource Scheduling and Commitment (RSC) application, including changes to the loss sensitivity reference shift factor logic, better calculation and usage of resource loss penalty factors, adoption of a ramp-up constraint for startup hour, more sophisticated ramp rate limit relaxation algorithms, and changes to calculation of reserves. The estimated total cost for this project is $4,695,000. The targeted completion date is April 2014.

Synchrophasor Infrastructure and Data Utilization. The ISO and the New England transmission owners received a grant in conjunction with their application under Funding Opportunity Announcement 0000058 for Smart Grid Investment Grants, to focus on bulk power system operations related to the installation of Phasor Measurement Units. The Company is eligible to receive reimbursement of up to 50% of the total project costs, which are currently estimated at $14,925,300. The 50% of costs not reimbursed by the DOE will be incurred by the Company and the transmission owners.

The ISO's 2012 capital spending for this project was $1.6 million. The ISO expects to receive 50% reimbursement from the Department of Energy, resulting in a net spend for the ISO of $5.3 million, of which $4.3 million is expected to be capital expenditures. The remaining project costs will be borne by the participating transmission owners and are not included in the ISO's capital costs. The project is expected to be complete in June of 2013.

Energy Management System Upgrade and Enhancements. To stay current with supported versions, this project upgraded the hardware and software for the existing EMP 2.3 and Habitat 5.6 platforms for the Energy Management System (EMS), Communication Front-End of the EMS, and Testing and Training Simulator Environment system to the EMP 2.6 and Habitat 5.8 platforms. This action allows the ISO to take full advantage of the latest product features and will simplify and reduce the cost of future upgrades, ultimately enhancing the reliability of operation. This project was completed and put into production in December of 2012, with a final cost of $3,977,600.

NX9/NX12D Data Integration and Automation. The NX9/NX12D Data Integration and Automation project will replace the existing Microsoft Access and Microsoft Excel-based methods to acquire various power system-related data from transmission owners and market participants (e.g., transformer, line, capacitor, generator reactive) with a state-of-the-art solution based on the Alstom Grid e-terrasource product. Existing bridging techniques for disseminating the data to other systems, such as the Energy Management System, Model on Demand and Power System Simulator for Engineers, and Markets Systems, will also be replaced. Once in service, e-terrasource will improve the overall quality and efficiency of integrating the power system data. The estimated cost for this project is $2,300,000. The targeted completion date is August 2013.

Wind Integration. This project will incorporate wind forecasting and wind resources into ISO processes, scheduling, and dispatch services based on recommendations resulting from the New England Wind Integration Study completed in December of 2010. The combination of wind power's variability and the uncertainty involved in forecasting wind power make it fundamentally different from analyzing and operating other resources on the system. The project will acquire external wind power forecasting services, create operator situational awareness displays, integrate wind into the real-time dispatch, and maintain historical wind data for future use of the forecast service, auditing, and other analysis. The Wind Power Forecast Integration Project is the first phase in the progression of steps necessary to fully integrate wind power into the ISO New England system. This first phase will add the initial two key pieces of functionality. One is integrating an external wind power forecast service to provide data about near-term wind plan output, including integration into the Resource Adequacy Assessment processes. The other key piece is creating new real-time displays for the control room operators to display the forecast data and also providing alerts when wind plants may have undesirable effects on the system. The estimated total cost for this project is $2,275,800. The target completion date is September 2013.

Forward Capacity Auction 8 Project (FCA-8). This project primarily addresses the implementation of the Tariff revisions in support of the April 13, 2011 and March 30, 2012 FERC Orders to be effective for the eighth Forward Capacity Auction. The project includes elimination of the Cost of New Entry, reduction of the dynamic de-list bid threshold, introduction of a buyer-side mitigation approach, removal of the auction floor price, change in treatment of out-of-market resources clearing in FCA-6 and FCA-7, elimination of historical out-of-market mitigation, and elimination of the Quantity Rule. Additionally, this project will implement any necessary price-responsive demand (full integration) conforming changes in support of the qualification for the FCA-8, as well as any changes necessitated by alternative FCM frameworks being proposed by the NEPOOL FCM Working Group. The estimated total cost for this project is $2,416,000. The target completion date is February 2014.

Markets Database (MDB) Infrastructure Update Project. In May 2006, the current Market System Database (MDB) platform was deployed at the ISO. The MDB hardware support supplied by the vendor will terminate at the end of 2013. Given the centrality of the MDB to the ISO's core mission, the platform must be replaced with up-to-date hardware that will be supported by the vendor. This upgrade is coincident with the changes the ISO is making to its Backup Control Center, as discussed below. As part of this effort, the ISO is implementing active-active clustered services at both the Main Control Center and Back-up Control Center sites. This project will replace all the MDB servers, simplify the clustering architecture to improve the capabilities of individual nodes and take advantage of recent technology improvements. The estimated total cost for this project is $1,688,900. The target completion date is October 2013.

Back Up Control Center Project. The ISO's evaluation of a new BCC was driven primarily by its Business Continuity Plan and the objective to locate the BCC such that it could be fully activated and staffed by first responders as soon as possible following an event that caused evacuation of the Master Control Center. The current BCC is at or near its maximum capacity, with very little opportunity for expansion at the current site.

The ISO operating environment has grown more complex since the 2004 BCC upgrade. The current BCC and supporting infrastructure are considered minimally acceptable by management for a variety of reasons—most driven by the lack of room for expansion to meet the Business Continuity Plan needs. The Business Continuity Plan identifies the emergency staffing requirements necessary for successfully supporting prolonged business operations. In an emergency, the ISO needs space for approximately 150 employees to staff the critical business functions, including wholesale markets. Since the 5,000 square feet available at the current BCC cannot possibly support that level of staffing, or the stockpiling of computers and other office supplies, emergency space would have to be acquired and equipment purchased. The acquisition of additional space, coupled with the purchase lead-time of certain IT hardware, makes it unlikely that full business functionality could be achieved for some time—possibly months. Additional space is needed not only to support critical Business Continuity Plan staffing functions but also for the expansion of the IT infrastructure necessary to meet the increased day-to-day operational and market infrastructure support requirements, as well as for emergency operations. The estimated capital cost for this project is $36,046,000. The project also includes the leasing of certain computer equipment and moving costs, which will be reflected in the ISO's operating budgets. The target completion date for this project is March 2014.

Back-Up Control Center Data Center Transition Project. This project is related to the Backup Control Center project and refers to the transition/cutover process from the old BCC to the new BCC. IT-related activities required for a successful transition include relocation of servers, and purchasing and installing network hardware; the core network infrastructure; wireless equipment; audio visual equipment;, security equipment;, and cyber security equipment. The estimated cost for this project is $1,644,900. The target completion date is March 2014.

Software Development Costs. In addition to the major projects described above, the ISO incurred $2.7 million in software development costs. These costs supported a multitude of enhancements to existing software systems.

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 post-retirement 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 2012, the settlement float decreased on average approximately 24% from the 2011 levels. This decrease was primarily caused by lower clearing prices in the energy markets. The decrease in float and the low interest rates, combined with the decreasing balance of tax-exempt debt until mid-December 2012 when we entered into additional tax-exempt debt, has had little overall impact on the hedge. The interest expense on the recently issued tax-exempt debt ($36 million issued by Connecticut Innovations Incorporated on December 13, 2012) is being capitalized, net of interest income earned on the unused balance of bonds, until the construction period is complete. Therefore, in 2012 and in 2013 there is no operating expense impact from the newly issued tax-exempt debt. Both interest income and interest expense rates have remained very low in 2013. 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 post-retirement plans. Lower rates result in increased costs.

In addition, the ISO 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 from 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 for 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.

In 2012, the ISO continued its work modifying the financial assurance and billing policies related to FERC's Order on *Credit Reforms in Organized Wholesale Electricity Market* and addressing other credit-related policies.[2]

Early in 2012, the ISO made a FERC filing to address several concerns raised by its customers, including policy related to the minimum capitalization, financial statement submittal requirements for all customers, and suspension provisions related to these changes which became effective in October 2011. Customers were concerned about meeting the minimum capitalization requirement of having assets of $10 million or more. To address the minimum capitalization concern, changes to the financial assurance policy were made such that a customer could supplement total assets that were below the established threshold of $10 million with additional financial assurance to close the gap. Importantly, and already established in the financial assurance policy, was that customers with financial assurance requirements of less than $100,000 were not required to meet the minimum capitalization threshold. A modification was also made to the financial assurance policy such that, if an individual market participant does not have a credit limit and accounts for less than 0.05% of the total dollar amount settled through ISO New England, they are exempt from filing financial statement. As part of the filing, modifications were made to the suspension timing surrounding the failure to comply with a request for information disclosure documentation, as well as the submittal of communications and risk management certificates.

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

In the second quarter of 2012, the ISO filed with FERC to become the central counterparty for transactions that clear through the Day-Ahead and Real-Time Energy Markets, as well as regional network service transactions and certain bilateral transactions that clear through the ISO's settlement systems. FERC approved the request, and the ISO became the central counterparty effective January 1, 2013.This new role required changes to the financial assurance and billing policies and a number of other ISO tariffs including Market Rule 1and the Open Access Transmission Tariff. The ISO issued a compliance filing, which fulfilled its obligations to FERC's Order on *Credit Reforms in Organized Wholesale Electricity Markets.* More specifically, the changes addressed the issue of allowing market participants to offset market obligations and the effect of this feature in a bankruptcy.

In September 2012, the ISO revised the financial assurance policy to put controls in place to prevent internal bilateral transactions from causing a market participant to exceed it credit test percentages. This change closes a known gap in the financial assurance policy, in that it captures the value up front (i.e. before the internal bilateral transactions flow) and factors it into the participant's position rather than after the fact, as under the previous rules. This new provision allows for the ISO to reject any internal bilateral transactions that would cause the market participant to go over its available credit.

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 year-end settlement market information for 2011 and 2012 for the markets the ISO oversees.

Table 2
Settlement Market Information

Key Settlement Market Data for the Year's Ending:[a]	2012	2011
	$ in Millions	
Energy Markets		
Day-Ahead Energy	$4,934	$6,455
Real-Time Energy	$318	$306
Total Energy Markets	$5,252	$6,761
Real-Time Load Obligation (MWh)[b]	134,490,860	136,252,110
Net Commitment-Period Compensation (NCPC)	$87	$74
Total NCPC	$87	$74
Reserve Markets		
Forward Reserve Markets, Net	$9	$18
Real-Time Reserve Markets	$24	$8
Total Reserve Markets	$33	$26
Regulation Market	$12	$13
Total Regulation Market	$12	$13
Forward Capacity Market Payments	$1,182	$1,345
Total Forward Capacity Market Payments	$1,182	$1,345
Financial Transmission Rights—Long Term Auction	$10	$16
Financial Transmission Rights—Monthly Auction	$6	$7
Total Auction Revenue Rights	$16	$23
Open Access Transmission Charges (OATT)		
Regional Network Service/Through or Out	$1,479	$1,338
Black Start	$10	$10
Volt Ampere Reactive Capacity Cost	$24	$24
Total OATT Charges	$1,516	$1,372
Demand-Response Payments	$2	$7
Total Demand-Response Payments	$2	$7

(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.

The ISO's aggregate customer base has decreased year over year, with 452 customers in 2012, down from 460 customers in 2011. The ISO's customers include generators, suppliers, publicly owned entities, transmission owners, demand-response resources, alternative resources, and end users. The cash cleared in 2012 was $4.9 billion, compared with $5.8 billion in 2011, which is a decrease of approximately 15%. Energy market transactions that cleared through the ISO decreased approximately 22% from 2011 to 2012. In addition, the all-in energy market cost decreased 23%, and average natural gas prices decreased by approximately 20%. All of these measures are key indicators of the cash that clears through the ISO.

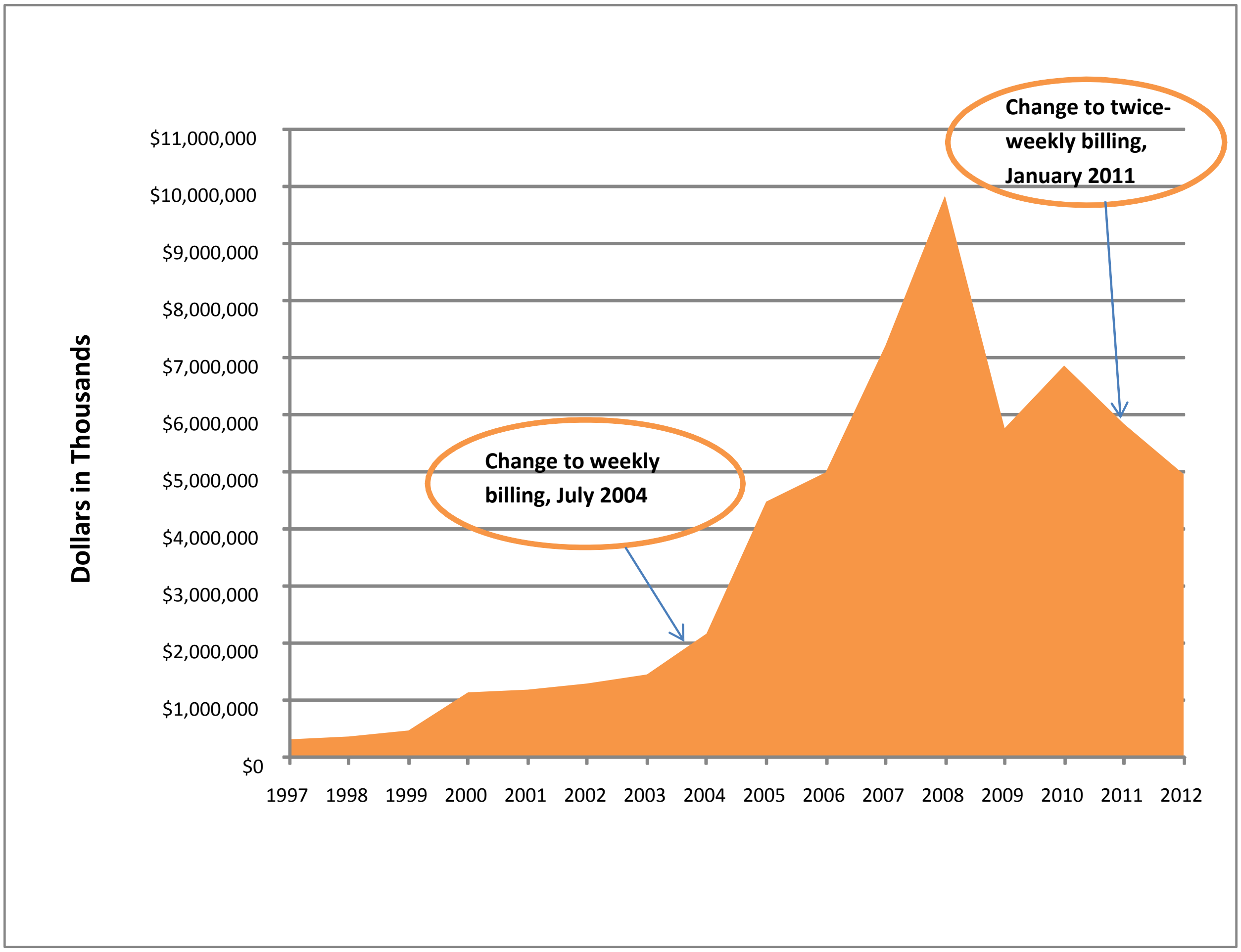


Figure: Annual historical market clearing activity.

Note: Data for years 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 for the integrity of these statements. These financial statements have been prepared to conform to accounting principles generally accepted in the US 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 and 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, 2012 and 2011

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
ISO New England Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of ISO New England Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

March 15, 2013

ISO New England Inc.
Statements of Financial Position
As of December 31, 2012 and 2011

	2012	2011
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 12,303	$ 42,390
Security deposits	274,055	332,763
Unbilled receviable, net	23,327	21,837
Prepaid expenses and other assets	603	1,107
Restricted cash on deposit	48,024	2,206
Regulatory assets - current	916	-
Noncurrent assets:		
Property and equipment in-service, net	64,375	64,491
Work in process	22,560	20,166
Deferred charges	1,043	75
Regulatory assets, net of current portion	56,315	51,315
Total assets	$ 503,521	$ 536,350
Liabilities and Net Assets		
Current liabilities:		
Revolving credit	$ 3,000	$ -
Accounts payable:		
Settlement, net	11,307	39,899
Administration	4,417	6,589
Deposit payable	278,292	338,806
Interest payable	820	784
Accrued compensation	15,802	14,447
Regulatory liability	-	7,365
Restricted cash on deposit payable	14,451	2,206
Long-term debt - current portion	1,820	1,820
Long-term liabilities:		
Pension and post retirement benefit liability	54,397	50,399
Long-term debt	119,215	74,035
Total liabilities	503,521	536,350
Unrestricted net assets	-	-
Total liabilities and net assets	$ 503,521	$ 536,350

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

ISO New England Inc.
Statements of Activities
For Years Ended December 31, 2012 and 2011

	2012	2011
	(In thousands)	
Changes in unrestricted net assets:		
Revenues:		
ISO tariff revenues	$ 147,879	$ 138,864
Grant revenues	534	309
Interest income	96	57
Fees and services	339	333
Total unrestricted revenues	148,848	139,563
Expenses:		
General and administrative:		
Salaries and benefits	87,573	78,558
Depreciation and amortization expense	25,073	24,558
Professional fees and consultants	11,001	12,250
Computer services	7,621	6,785
Northeast Power Coordinating Council dues	4,949	4,557
Communication expense	2,019	1,965
Interest Expense	1,836	1,736
Insurance expense	1,713	1,693
Board of directors	1,078	1,109
Utilities	923	936
Building services	933	927
Other	4,129	4,489
Total expenses	148,848	139,563
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
Unrestricted net assets, end of year	$ -	$ -

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

ISO New England Inc.
Statements of Cash Flows
For Years Ended December 31, 2012 and 2011

	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Change in unrestricted net assets	$ -	$ -
Adjustments to reconcile change in unrestricted net assets to net cash used by operating activities:		
Depreciation and amortization expense	25,073	24,558
Loss on disposal	91	456
(Increase) decrease in unbilled receivable, net	(1,490)	2,745
Decrease (increase) in prepaid expenses and other assets	504	(252)
Increase in regulatory assets	(1,918)	(916)
(Decrease) increase in accounts payable:		
Settlement	(28,592)	(106,519)
Administration	(3,616)	1,200
Increase in accrued compensation	1,355	2,304
Increase (decrease) in interest payable	36	(50)
Decrease in regulatory liabilities	(7,365)	(8,172)
Net cash used by operating activities	(15,922)	(84,646)
Cash flows from investing activities:		
Capital expenditures	(26,966)	(25,207)
Net cash used in investing activities	(26,966)	(25,207)
Cash flows from financing activities:		
Decrease (increase) in security deposits	58,708	(1,184)
(Increase) decrease in restricted cash on deposit	(45,818)	2,239
Increase (decrease) in restricted cash on deposit payable	12,245	(2,239)
Decrease in deposit payable	(60,514)	(1,111)
Borrowing on long-term debt	47,000	-
Repayment on long-term debt	(1,820)	(1,820)
Borrowing on revolving credit	52,000	6,500
Repayment on revolving credit	(49,000)	(6,500)
Net cash provided (used) by financing activities	12,801	(4,115)
Net change in cash and cash equivalents	(30,087)	(113,968)
Cash and cash equivalents, beginning of year	42,390	156,358
Cash and cash equivalents, end of year	$ 12,303	$ 42,390
Supplemental data:		
Amounts included in Accounts Payable - Administration related to work in process	$ 3,051	$ 1,607
Cash paid during the year for interest, net of interest capitalized	$ 1,779	$ 1,746
Non-cash activity - Change in pension liability is offset by regulatory assets	$ 3,998	$ 28,538

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

1. Summary of Significant Accounting Policies

Description of Business
ISO New England Inc. (the "Company" or "ISO") is the Regional Transmission Organization ("RTO") for New England in compliance with the requirements of the Federal Energy Regulatory Commission ("FERC").

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, 2012 and 2011 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 twice 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 on subsequent invoices issued twice per week. The balance at the end of the year represents 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 $48,024,000 and $2,206,000 at December 31, 2012 and 2011, respectively, recorded as restricted cash on deposit, represents the net proceeds from tax-exempt bond financing for Back-up Control Center, Forward Capacity Market Forfeited Funds, FERC Order Funds, and Congestion Revenue Fund. The balance has a corresponding liability on the Statements of Financial Position. The restricted cash on deposit at December 31, 2012 and 2011 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. Additionally, the net proceeds from the tax-exempt bond financing for BCC are held at cost and are reflected in long-term debt on the Statements of Financial Position.

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 and Helmsford Way. A portion of the costs for the land at Sullivan Road, 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 for both locations, also deferred, will be collected in future filings.

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

Deferred charges	**2012**	**2011**
Land located on Sullivan Road	$ 60,000	$ 75,000
Land located on Helmsford Way	983,000	-
	$ 1,043,000	$ 75,000

Regulatory assets - current	**2012**	**2011**
Actual 2011 under collection true-up	$ 916,000	-
	$ 916,000	-

Regulatory assets, net of current portion	**2012**	**2011**
Actual 2011 under collection true-up	$ -	$ 916,000
Actual 2012 under collection	1,918,000	-
Asset related to pension and postretirement benefit liabilities (Note 5)	54,397,000	50,399,000
	$ 56,315,000	$ 51,315,000

Regulatory liabilities	**2012**	**2011**
Additional actual 2010 over collection	$ -	$ 5,873,000
Projected 2011 over collection	-	1,492,000
	$ -	$ 7,365,000

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. 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).

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 certain cases, including non-investment grade rated Participants that meet certain criteria and all Participants participating in the Financial Transmission Rights market, 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, 2012 and 2011 were approximately $274,055,000 and $332,763,000, 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 regulatory assets or regulatory liabilities 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.

Concentrations
The Company's top 10 Participants represented approximately 45% or $62,337,000 and 47% or $60,661,000 in tariff revenues for the years ended December 31, 2012 and 2011, respectively. The Company's top 10 Participants with accounts receivable balances represented approximately 45% or $10,214,000 and 46% or $9,880,000 as of December 31, 2012 and 2011, respectively.

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.

Revised Classification

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

Recently Issued Accounting Standards

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. ASU 2011-04 was amended in 2012 to add clarifying language on fair value issues and expand disclosure requirements, especially for Level 3 fair values. A nonpublic entity is required to apply the ASU prospectively for annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the financial statements.

2. Commitments and Contingencies

Capital and Administrative Funding Tariff

The FERC accepted ISO's capital and administrative funding filings to recover administrative expenses for 2012 and 2011. 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. In 2012, FERC accepted the capital funding filing for 2013. In December 2012, FERC issued an order on the 2013 administrative funding filing accepting the proposed Tariff revisions for filing, suspended them for a nominal period to become effective January 1, 2013, subject to refund, and established a hearing and settlement judge procedures.

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, 2012	December 31, 2011
Computer hardware, software and accessories	$ 201,157,000	$ 184,178,000
Software development costs	60,695,000	55,049,000
Furniture and fixtures	2,943,000	2,884,000
Machinery and equipment	92,000	85,000
Building and leasehold/building improvements	45,655,000	45,021,000
Capitalized interest and fees	9,023,000	8,270,000
Vehicles	42,000	42,000
	319,607,000	295,529,000
Less: accumulated depreciation and amortization	(255,232,000)	(231,038,000)
Property and equipment in-service, net	**$ 64,375,000**	**$ 64,491,000**
Work in process ("WIP")	**$ 22,560,000**	**$ 20,166,000**

Costs represented in WIP include Synchrophasor Infrastructure and Data Utilization, Market System Enhancements, Wind Integration, NX9/NX12D Data Integration and Automation, Forward Capacity Market Reform, Business Intelligence Phase II, and System Restoration and Blackstart Resource which all began in 2010 and 2011. Additionally, a number of new projects began in 2012, such as Backup Control Center Project, General Control Applications Phase II, 2012 Issue Resolution Phase II, Bilateral Financial Assurance, Markets Database Infrastructure Update Project, and various other market enhancement projects that have not been placed in service as of December 31, 2012.

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, 2012 and 2011 was $611,000 and $510,000, 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, 2012 and 2011 was $551,000 and $494,000, respectively.

Depreciation and amortization expense was $25,073,000 and $24,558,000 for the years ended December 31, 2012 and 2011, respectively.

4. Credit Facilities

Revolving Credit Arrangement

In June 2009, the Company entered into a $15,000,000 revolving credit arrangement which expired on July 1, 2012. In addition, the Company renegotiated certain terms of the credit arrangement effective August 23, 2011, none of which involved a change in the expiration date of the debt. From the period of June 2009 through August 22, 2011, interest accrued on the revolving credit at either Base Rate or a LIBOR of which the Company had the option of selecting the 30, 60, 90, or 180-day rate, plus a 1.50% spread. Effective August 23, 2011, the same interest rate options applied, with the LIBOR spread equal to 1.00%. Interest was paid at the earlier of the selected LIBOR term or 30 days. The Company was charged an annual fee of .15% on the entire line of credit.

In June, 2012, the Company entered into a $20,000,000 revolving credit arrangement that expires on July 1, 2015, and any outstanding balance must be paid by this date. In May 2012, the Company filed a Section 204 filing with FERC to issue this new debt for which the filing was approved in June, 2012. Interest accrues 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 is paid at the earlier of the selected LIBOR term or 30 days. The Company is charged an annual fee of .10% on the unused amount on the line of credit.

The outstanding balance for each of the years ended December 31, 2012 and 2011 was $3,000,000 and $0, respectively. For the years ended December 31, 2012 and 2011, the weighted average interest rate was approximately 1.45% and 3.00% respectively.

The Company entered into a $4,000,000 revolving credit arrangement on June 30, 2009 that expired on July 1, 2012. The Company renegotiated certain terms of the credit arrangement effective August 23, 2011, none of which involved a change in the expiration date of the debt. This arrangement continued to serve as a line of credit to cover any potential payment defaults by a Participant. From the period of June 2009 through August 22, 2011, interest accrued on the revolving credit at either Base Rate or a LIBOR of which the Company had the option of selecting the 30, 60, 90, or 180-day rate, plus a 1.50% spread. Effective August 23, 2011, the same interest rate options applied, with the LIBOR spread equal to 1.00%. 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 in June 2012 that expires on July 1, 2015 and any unpaid balances must be paid as of this date. In May 2012, the Company filed a Section 204 filing with the FERC to issue this new debt for which the filing was approved in June 2012. 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 .60% spread. Interest is paid at the earlier of the selected LIBOR term or 30 days. The Company is charged an annual fee of .10% on the unused amount on the line of credit.

The outstanding balance for each of the years ended December 31, 2012 and 2011 was $0.

The Company incurred $31,000 in debt issuance costs as a result of the refinancing revolving credit arrangement in 2012. These costs have been capitalized and are being amortized on a straight-line basis over the remaining life of the arrangement The Company incurred $20,000 in debt issuance costs as a result of the amendment in 2011 for which the costs were fully amortized in 2012 with no gain or loss. Total amortization expense was approximately $20,000 and $17,000 for the years ended December 31, 2012 and 2011, respectively.

Private Placement Debt Arrangement

In September 2004, the Company entered into a $39,000,000 private placement loan, which is made up of ten year 5.60% senior notes. Payment is due in full on September 2, 2014 with no mandatory prepayments and interest 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, 2012 was estimated at $41,422,000. The fair value is estimated using discounted cash flow analysis based on the Company's incremental borrowing rates for similar types of borrowing arrangements which was 1.61% for December 31, 2012.

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, 2012 and 2011 was approximately $20,000.

In November 2012, the Company entered into an $11,000,000 private placement loan, which is made up of a twelve year 3.15% senior note. Payment is due in full on November 8, 2024 with 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, 2012 was estimated at $11,053,000. The fair value is estimated using discounted cash flow analysis based on the Company's incremental borrowing rates for similar types of borrowing arrangements which was 3.10% for December 31, 2012.

In 2012, the Company incurred $86,000 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 year ended December 31, 2012 was approximately $1,000.

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 expired on August 31, 2012. On August 23, 2011, the bank and the Company amended the expiration date of the LOC to be August 31, 2015. 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 0.16% and 0.18% for the years ended December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, the weighted average floating interest rate on the Bonds was approximately 0.13% and 0.14%, respectively. 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. Effective August 23, 2011 the annual fee charged to the Company was reduced to 0.75% and is calculated on the same basis as previous to the fee amendment. Effective August 23, 2012 the annual fee charged to the Company was reduced to 0.38% and is calculated on the same basis as previous to the fee amendment.

The Company incurred $238,000 in debt issuance costs as a result of the refinancing. These costs have been capitalized and were being amortized on a straight-line basis over the remaining life of the Bonds. Upon execution of the LOC amendment, the remaining costs were written off to gains/losses, which are included in other expense on the Statements of Activities, in the amount of $216,000. Total amortization expense was approximately $16,000 and $21,000 for the years ended December 31, 2012 and 2011, respectively.

In December of 2012, the Company entered into tax exempt financing of $36,000,000 in the form of Multi-Mode Variable Rate Civic Facility Revenue Bonds ("CT Bonds"), which were issued by Connecticut Innovations Incorporated. The proceeds of the CT Bonds were loaned to the Company to assist in financing a project located in Windsor, Connecticut to acquire real property, construct an office building with data center and control center, including miscellaneous property and equipment to serve as a Back-up Control Center. Principal payments of $353,000 will be paid quarterly and are scheduled to begin in August 2014, with the final repayment due on November 2039. The tax exempt financing is backed by a letter of credit ("LOC") that the Company entered into in December of 2012, with an alternative credit facility not to exceed $36,579,946 that expires on December 13, 2015. Interest accrues quarterly on the $36,000,000 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 0.16% for the year ended December 31, 2012. For the year ended December 31, 2012, the weighted average floating interest rate on the CT Bonds was approximately .11%. The Company is charged an annual fee of .38% paid quarterly based on the maximum amount available to be drawn under the letter of credit including principal and interest commitments.

The Company incurred $387,000 in debt issuance costs as a result of the refinancing. These costs have been capitalized and will be amortized on a straight-line basis over the life of the CT Bonds. The total long-term debt at December 31, 2012 and 2011 was $121,035,000 and $75,855,000, respectively. Principal payments on the private placement debt and tax-exempt bonds are due annually as follows:

2013	$	1,820,000
2014		40,820,000
2015		1,820,000
2016		1,820,000
2017		1,820,000
Thereafter		72,935,000
	$	121,035,000

Interest incurred on the revolving credit arrangement, private placement debt, and tax-exempt bonds for the years ended December 31, 2012 and 2011 was approximately $2,448,000 and $2,246,000, 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.

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 plans as required in the Accounting for Defined Benefit Pension and Other Postretirement Plans Topic of the FASB ASC. 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 $17,000, has been included in the measurement of the postretirement benefit obligation as of December 31, 2012. 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.

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

	Pension Benefits Years Ended December 31, 2012	Pension Benefits Years Ended December 31, 2011	Other Postretirement Benefits Years Ended December 31, 2012	Other Postretirement Benefits Years Ended December 31, 2011
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 113,136,000	$ 81,887,000	$ 14,692,000	$ 12,652,000
Service cost	7,216,000	4,993,000	1,177,000	1,045,000
Interest cost	4,932,000	4,530,000	570,000	596,000
Benefits paid	(2,029,000)	(1,897,000)	(368,000)	(403,000)
Plan participants' contributions	-	-	72,000	65,000
Actuarial loss	9,370,000	23,623,000	169,000	737,000
Benefit obligation at end of year	132,625,000	113,136,000	16,312,000	14,692,000
Change in plan assets:				
Fair value of plan assets at beginning of year	67,620,000	63,248,000	9,809,000	9,430,000
Actual return on plan assets	8,068,000	454,000	1,126,000	29,000
Employer contributions	9,160,000	5,815,000	1,082,000	688,000
Plan participants' contributions	-	-	72,000	65,000
Benefits paid	(2,029,000)	(1,897,000)	(368,000)	(403,000)
Fair value of plan assets at end of year	82,819,000	67,620,000	11,721,000	9,809,000
Funded status at end of the year	(49,806,000)	(45,516,000)	(4,591,000)	(4,883,000)
Transition obligation	-	-	-	-
Net actuarial (gain) loss	-	-	-	-
Prior service cost	-	-	-	-
Net amount recognized as non-current liabilities	$ (49,806,000)	$ (45,516,000)	$ (4,591,000)	$ (4,883,000)

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, 2012 and 2011 in the accompanying Statements of Financial Position.

	Pension Benefits Years ended December 31, 2012	Pension Benefits Years ended December 31, 2011	Other Postretirement Benefits Years ended December 31, 2012	Other Postretirement Benefits Years ended December 31, 2011
Components of net periodic benefit cost:				
Service cost	$ 7,216,000	$ 4,993,000	$ 1,177,000	$ 1,045,000
Interest cost	4,932,000	4,530,000	570,000	596,000
Expected return on plan assets	(5,325,000)	(4,878,000)	(758,000)	(723,000)
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	2,127,000	761,000	(129,000)	126,000
Amortization of unrecognized prior service cost	2,000	2,000	249,000	(129,000)
Net periodic benefit cost	$ 9,077,000	$ 5,533,000	$ 1,165,000	$ 971,000

	Pension Benefits Years ended December 31, 2012	Pension Benefits Years ended December 31, 2011	Other Postretirement Years ended December 31, 2012	Other Postretirement Years ended December 31, 2011
Prepaid benefit cost at beginning of year	$ 283,000	$ -	$ (283,000)	$ -
Employer contributions	9,160,000	5,815,000	1,082,000	688,000
Net periodic benefit cost	(9,077,000)	(5,532,000)	(1,165,000)	(971,000)
Prepaid benefit cost at end of year	$ 366,000	$ 283,000	$ (366,000)	$ (283,000)

The following table sets forth the amount expected to be amortized into net periodic benefit cost over the next fiscal year ending December 31, 2012:

	Pension Benefits	Other Benefits
Expected amortization of transition obligation	$ 125,000	$ 56,000
Expected amortization of net actuarial loss	2,246,000	240,000
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	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Discount rate	4.38%	5.51%	4.12%	5.14%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	3.75%	3.50%	3.75%	3.50%
Health Care cost trend rates - initial	-	-	8.50%	9.00%
Health Care cost trend rates - ultimate	-	-	5.00%	5.00%
Ultimate year	-	-	2020	2020

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

	Pension Benefits		Other Benefits	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Discount rate	4.01%	4.38%	3.62%	4.12%
Rate of compensation increase	3.75%	3.75%	3.75%	3.75%

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, 2012 by approximately $623,000 or decrease the APBO by approximately $564,000. 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, 2012 by approximately $108,000 and $95,000, respectively.

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 2013	Percentage of Plan Assets at December 31 2012	2011	Weighted Average Expected Long-Term Rate of Return - 2013
Equity Securities	59%	59%	59%	5.54%
Debt Securities	36%	36%	36%	1.33%
Other	5%	5%	5%	0.38%
Total	100%	100%	100%	7.25%

The forward-looking estimates of total return are generated through combined assessment of current valuation measures, income, economic growth and inflation forecasts, historical risk premiums, and universal capital market assumptions. 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 the pension plan assets at December 31, 2012 and 2011 by asset category are as follows:

	Market Value at 12/31/12	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	$ 4,222,000	$ -	$ 4,222,000	$ -
U.S. and global core fixed income funds	22,405,000	-	22,405,000	-
U.S. High Yield Bond Funds	2,577,000	2,577,000	-	-
Total	29,204,000	2,577,000	26,627,000	-
Domestic equities:				
Traditional equity index funds	32,895,000	-	32,895,000	-
Total	32,895,000	-	32,895,000	-
Global (ex-U.S.) equities:				
Developed markets	9,508,000	9,508,000	-	-
Emerging markets value (actively managed)	2,855,000	2,855,000	-	-
Total	12,363,000	12,363,000	-	-
Real assets:				
U.S. real estate investment trust funds	4,248,000	-	4,248,000	-
Commodities - oil and energy	3,489,000	-	3,489,000	-
Total	7,737,000	-	7,737,000	-
Cash and cash equivalents	620,000	620,000	-	-
Total long-term investments	$ 82,819,000	$ 15,560,000	$ 67,259,000	$ -

The Company's pension plan investments are composed of mutual funds and commingled trust funds that are redeemable at NAV on a daily basis. Redemption of such investments generally requires 1 to 2 days written notice prior to the redemption date.

	Market Value at 12/31/11	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	$ 3,608,000	$ -	$ 3,608,000	$ -
U.S. and global core fixed income funds	19,543,000	-	19,543,000	-
U.S. High Yield Bond Funds	2,045,000	2,045,000	-	-
Total	25,196,000	2,045,000	23,151,000	-
Domestic equities:				
Traditional equity index funds	25,823,000	-	25,823,000	-
Total	25,823,000	-	25,823,000	-
Global (ex-U.S.) equities:				
Developed markets	7,366,000	7,366,000	-	-
Emerging markets value (actively managed)	2,145,000	2,145,000	-	-
Total	9,511,000	9,511,000	-	-
Real assets:				
U.S. real estate investment trust funds	3,315,000	-	3,315,000	-
Commodities - oil and energy	3,169,000	-	3,169,000	-
Total	6,484,000	-	6,484,000	-
Cash and cash equivalents	606,000	606,000	-	-
Total long-term investments	$ 67,620,000	$ 12,162,000	$ 55,458,000	$ -

The Company's pension plan investments are composed of mutual funds and commingled trust funds that are redeemable at NAV on a daily basis. Redemption of such investments generally requires 1 to 2 days written notice prior to the redemption date.

The fair values of the other postretirement benefit plan assets at December 31, 2012 and 2011 by asset category are as follows:

	Market Value at 12/31/12	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	$ 554,000	$ -	$ 554,000	$ -
U.S. and global core fixed income funds	3,198,000	-	3,198,000	-
U.S. High Yield Bond Funds	355,000	355,000	-	-
Total	4,107,000	355,000	3,752,000	-
Domestic equities:				
Traditional equity index funds	4,576,000	-	4,576,000	-
Total	4,576,000	-	4,576,000	-
Global (ex-U.S.) equities:				
Developed markets	1,330,000	1,330,000	-	-
Emerging markets value (actively managed)	434,000	434,000	-	-
Total	1,764,000	1,764,000	-	-
Real assets:				
U.S. real estate investment trust funds	581,000	-	581,000	-
Commodities - oil and energy	475,000	-	475,000	-
Total	1,056,000	-	1,056,000	-
Cash and cash equivalents	218,000	218,000	-	-
Total long-term investments	$ 11,721,000	$ 2,337,000	$ 9,384,000	$ -

The Company's other postretirement benefit plan investments are composed of mutual funds and commingled trust funds that are redeemable at NAV on a daily basis. Redemption of such investments generally requires 1 to 2 days written notice prior to the redemption date.

	Market Value at 12/31/11	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	$ 545,000	$ -	$ 545,000	$ -
U.S. and global core fixed income funds	2,867,000	-	2,867,000	-
U.S. High Yield Bond Funds	290,000	290,000	-	-
Total	3,702,000	290,000	3,412,000	-
Domestic equities:				
Traditional equity index funds	3,738,000	-	3,738,000	-
Total	3,738,000	-	3,738,000	-
Global (ex-U.S.) equities:				
Developed markets	1,130,000	1,130,000	-	-
Emerging markets value (actively managed)	278,000	278,000	-	-
Total	1,408,000	1,408,000	-	-
Real assets:				
U.S. real estate investment trust funds	504,000	-	504,000	-
Commodities - oil and energy	447,000	-	447,000	-
Total	951,000	-	951,000	-
Cash and cash equivalents	10,000	10,000	-	-
Total long-term investments	$ 9,809,000	$ 1,708,000	$ 8,101,000	$ -

The Company's other postretirement benefit plan investments are composed of mutual funds and commingled trust funds that are redeemable at NAV on a daily basis. Redemption of such investments generally requires 1 to 2 days written notice prior to the redemption date.

The Company expects to contribute $9,603,000 to its pension plans and $1,143,000 to its postretirement benefit plan in 2013.

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

	Pension Benefits	Other Benefits
2013	$ 2,597,000	$ 594,000
2014	2,921,000	683,000
2015	3,407,000	782,000
2016	3,828,000	781,000
2017	4,349,000	864,000
Years 2018-2022	29,458,000	5,554,000
Total	$ 46,560,000	$ 9,258,000

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 $2,331,000 and $2,097,000 for the years ended December 31, 2012 and 2011, respectively.

7. Leases

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

2013	$ 189,000
2014	105,000
2015	40,000
Total minimum lease payments	$ 334,000

The Company currently houses its back-up facilities at a separate location on a net lease basis, which includes the cost of utilities. The lease will expire in July 31, 2014 with a three year renewal period through 2017. In addition, the Company currently leases office equipment and computer hardware through 2015. For fiscal years 2012 and 2011, rental payments for operating leases were $200,000 and $168,000, respectively.

8. Smart Grid Program

On October 27, 2009, the U.S. Department of Energy ("DOE") announced that the Company will receive $7,900,000 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 $7,900,000 or up to 50 percent of the total project costs, which were initially estimated at $18,100,000. The Company submitted a revised budget to the DOE, with the scope of the overall project remaining the same, which was accepted on June 11, 2012. The revised budget reduced the overall project cost to $14,900,000 and reduced the amount the Company will be eligible to receive to $6,400,000. Total project costs incurred through December 31, 2012 were $1,500,000 and $7,100,000 of operating and capital expenses, respectively, and $1,400,000 of subrecipient expenses. The Company has submitted requests for reimbursement of $4,800,000 and has received $4,400,000 through December 31, 2012. The 50% of costs not reimbursed by the DOE will be incurred by the Company and the transmission owners.

9. Eastern Interconnection Planning Collaborative

On December 18, 2009, the DOE announced that the Eastern Interconnection Planning Collaborative ("EIPC") will receive $16,000,000 in federal stimulus funding to perform interconnection-wide transmission analysis. The project cost may total less than the $16,000,000 however the scope of the project will remain the same. 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 completed in late 2011 with the second phase completed late in 2012.

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 $755,000 in reimbursements for work performed in support of the project. The Company has submitted requests for reimbursement of $339,000 and has received $332,000 through December 31, 2012.

10. Subsequent Events

Management has evaluated subsequent events through March 15, 2013 which is the date that the financial statements were available to be issued. In response to a FERC rulemaking, to afford the ISO and market participants more protection in bankruptcy, on January 1, 2013, ISO NE became the central counterparty to market transactions that flow through the ISO. This status change was a result of filings related to FERC Order 741 and 741A. ISO further defined counterparty as follows: "Counterparty means the status in which the ISO acts as the contracting party, in its name and own right and not as an agent, to an agreement or transaction with a Customer (including assignments involving Customers) involving sale to the ISO, and/or purchase from the ISO, of Regional Transmission Service and market and other products and services, and other transactions and assignments involving Customers, all as described in the Tariff". Appropriate Tariff provision modifications were made and also approved by the FERC effective January 1, 2013, to reflect the new status.