

# **ISO New England Inc.**

**Financial Statements**

**For the Years Ended December 31, 2002 and 2001**

**ISO New England Inc.**  
**Financial Statements**  
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**Report of Independent Accountants**

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

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of ISO New England Inc., at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*PricewaterhouseCoopers LLP*

March 6, 2003

**ISO New England Inc.**  
**Statements of Financial Position**  
**As of December 31, 2002 and 2001**

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	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 64,130	\$ 19,300
Total cash and cash equivalents	64,130	19,300
Unbilled receivable, net (Note 1)	10,793	11,238
Prepaid expenses	72	255
Noncurrent assets:		
Property and equipment, net (Note 3)	92,272	50,628
Deferred charges (Note 1)	3,601	3,271
Security Deposits (Note 1)	143,631	38,850
Regulatory asset (Note 5)	2,815	-
Total assets	<u>\$ 317,314</u>	<u>\$ 123,542</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable (Note 1):		
Settlement, net	\$ 611	\$ 164
Administration	10,491	10,948
Deposits payable	144,389	39,326
Revolving credit (Note 4)	5,000	5,500
Interest payable	129	68
Billing advance collections (Note 1)	54,787	14,296
Accrued expenses	5,710	6,292
Accrued pension and postretirement benefits (Note 5)	1,866	1,369
Minimum pension liability (Note 5)	2,815	-
Deferred income (Note 1)	516	2,579
Term loan payable-current (Note 4)	13,859	-
Long-term liabilities:		
Term loan (Note 4)	77,141	43,000
Total liabilities	317,314	123,542
Unrestricted net assets	-	-
Total liabilities and net assets	<u>\$ 317,314</u>	<u>\$ 123,542</u>

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

**ISO New England Inc.**  
**Statements of Activities**  
**For the Years Ended December 31, 2002 and 2001**

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	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>	
Changes in unrestricted net assets:		
Revenues (note 1):		
ISO tariff revenues	\$ 62,568	\$ 61,392
Interest income	454	736
Fees and services	848	503
	<hr/>	<hr/>
Total unrestricted revenues	63,870	62,631
	<hr/>	<hr/>
Expenses:		
General and administrative:		
Salaries and benefits	34,254	31,176
Professional and consultants	11,814	15,089
Rents and leases	3,593	2,994
Computer services	3,120	3,361
Depreciation expense	3,573	2,833
Communication expense	1,922	1,395
Interest expense	793	1,037
Other	4,801	4,746
	<hr/>	<hr/>
Total expenses	63,870	62,631
	<hr/>	<hr/>
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
	<hr/>	<hr/>
Unrestricted net assets, end of year	<u>\$ -</u>	<u>\$ -</u>

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

**ISO New England Inc.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2002 and 2001**

	2002	2001
	(In thousands)	
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ -	\$ -
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	4,279	3,561
Decrease in accounts receivable	445	399
(Increase) in deferred charges	(330)	(3,271)
(Increase) in security deposits	(104,781)	(34,059)
(Increase)/decrease in prepaid expense	183	(249)
(Increase) in regulatory asset	(2,815)	-
Increase/(decrease) in accounts payable:		
Settlement	447	(8,278)
Administration	(457)	5,567
Increase in daily billing advance collections	40,491	14,296
Increase in accrued pension and postretirement benefits	497	311
Increase in minimum pension liability	2,815	-
Increase/(decrease) in accrued expenses	(582)	4,133
Increase in deposits payable	105,063	34,191
Increase in interest payable	61	68
Decrease in deferred revenue	(2,063)	(3,655)
	<u>43,253</u>	<u>13,014</u>
Net cash provided by operating activities		
	<u>43,253</u>	<u>13,014</u>
Cash flows from investing activities:		
Capital expenditures	(45,923)	(34,598)
	<u>(45,923)</u>	<u>(34,598)</u>
Net cash used in investing activities		
	<u>(45,923)</u>	<u>(34,598)</u>
Cash flows from financing activities:		
Decrease in working capital advance from NEPOOL Participants	-	(10,521)
Decrease in capital expenditure funding from NEPOOL Participants	-	(14,285)
Proceeds from term loan	48,000	43,000
Proceeds from/(repayment on) revolving credit, net	(500)	5,500
	<u>47,500</u>	<u>23,694</u>
Net cash provided by financing activities		
	<u>47,500</u>	<u>23,694</u>
Net increase in cash and cash equivalents	44,830	2,110
Cash and cash equivalents, beginning of year	19,300	17,190
Cash and cash equivalents, end of year	<u>\$ 64,130</u>	<u>\$ 19,300</u>
Supplemental data:		
Cash paid during the year for interest:	<u>\$ 2,581</u>	<u>\$ 2,087</u>

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

# ISO New England Inc.

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

#### Description of Business

ISO New England Inc. (the "Company" or "ISO") commenced operations on July 1, 1997 as the New England electric transmission independent system operator for the New England Power Pool ("NEPOOL") in compliance with the requirements of the Federal Energy Regulatory Commission ("FERC"). On May 1, 1999, the competitive market place opened in the ISO New England control area. The Company administers NEPOOL's open-access transmission tariff, administers a power exchange, and ensures the short-term reliability of the control area. The Company operates as an organization described in Section 501(c)(4) of the Internal Revenue Code and is exempt from tax pursuant to Section 501(a) of the Internal Revenue Code.

#### Regional Transmission Organization Proposal

In January 2003, the Board of Directors of ISO voted to unanimously pursue the creation of a Regional Transmission Organization (RTO) for New England. ISO and the transmission owners expect to prepare a joint petition, with input from the market participants, regulators and other stakeholders for filing at the FERC on or about June 30, 2003. The RTO filing will address the seams issues between control areas and will ensure that New England's marketplace remains efficient and competitive, while maintaining the reliability of the bulk power system.

#### 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, 2002 and 2001 were held in overnight repurchase agreements and also in direct and indirect obligations of the United States.

#### Accounts Receivable and Accounts Payable

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

Included in the invoice or remittance advice is each Participant's share of Company expenses, which is netted into the payable or receivable amount for each Participant. Accounts payable on the balance sheet are segregated between the amounts owed for energy transactions and transmission, for which the ISO functions as paying agent, and for the amounts incurred by the Company in the course of operations.

The net unbilled receivables at the end of each month include those amounts that will be billed and included in the invoice or remittance advice to Participants in the subsequent month. The net payables and receivables for energy transactions are settled with the Participants in the subsequent month.

Accounts receivable and accounts payable are reflected net of NEPOOL Settlement amounts, which were \$0 at December 31, 2002 and 2001. A default payment liability of \$266,000 and \$164,000 was outstanding at December 31 2002 and 2001, respectively. At December 31, 2002, a liability of \$250,000 was owed to a Participant under a special billing arrangement, and an additional liability at December 31, 2002 of \$95,000 was owed to a number of Participants related to prior settlements.

## **ISO New England Inc.**

### **Notes to Financial Statements**

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#### **Property and Equipment**

The Interim Independent System Operator Agreement between the Company and NEPOOL states that any fixed assets acquired or developed by the Company and funded by the NEPOOL Participants shall be the property of the NEPOOL Participants. All capital expenditures of the Company subsequent to January 1, 2000 have been funded by the Company, principally through bank borrowings, and the assets acquired or developed have been recorded in Property and Equipment. The Company has elected to capitalize additions in excess of \$1,000 or whose useful life is greater than one year. Property and equipment is stated at cost, net of accumulated depreciation.

#### **Depreciation**

Depreciation is generally computed using straight-line methods over an estimated useful life ranging from three years to ten years (computer hardware, software and accessories – 5 years, software development costs – 5 years, furniture and fixtures – 7 years, leasehold improvements – 10 years, vehicles – 3 years). No depreciation is recorded for assets classified in "Work in Process" (Note 3). Depreciation expense is offset by amortization of Deferred Income related to fixed assets the Company purchased and placed in service in 1997 through 1999 that were pre-funded by NEPOOL participants.

#### **Income Taxes**

Income taxes, for both Federal and State of Massachusetts, are not provided by the Company because it is operating as a corporation described in Section 501(c)(4) of the Internal Revenue Code, is exempt under Section 501(a) of the Internal Revenue Code, and has no unrelated business tax.

#### **Deferred Charges**

The Company applies the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), which requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain charges or revenues because they are expected to be collected or refunded through future customer billings. During 2001, the Company determined that certain Congestion Management System and Multi-Settlement System costs totaling approximately \$3,300,000 that had been previously capitalized as part of work in process no longer had future value and were thus impaired, this impairment will be recovered under the ISO Tariff in 2003. In addition, in 2002, in response to a FERC Ruling, all post 9/11 security enhancement costs incurred above and beyond the amount filed in the ISO Tariff for 2002 are allowed to be capitalized and recovered in future Tariff filings. These cost totaled approximately \$330,000 in 2002. The cost of the post 9/11 security enhancements were not expensed and will be recovered through future ISO Tariff rates and, in accordance with FAS 71, is now classified as Deferred Charges.

#### **Security Deposits**

The NEPOOL Participants are required to comply with the NEPOOL Financial Assurance Policy. In the case of non-investment grade rated Participants that meet certain criteria, the NEPOOL Financial Assurance Policy requires these Participants to put in place alternate forms of financial assurance. There are several options allowed under the NEPOOL Financial Assurance Policy for compliance, one of which is to post cash as collateral. Effective May 2002, a change in the Financial Assurance Policy required a significant increase in the levels of assurance for compliance with the Policy. At December 31, 2002 and 2001, the balance of these deposits was approximately \$143,631,000 and \$38,850,000, respectively.

## **ISO New England Inc.**

### **Notes to Financial Statements**

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Certain Participants that do not meet the credit ratings criteria of the Financial Assurance Policy and have not provided an alternate form of financial assurance, can prepay an estimate of their monthly bill on a weekly basis or will be subject to default procedures to remove them from NEPOOL.

#### **Billing Advance Collections**

During 2001, the ISO, NEPOOL, and certain Participants entered into a Standstill Agreement, which has continued into 2002. The Standstill Agreement requires the ISO to issue an invoice daily to the affected Participants, who are required to pay the invoice on a daily basis, which represents the amount of estimated charges they have incurred for each day. The amounts collected in advance are then true-up at the end of each month through the normal settlement billing process. In 2002, a weekly billing arrangement was entered into with a certain Participant.

#### **Revenue Recognition**

The Company recovers its operating costs pursuant to the Tariff for Transmission Dispatch and Power Administration Services (ISO Tariff). The tariff provides for recovery of expenses through three schedules. Scheduling, System Control and Dispatch Service (Schedule 1) and Energy Administration Service (Schedule 2) recover related operating costs through a pre-approved rate applied to each month's activity. Reliability Administration Service (Schedule 3) recovered actual operating costs through June 30, 2001 through an allocation to Participants. Beginning July 1, 2001 and continuing into 2002, these costs were recovered 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. The tariff may be redesigned for future years.

#### **Deferred Income**

Deferred income offsets the net fixed assets of the Company that were purchased and placed in service in 1997 and 1998, and the amount of the ISO Tariff for Schedules 1, 2, and 3 that was over/under collected from 1999 through 2002. The pre-funded fixed asset deferred income is being amortized to income over the life of the assets at the rate depreciation is recognized. The over/under collection amount of the ISO Tariff will be returned to the Participants through the mechanism provided for within the ISO Tariff.

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

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

#### **Use of Estimates**

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

#### **Liquidity Information**

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

## ISO New England Inc.

### Notes to Financial Statements

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#### 2. Commitments and Contingencies

##### **Funding Arrangements**

The Company has incurred major expenses on behalf of NEPOOL relating to the development of NEPOOL's wholesale electric market for New England and the formation of the Company (implementation costs). Additional costs were incurred by NEPOOL itself. The final project costs were \$50,567,000, exclusive of interest.

In accordance with the fortieth amendment to the NEPOOL Agreement, the Company has begun administering repayment of these costs by the current NEPOOL membership to the members that originally funded the expenses. The repayment is to be made over a five-year period to the funding Participants at an interest rate of 8% per annum until August 18, 2001 and 10.78% per annum thereafter, beginning with May 1, 1999 (the start of the wholesale electric markets in New England). The source of repayment was a monthly charge to NEPOOL Participants based on their pro rata share of ISO Schedule 2 costs which expired January 1, 2001.

Beginning January 1, 2001, the source of repayment for the remaining amounts is based fifty percent on Participants' pro rata share of electrical load and generating shares and fifty percent on Participants' pro rata share of electrical load and generating share peaks as defined in the Restated NEPOOL Agreement. At December 31, 2002, the amount of these costs to be repaid by the current NEPOOL membership to the members that originally funded the expenses was approximately \$15,240,000.

##### **Capital Funding Tariff**

The FERC accepted ISO's "capital funding tariff" ("CFT"), filing for 2001. This filing supported the ISO's loan arrangements with various banks for a line of credit to fund the capital and working capital requirements of the Company. The CFT was refiled and approved by the FERC in 2002, to increase the ISO's limit on borrowing.

##### **Legal Proceedings**

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

In accordance with the revised NEPOOL Billing Policy, formal billing disputes of Participants are no longer held in escrow until the dispute is resolved. However, approximately \$1,540,000 and \$25,400,000 remained in dispute at December 31, 2002 and 2001, respectively.

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

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**3. Property and Equipment**

Property and equipment at December 31 consists of the following:

	<b>2002</b>	<b>2001</b>
Computer hardware, software and accessories	\$ 18,254,000	\$ 14,215,000
Software development costs	3,409,000	3,234,000
Furniture and fixtures	803,000	540,000
Leasehold improvements	3,127,000	2,081,000
Vehicles	75,000	75,000
	<u>25,668,000</u>	<u>20,145,000</u>
Work in process (including \$3,340,000 and \$1,148,000 of capitalized interest & fees)	77,838,000	37,438,000
Less: accumulated depreciation and amortization	<u>(11,234,000)</u>	<u>(6,955,000)</u>
	<u>\$ 92,272,000</u>	<u>\$ 50,628,000</u>

Internal software development costs capitalized as work in process in 2002 and 2001 were \$5,943,000 and \$1,167,000 respectively. These costs will be amortized over three years.

**4. Credit Facilities**

**Revolving Credit Arrangement**

In June 2001, the Company entered into a \$15 million revolving credit arrangement, of which the outstanding balances at December 31, 2002 and 2001 were \$5.0 million and \$5.5 million, respectively. Interest accrues on the revolving credit at a London Inter-bank Offering Rate ("LIBOR") of which the Company has the option of selecting the 30, 60, 90, or 180-day rate, plus a 1% spread. Interest is paid at the earlier of the selected LIBOR term or 90 days. The arrangement expires June 4, 2004 and any outstanding balance must be paid by this date. The Company is charged a fee of 0.25% on the entire line of credit. The weighted average interest rate for the years ended December 31, 2002 and 2001 was 2.84% and 4.02%, respectively.

**Term Loan**

The Company entered into a \$43 million term loan in 2001 and a \$40 million term loan in 2002, all of which is outstanding at December 31, 2002. In addition, the Company entered into a \$24.5 million term in 2002, of which \$8 million is outstanding at December 31, 2002. Proceeds from the term loans were used to pay back NEPOOL participants for capital expenditures advanced to the Company and to fund future capital expenditures. Interest accrues on the term loans at LIBOR of which the Company has the option of selecting the 30, 60, 90, or 180-day rate, plus a 1.375% spread. Principal is payable monthly with the final repayments are due between June 2006 – January 2007. Interest is paid at the earlier of the selected LIBOR term or 90 days. The weighted average interest rate for the years ended December 31, 2002 and 2001 approximately 3.37% and 4.98%, respectively.

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

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Principal payments on the term loan are due annually as follows:

2003	\$ 13,859,000
2004	28,163,000
2005	28,163,000
2006	19,885,000
2007	930,000
	<u>\$ 91,000,000</u>

These credit agreements contain both affirmative and negative covenants, the most restrictive of which is the maintenance of a financial ratio related to revenue and expense plus debt service. The Company was in compliance with these ratios at December 31, 2002 and 2001.

Interest incurred on the revolving credit and the term loans for the years ended December 31, 2002 and 2001 was approximately \$2,642,000 and \$1,180,000, respectively. Interest capitalized from the term loans for the years ended December 31, 2002 and 2001 was approximately \$1,856,000 and \$686,000, respectively.

In February 2003, the Company entered into a commitment to borrow an additional \$20 million to fund additional capital expenditures.

**5. Pension and Other Employee Benefits**

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

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

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

The Company sponsors two defined benefit postretirement plans which provide medical, dental and life insurance benefits for union and nonunion eligible employees and their beneficiaries. The medical benefits are contributory with participants' contributions adjusted annually and participants are responsible for deductible and coinsurance amounts. Dental benefits are non-contributory but participants are responsible for deductible and coinsurance amounts. The life insurance benefits are noncontributory. The Company's future liability for medical benefits is limited to 200% of 1993 costs and as a result the impact of a one-percentage-point change in assumed health care cost trend is immaterial.

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>Years ended December 31,</b>		<b>Years ended December 31,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 23,676,000	\$ 21,226,000	\$ 1,831,000	\$ 1,887,000
Service cost	1,717,000	1,483,000	326,000	187,000
Interest cost	1,614,000	1,438,000	131,000	106,000
Plan amendments	-	41,000	336,000	-
Benefits paid	(298,000)	(281,000)	(23,000)	(15,000)
Actuarial (gain) loss	681,000	(231,000)	(140,000)	(334,000)
	<u>27,390,000</u>	<u>23,676,000</u>	<u>2,461,000</u>	<u>1,831,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	17,423,000	16,887,000	-	-
Actual return on plan assets	(2,128,000)	(631,000)	-	-
Employer contributions	2,081,000	1,448,000	23,000	15,000 *
Benefits paid	(298,000)	(281,000)	(23,000)	(15,000)
	<u>17,078,000</u>	<u>17,423,000</u>	<u>-</u>	<u>-</u>
Fair value of plan assets at end of year	<u>17,078,000</u>	<u>17,423,000</u>	<u>-</u>	<u>-</u>
Funded status	(10,313,000)	(6,253,000)	(2,461,000)	(1,831,000)
Unrecognized transition obligation	1,437,000	1,562,000	809,000	865,000
Unrecognized net actuarial (gain) loss	8,837,000	4,650,000	(500,000)	(403,000)
Unrecognized prior service cost	39,000	41,000	286,000	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,866,000)</u>	<u>\$ (1,369,000)</u>

\* Cash contributions made by employer to providers, insurers, trusts or participants for payment of claims.

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

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>Years ended December 31,</b>		<b>Years ended December 31,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Weighted-average assumptions:				
Discount rate	6.50%	7.00%	6.50%	7.00%
Expected return on plan assets	8.50%	8.50%	n/a	n/a
Rate of compensation increase	4.00%	4.50%	4.00%	4.50%

For measurement purposes, the assumed increase in per capita cost of dental benefits is 4.00% for 2001 and level thereafter. The medical trend rate no longer applies as the Company's commitment to cost sharing has reached caps.

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

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>Years ended December 31,</b>		<b>Years ended December 31,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Components of net periodic benefit cost:				
Service cost	\$ 1,717,000	\$ 1,483,000	\$ 326,000	\$ 187,000
Interest cost	1,614,000	1,438,000	131,000	106,000
Expected return on plan assets	(1,506,000)	(1,575,000)	-	-
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	129,000	(16,000)	-	-
Amortization of unrecognized Prior Service Cost	-	-	50,000	-
Amortization of unrecognized (gain)/loss	2,000	-	(43,000)	(22,000)
	<u>\$ 2,081,000</u>	<u>\$ 1,455,000</u>	<u>\$ 520,000</u>	<u>\$ 327,000</u>
Net periodic benefit cost	<u>\$ 2,081,000</u>	<u>\$ 1,455,000</u>	<u>\$ 520,000</u>	<u>\$ 327,000</u>

The Company follows the provisions of Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*, in determining the minimum liability requirements. A liability has been recorded on the balance sheet in the amount of \$2,815,000 for the year ended December 31, 2002 as a result of the accumulated benefit obligation exceeding the fair value of plan assets. The Company has determined that this amount is probable of recovery through the ISO Tariff and has recorded a regulatory asset at December 31, 2002.

**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 \$870,000 and \$746,000 for 2002 and 2001, respectively.

**7. Leases**

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

2003	\$ 2,192,000
2004	2,189,000
2005	2,160,000
2006	2,119,000
2007	<u>1,125,000</u>
Total minimum lease payments	<u>\$ 9,785,000</u>

The Company leases under a sublease from NEPOOL one of its buildings and various furniture and equipment with terms of up to 15 years and renewable options for additional periods. The sublease terminates on the earlier of the termination of the Interim ISO Agreement (see note 8), termination of the NEPOOL Agreement, or under the terms and conditions contained in the underlying master lease.

## **ISO New England Inc.**

### **Notes to Financial Statements**

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The Company currently houses its back-up facilities at Northeast Utilities for a minimum annual payment. In April 2002, the Company secured additional space at the same facility. The Company leases storage space at a nearby facility. The term of the lease commenced in April 2001 with a right to extend the lease by 1 year, which the Company has done.

Additionally, the Company leases office space in one other building. The additional office space is leased with an initial term of six years with an automatic month-to-month renewal option. For fiscal years 2002 and 2001, actual rental payments for operating leases were \$2,401,000 and \$1,753,157, respectively.

As part of a separation agreement with NUSCO, the Company has agreed to reimburse NUSCO for all charges related to providing service to NEPOOL. This includes charges for leased equipment used at the Control Center. These leases covered approximately \$5,072,000 and \$5,600,000 in assets in 2002 and 2001, respectively. The annual payments were approximately \$1,080,000 and \$1,188,000 for the years 2002 and 2001, respectively.

#### **8. Expiration of ISO Interim Agreement**

The Company operates under an Interim ISO Agreement with NEPOOL, which was scheduled to expire on June 30, 2002. The Company and NEPOOL agreed to extend this agreement through December 31, 2003.