

**ISO CHIEF EXECUTIVE OFFICER REPORT
ON ISO BOARD MATTERS
AT APRIL 9, 2010 NEPOOL PARTICIPANTS COMMITTEE MEETING**

Mr. Gordon van Welie summarized the Board and Board Committee meetings that had occurred since the March 5 report. Since March 5, the Audit and Finance Committee, SPARC and the full Board has each met once and the Markets Committee has met twice.

Audit and Finance Committee

Mr. van Welie reported that the Audit and Finance Committee met on March 15 in Boston. Mr. Ray Curry, Director of the ISO's Internal Audit Department, attended the meeting and reviewed the Department's recent activities and proposed audit plan, which the Committee approved. The Committee also approved the use of Meyers Brothers Kalicka, P.C., a regional accounting firm, to perform the ISO's benefits plan audits. The Committee discussed the Internal Audit Department's increasing workload related to pre-implementation reviews of new business processes and system implementations. Dr. Vamsi Chadalavada explained to the Audit and Finance Committee that this work helps to mitigate risks related to the ISO's simultaneous implementation of a number of new capital projects. Given the increasing workload, that Board Committee asked Mr. Curry to consider his resource needs and to advise whether to add another staff member to his group.

Mr. van Welie reported that the Audit and Finance Committee next reviewed the ISO's performance to date against the 2010 budget, and then undertook its annual review of its charter. The Committee agreed that the charter accurately describes the Committee's responsibilities and that the Committee was fulfilling those responsibilities.

Last, Mr. van Welie said that the ISO's external auditors, KPMG, joined the Audit and Finance Committee meeting at that point to discuss the scope of the upcoming SAS 70 Type 2

audit and the results of the 2009 financial statements audit. After management reviewed the Sarbanes-Oxley disclosures related to the financial reporting, that Committee met with KPMG in executive session. Following this portion of the meeting, the Committee approved the 2009 financial statements and recommended their adoption by the Board.

Board Markets Committee

The Board Markets Committee met on March 18. The Committee received its regular reports on market monitoring activity, market seams, and the NEPOOL Markets Committee. The Board Markets Committee also received an update on the Internal Market Monitor's project to improve its business processes and controls, and discussed using a change management protocol to keep the processes up to date. During the regular report on reliability costs, the Board Markets Committee discussed price volatility, and the External Market Monitor observed that, when compared to other regions, New England experiences the least volatile prices. Mr. van Welie said that the Board Markets Committee discussed in detail the FERC litigation involving the ISO's proposed FCM changes, including comments of the External Market Monitor and stakeholders on the ISO's filing and the ISO's proposed answer suggesting additional stakeholder process to consider the important issues raised in those filings. Further, he reported that Mr. Robert Ethier then updated the Board Markets Committee on Price-Responsive Demand (PRD) issues, including stakeholder discussions and the FERC's Notice of Proposed Rulemaking on "Demand Response Compensation in Organized Wholesale Energy Markets" (DR Compensation NOPR) that was issued on the day of that meeting. Last, the Internal Market Monitor provided the Board Markets Committee with a primer on virtual trading.

Mr. van Welie further reported that on April 8, 2010, the ISO Board Markets Committee met again and discussed the DR Compensation NOPR. He explained that the NOPR proposes that ISOs and RTOs be required to pay the full LMP for demand reductions made in response to

price signals in all hours in which demand resources reduce energy consumption from expected levels. After discussing the content of the NOPR, that Committee discussed stakeholder perspectives on the NOPR and the ramifications of possible comments on and outcomes from the NOPR. Given these perspectives and the Board's prior position on the substantive issues raised by the NOPR, the Committee agreed that the ISO should continue to explain to the FERC how an economically efficient market solution can be achieved with PRD. The ISO's comments would explain how the FERC's proposed rule could be implemented while maintaining an economically efficient market. In simplest terms, a demand response resource would acquire its energy to meet expected load, which it could sell back to the market at the full LMP if it chooses to implement demand response and not consume the energy. Further, the Board Markets Committee agreed that the ISO comments should explain that, if such an approach is not adopted, difficult and complex issues of market efficiency, cost allocation and baseline computations must be addressed. For instance, the ISO would explain why paying the LMP less the retail generation rate for demand reductions – i.e., $(LMP - G)$ – is consistent with economic efficiency. Additionally, the ISO would explain how allocating the resulting costs to load-serving entities whose load was reduced by the demand response minimizes cost impacts on final consumers. Mr. van Welie indicated his understanding that the NEPOOL Markets Committee was planning to discuss its proposed comments to the DR Compensation NOPR at its April 14 meeting, where he also expected further discussion regarding the ISO's views on the DR Compensation NOPR.

System Planning and Reliability Committee (SPARC)

Mr. van Welie reported that SPARC met on March 18 in Holyoke. That Committee received an update on the upcoming FCM auction and discussed several issues related to this auction. The Committee also discussed the appropriate role of non-transmission alternatives in

the planning process, and considered the various stakeholder opinions on that topic. Next, Mr. Stephen Rourke gave an update on a number of proposed transmission projects and the related needs assessments, which would include various scenarios based on the availability of Vermont Yankee and the Kleen Energy plant. Last, the Committee considered the recent wind power study endorsed by the New England governors.

Full Board

Mr. van Welie reported that the full Board of Directors met on March 18, at which time he gave his CEO report, noting that a number of the ISO's capital projects were at a critical stage, including those related to FCM, Demand Response Integration and SMD. He agreed to provide the Board more information on the progress of those projects and the related risks at the Board's April meeting, a meeting at which strategic planning was intended to be of principal focus. During his report, Mr. van Welie also outlined the DR Compensation NOPR. Following that discussion, the various Committees of the Board reported on their recent activities. During the Markets Committee's report, the Board discussed the various comments on the ISO's recent FCM filing. Following the Audit and Finance Committee's report, the Board approved the 2009 financial statements.