

To: New England Conference of Public Utilities Commissioners (NECPUC), NEPOOL
Participants Committee, New England Governors Power Planning Committee (NEG PPC)

From: Gordon van Welie

Date: April 3, 2008

Subject: Strategic Direction and Business Planning for ISO New England

Every year, the ISO New England Board and Management revisit our long-term business plan and engage in a strategic planning discussion with our stakeholders. The result of these discussions is incorporated in the next annual business plan and budget. Additionally, during the first quarter of each year, we identify and share with you a series of priorities for the next twelve to twenty-four months, consistent with the existing business plan. Although these priorities are impacted by stakeholder needs, regulatory requirements and ISO decisions, they provide a sound basis for approaching the numerous important issues that will arise during this time frame.

Currently, we are preparing to engage in a discussion on our strategic direction with our stakeholders in the spring and summer of this year, culminating in the presentation and filing of our 2009 budget in the fall.

Over the past two years, ISO New England's strategic direction has become increasingly guided by concerns related to our region's dependency on natural gas and oil, transmission security, resource adequacy and the impact of environmental policy on bulk power system economics and reliability. We believe that two themes have emerged, as discussed below and, in more detail, in the attached memorandum. We propose to use these themes to guide the development of our business plan over a five year time horizon and beyond.

The purpose of the attached document is to facilitate discussion between the ISO and its stakeholders, and in particular for our Board of Directors to discuss these matters and receive feedback from ISO stakeholders. Most likely, these two themes will be the major incremental change from last year's long-term business plan.

The first theme relates to the three levels of transmission expansion that we have defined after numerous discussions and presentations in various forums:

- Reliability projects that are needed to keep the lights on in New England and meet national, regional and local criteria;

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- Expansion projects within New England that may be necessary to integrate remote, renewable resources; and
- Tie line projects that may be needed in order to bring additional renewable or non carbon emitting power into New England from neighboring regions.

As you are aware, our responsibilities under the ISO formative documents make it clear that we have an obligation to maintain reliability in accordance with NERC standards and NPCC criteria. This is achieved through the identification of reliability projects in the Regional System Plan. In addition, as a result of FERC Order 890, we have an obligation to conduct economic transmission studies for the region. This obligation applies directly to the second and third levels of transmission described above.

The second theme is the potential for improved coordination with the Eastern Canadian Provinces in order to maximize the capability of the larger region of New England, the Atlantic provinces, and Quebec to incorporate renewable and non-carbon emitting resources into the region's resource mix. The ISO has begun serious exploration into the system's ability to incorporate large amounts of wind resources and has observed the practical experience other regions have gained with this renewable resource. As a result, we recognize that a larger system footprint with more diverse resources and a coordinated wind forecasting effort can most effectively maximize the utility of wind resources. The Quebec and Labrador system is essentially electrically independent of the rest of the region due to its unique configuration and is interconnected with New England and the Maritime provinces through direct current transmission ties. However, New England and the Maritime provinces are interconnected through alternating current ties, which results in a greater electrical interdependency between the two regions, particularly with respect to the future interconnection of large amounts of wind generation. Accordingly, as the attached memorandum indicates, we have agreed with the New Brunswick System Operator to take the first step to understand the scope and magnitude of improved market coordination between New England and the Maritime provinces.

The above strategic themes will require resource commitments from the ISO, our stakeholders, and many others in New England. Our goal is to ensure that we reach consensus on these themes and resource commitments as we proceed.

We look forward to an open, collaborative and productive dialogue as we tackle these important issues.

/Attachment