



February 12, 2008

VIA MESSENGER

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Re: ISO New England Inc., Capital Budget Quarterly Filing for Fourth Quarter of 2007; Docket No. ER07-____-000

Dear Secretary Bose:

ISO New England Inc. (the “ISO” or “ISO-NE”) hereby submits, pursuant to Section 205 of the Federal Power Act (“FPA”), Part 35 of the Rules and Regulations of the Federal Energy Regulatory Commission (the “Commission”), and the provisions of Section IV.B.6.2 of the ISO New England Inc. Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (the “Tariff”),¹ an original and six copies of its Capital Projects Report (the “Capital Projects Report”) and schedule of the unamortized costs of the ISO’s funded capital expenditures (the “Unamortized Costs Schedule”) for the quarter ending December 31, 2007 (collectively, the “Fourth Quarter 2007 Report”). The ISO respectfully requests that the Commission accept the Fourth Quarter 2007 Report as filed, effective January 1, 2008.

I. INTRODUCTION

Section IV.B.6.2 of the Tariff provides:

Consistent with the requirements imposed by the Commission in Docket No. ER02-2153, the ISO will file quarterly reports with the Commission specifying, by project, the ISO’s prior year spending on multi-year projects, year to date spending and a forecast of the next calendar year spending. In addition, the ISO will file a schedule of the unamortized costs of the ISO’s funded capital expenditures at the end of the quarter and the allocation of those costs to Schedules 1, 2 and 3. Such reports will be filed within forty-five (45) days at the end of each quarter and posted on the

¹ Capitalized terms used but not otherwise defined in this filing have the meanings ascribed thereto in the Tariff.

ISO's website. All quarterly capital budget and expenditure filings will be filed pursuant to, and subject to Commission review under, Section 205 of the Federal Power Act.

Pursuant to these requirements, the ISO encloses herein its Capital Projects Report and Unamortized Costs Schedule covering the Fourth Quarter of calendar year 2007. The first chart included in Attachment 1 constitutes the ISO's Capital Projects Report for the quarter ending December 31, 2007. The second chart included in Attachment 1 constitutes the Unamortized Costs Schedule, which sets forth the unamortized costs of the ISO's funded capital expenditures, as of December 31, 2007, and the allocation of the costs to Schedules 1, 2 and 3 of Tariff Section IV.A.

II. DISCUSSION OF THE FOURTH QUARTER REPORT

The Fourth Quarter 2007 Report provides actual capital expenditures incurred by the ISO through 2006 on multi-year capital projects, year-to-date spending during 2007, and forecasts for such expenditures for 2008. The ISO's forecasted annual capital budget, which the Commission recently accepted for 2008 at \$22.0 million,² cannot predict with perfect accuracy the exact manner in which the ISO will incur capital expenditures.³ For example, ISO capital project priorities may change during the course of the year, and it is therefore likely that the actual distribution of capital spending within the ISO's capital budget will shift. The ISO's quarterly filings keep stakeholders and the Commission apprised of such adjustments.

The ISO vetted the changes discussed herein through the stakeholder process by posting a draft of this filing letter (with attachments) on its website on February 5, 2008. The ISO also discussed the contents of the draft filing letter and attachments at the February 11, 2008 meeting of the NEPOOL Budget & Finance Subcommittee.

The following discussion highlights some of the changes from the Third Quarter 2007 Report. Specifically, the discussion below includes: (i) newly chartered⁴ capital projects; (ii) projects completed in fourth quarter; (iii) capital projects with significant changes; (iv) capital projects in "Planning/Conceptual" stages; and (v) non-project capital expenses.

² See Commission letter order issued to ISO New England Inc. in Docket No. ER08-134-000 (Dec. 3, 2007).

³ See also ISO New England Inc., 2007 Capital Budget and Capital Budget Quarterly Filing for Third Quarter of 2007, Transmittal Letter at 16, Docket No. ER08-134-000 (Dec. 3, 2007) (explaining how the capital budget may need to be adjusted as the year progresses).

⁴ ISO procedures require that all approved capital projects have a project charter. This charter documents the project goals and objectives, schedule and milestones, and budget. The ISO's senior management team is responsible for reviewing and approving each project charter.

A. Capital Projects – Newly Approved Charters

This section identifies and describes certain projects the ISO recently chartered and began implementing.

1. Security Enhancements – Total Project Costs estimated at \$968,100

The 2008 Cyber Security Standards Implementation Project will deliver the approved enhancements necessary to fill gaps identified for all ISO-NE departments impacted by the new NERC Cyber Security Standards. The project effort will be more encompassing than originally anticipated. This expanded scope increased the project costs by \$296,800 over the original preliminary estimates based on results of standards gap analysis. The project will continue the implementation of Patch Management to integrate additional production systems and applications into the Cyber Security Standards Policy and Procedures. Log Management, purchased in 2007, will be implemented for production systems. All Cyber Security Policies and Procedures and Business Processes will be reviewed and updated to adhere to approved NERC Standards. Finally, the Project will review, pilot, purchase and implement a Desktop Security product to manage ISO-NE PC security within Cyber Security Standards.

2. Q2 Release – Total Project Costs estimated at \$600,000

The Q2 Release Project is a combination of three activities: Forward Reserve Market (FRM) Improvements, Net Commitment Period Compensation (NCPC) Operational Excellence Assessment Phase II, and Dispatchable Imports. Because these three activities require changes to many of the same IT systems, they are being completed in a single project.

The objective of FRM Improvements is to address issues with the current design of the FRM Energy Obligation Charge, including the revenue component of Real Time NCPC. The objective of the NCPC Operational Excellence Assessment Phase II is to improve the consistency and accuracy of NCPC Settlement Results and reduce the effort required to administer NCPC Settlement. Finally, the objective of Dispatchable Imports is to allow resources to participate in the Forward Capacity Market and Transition Period on a basis comparable to Internal Generation Resources. For External Transactions, this includes changes to the timing for Real-Time contract submittals. Additionally, the project will ensure the reliability conditions on the system are maintained; i.e. not affected by external transactions submitted only to the Real Time Market (RTM).

3. Single Sign-On (SSO) System Replacement – Total Project Costs estimated at \$375,000

The Single Sign-On System Replacement (SSOR) project will replace the current implementation of the SSO System functions with a standards compliant (adopting Lightweight Directory Access Protocol (LDAP)) implementation in order to overcome the following shortcomings:

- The proprietary nature and lack of standardized interoperability hamper the ISO's ability to implement infrastructure and platform upgrades in an efficient manner.
- The lack of tools and means to adequately demonstrate controls are in place to restrict outside users to the back-end services that they may access.
- The lack of means to provide information that is needed to feed the Central Logging system such that important system information can be logged in a central database
- The difficulty of configuring new back-end application services without making software changes.

4. Intranet Enhancements – Total Project Costs estimated at \$350,000

The Intranet Redesign project will improve employee communication and collaboration (which is an integral part of the ISO's Five Year Strategic Plan). This project will redesign the corporate intranet's information architecture, resulting in improved collaboration, increased functionality, and easier access to cross-organizational information, thus increasing the overall efficiency of the organization and employees' ability to meet customer needs.

5. Configuration Management – Phase II – Total Project Costs estimated at \$120,000

The ISO currently performs various aspects of configuration management in a distributed, decentralized manner.

The Configuration Management Phase II project goal is to:

- account for all the IT assets and configurations and their services
- provide accurate information on configurations and their documentation
- provide a consistent and reliable platform for Problem, Change and Release Management; and
- verify the configuration records against the infrastructure and correct any exceptions

The project budget was finalized based on a refined work scope definition resulting in a cost reduction of \$230,000 from the preliminary estimate made in our previous filing. Fulfilling the objectives of this project will result in higher operational efficiency and higher level of document accuracy.

6. Operations Document Management – Phase III (ODMS) – Total Project Costs estimated at \$70,000

The ODMS project consisted of two separate and distinct work efforts developed in isolation that merged. The goal of the first work effort (as part of ODMS Phase I and II) was to develop a document management tool to automate the workflow process for the maintenance,

review, approval and retention of System Operations documents and eliminate the cumbersome, labor intensive, paper-based workflow document tracking process currently in place. Automating the workflow process provided a centralized database of current operational documents where a custom search tool can be used to reference the documents using defined search criteria on pre-identified key attributes. Phase III of the ODMS Project is to deploy the software application to the Production and Back-up Control Center environments so that all system operators can use the System Knowledge Search Directory and the Automated Workflow Process. Upon completion of this project, the Operations staff will be less reliant on paper-based documentation and will have quicker access to documentation, resulting in higher productivity and better document traceability and reliability.

B. Capital Projects Completed in Fourth Quarter 2007

As reflected in the attached chart, the following projects have been completed in the current quarter with a total capital spending of \$2,135,200:

1. Combined Cycle Project /NRI
2. Configuration Management – Phase I
3. Public Short-Term Outage

C. Capital Projects with Material Budget Changes

1. Forward Capacity Market Phase I

The Forward Capacity Market Phase I project's estimated budget has decreased \$1,075,100 due to savings realized from vendor consolidation and contingency funding for completed work that will not be needed resulting in savings being moved back into the emerging work category.

2. Facility Outage Scheduler (FOSS)

The Facility Outage Scheduling System (FOSS) project's estimated budget has decreased \$132,100 from the previous filing due to less reliance on outside staff augmentation resulting in reduction in the overall project expenses. Once completed, this project will consolidate the generation and transmission outage software into a single product. The consolidation will improve the overall efficiency of outage scheduling in the New England region, thereby enhancing the reliability of the region. In addition, the improved reporting, notification and subscription capabilities will enhance communication between the ISO, Local Control Centers and Market Participants.

D. Capital Projects in Planning/Conceptual Design

As stated above, the ISO's capital project priorities are fluid. The projects included in the "Planning/ Conceptual Design" category in the Capital Projects Report are primarily driven by

the Wholesale Markets Plan and operating efficiencies (Market or ISO Operations) identified through the ISO's change management process.

The Capital Projects Report includes the ISO's current best estimate as to how it will spend capital funds in 2008. The estimates for projects in Planning/Conceptual Design are high level/low confidence. When the project scope, timeline, budget and benefits are determined, these figures will be updated and communicated to stakeholders and the Commission.

There have been no new projects added to the planning/conceptual phase in this current quarter. The Settlement Cycle Time project, which was included in the Q3 2007 filing planning/conceptual list, has been incorporated into the new Q2 Release project.

E. Non-Project Capital Expenses

Non-Project capital expenditures fund furniture and fixtures, non-project related hardware and software purchases, and the internal capitalized labor necessary to code System Improvement Requests, also known as "SIRs." The "SIRs" are generally a result of requests from Market Participants and the ISO's operational groups to improve system functionalities. In the Fourth Quarter 2007 Report, the ISO reduces the 2008 budget for non-project capital spending by \$500,000 (from \$3,550,000 to \$3,050,000) to fund the new Single Sign-On Project.

III. ADDITIONAL SUPPORTING INFORMATION

The Filing Parties submit the following additional information pursuant to Sections 205 of the FPA and 35.13 of the Code of Federal Regulations:

35.13(b)(1) – In addition to this transmittal letter, the ISO provides the following materials:

- This Filing Letter;
- for the Fourth Quarter ending December 31, 2007, the Capital Projects Report and the Unamortized Costs Schedule (Attachment 1); and
- a list of the governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont to which a paper copy of this filing has been sent (Attachment 2).

35.13(b)(2) – The ISO requests that the Commission accept the Fourth Quarter 2007 Report as filed, effective January 1, 2008. Since the information in the Fourth Quarter 2007 Report involves the period ending December 31, 2007, a waiver of the 60-day prior notice requirements is appropriate, as is the requested effective date. That effective date will also avoid any issue regarding a potential lag in the "backstopping" accomplished through the ISO's capital budget quarterly reports.

35.13(b)(3) – An electronic copy of this filing is being provided to all NEPOOL Participants, and a paper copy of this filing is being provided to the Non-Market Participant Customers and to the governors and electric utility regulatory agencies for the six New England

states that comprise the New England Control Area. Paper copies of this transmittal letter and the accompanying materials have also been sent to the governors and electric utility regulatory agencies for the six New England states which comprise the New England Control Area, and to the New England Conference of Public Utility Commissioners, Inc. The names and addresses of these governors and regulatory agencies are shown in Attachment 2. In accordance with Commission rules and practice, there is no need for entities identified on Attachment 2 to be included on the Commission's official service list in the captioned docket unless such entities become interveners in this docket.

35.13(b)(4) – A description of the materials submitted pursuant to this filing is contained in this transmittal letter.

35.13(b)(5) – This transmittal letter and supporting materials provide a statement of the reasons the Fourth Quarter 2007 Report should be accepted by the Commission.

35.13(b)(6) – The ISO's approval of these changes is evidenced by this filing. The ISO also notes that the Budget and Finance Subcommittee reviewed this filing and the 2007 Capital Budget, and the Participants Committee voted to support the 2007 Capital Budget.

35.13(b)(7) – The ISO does not have any knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

35.13(c)(1) – Sales, services, and revenues cannot reasonably be projected at this time.

35.13(c)(2) – There is no other rate schedule on file for which a comparison of charges would be appropriate.

35.13(c)(3) – No specifically assignable facilities have been or will be installed or modified in order for the Commission to accept this filing.

IV. COMMUNICATIONS

Correspondence and communications regarding this filing should be addressed to the undersigned for the ISO as follows:

Maria A. Gulluni* ISO New England Inc. One Sullivan Road Holyoke, MA 01040-2841 Tel: (413) 540-4473 E-mail: mgulluni@iso-ne.com	Daniel R. Simon* Ballard Spahr Andrews & Ingersoll, LLP 601 13 th Street NW Suite 1000 South Washington, DC 20005-3807 Tel: (202) 661-2200 Fax: (202) 626-9049 E-mail: simond@ballardspahr.com
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*Persons designated for service

V. CONCLUSION

For the reasons stated herein, the ISO requests the Commission to accept the Fourth Quarter 2007 Report as filed, effective January 1, 2008.

Please acknowledge receipt of the foregoing by date-stamping the enclosed extra copies of this filing and returning it to the courier delivering this filing.

Respectfully submitted,

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Enclosures

ATTACHMENT 1

ISO New England Inc.
Capital Projects Schedule
For the Quarter ended 12/31/2007
(\$000's)

<u>Description</u>	<u>Prior Year(s) Spending (1)</u>	<u>2007 Total Costs</u>	<u>2008 Cost to Complete</u>	<u>Total Project Costs (2)</u>
Capital Projects - Approved Charters				
. Forward Capacity Market Phase I	1,726.5	5,252.9	950.0	7,929.4
. Facility Outage Scheduler (FOSS)	211.5	467.9	850.0	1,529.4
. Combined Cycle Project/NRI	-	1,839.6	-	1,839.6
. EMS Upgrade	1,100.1	605.5	-	1,705.6
. L.I.P.A. 1385	10.3	1,660.8	-	1,671.1
. Security Enhancements	-	468.1	500.0	968.1
. Daylight Savings Time	124.7	637.3	-	762.0
. Q2 Release	-	19.7	580.3	600.0
. Enhanced Financial Assurance & Billing Phase II	121.3	368.2	-	489.6
. Weighted EFORd	-	381.6	-	381.6
. Single Sign-On (SSO) System Replacement	-	-	375.0	375.0
. E-Notification	185.9	158.5	20.5	364.9
. Intranet Enhancements	-	42.3	307.7	350.0
. VAR Service Enhancements	-	316.6	96.4	413.0
. Configuration Management Phase I	-	198.1	-	198.1
. Lawson 2007 Upgrade	-	186.2	-	186.2
. Compliance & CAPA Tool Project	-	132.2	48.4	180.6
. FCM Simulation	100.0	48.4	-	148.4
. Information Retrieval & Reporting	91.7	36.7	-	128.4
. Configuration Management Phase II	-	-	120.0	120.0
. Projects < \$100K	377.1	253.1	50.0	680.2
Sub Total Projects with Approved Charters	4,049.3	13,073.7	3,898.3	21,021.2
Capital Projects in Planning/Conceptual Design (3)				
. Forward Capacity Market Phase II	-	1,437.9	3,762.1	5,200.0
. Forward Capacity Market Phase III / IV (4)	-	-	500.0	7,500.0
. SMD Software Upgrade	-	-	4,000.0	4,000.0
. Long Term FTR's (4) (5)	-	696.8	3,021.8	4,000.0
. Information Retrieval & Reporting (Web Services) (4)	-	-	800.0	1,250.0
. RIG Replacement	-	-	1,000.0	1,000.0
. Network Model Management	-	-	500.0	500.0
. Emerging Work Allowance	-	3.9	717.8	721.7
Sub Total Capital Projects Planning/ Conceptual Design	-	2,138.6	14,301.7	24,171.7
Non-Project Capital Spending	-	3,006.1	3,050.0	6,056.1
Capitalized Interest & Loan Fees	-	626.9	750.0	1,376.9
Total Capital Projects	4,049.3	18,845.2	22,000.0	52,625.9
Facilities Project	43,528.1	1,739.7	-	45,267.8

(1) Prior Year(s) spending above reflects only those projects with current and future spending.

(2) Total project costs included above represent external and internal labor capital costs.

(3) All estimates are subject to material change until rules are finalized, approved by FERC, scope is defined and project chartered.

(4) Costs for this project will also be incurred in either 2009, 2010 or both.

(5) The FERC has yet to rule on ISO-NE's LTTR project. Once FERC provides final approval on this project it will be chartered with a completion date and updated budget.

ISO NEW ENGLAND INC.

FERC COMPLIANCE FILING - 12/31/07

ALLOCATION ON UNRECOVERED PLANT IN SERVICE/UNAMORTIZED COST OF PLANT

Description (a)	Unrecovered Basis			(e)	Self-Funding Tariff			
	Total (b)	Adjustments (c)	Adj. Total (d)		Total (f)	Schedule 1 (g)	Schedule 2 (h)	Schedule 3 (i)
2007 Items:								
Total 2007 Items - \$	\$ 23,709,255	\$ -	\$ 23,709,255		\$ 23,709,255	\$ 3,170,263	\$ 8,930,922	\$ 11,608,069
Total 2007 Items - %					100.00%	13.37%	37.67%	48.96%
2006 Items:								
Total 2006 Items - \$	\$ 31,168,662	\$ -	\$ 31,168,662		\$ 31,168,662	\$ 4,523,708	\$ 13,757,007	\$ 12,887,947
Total 2006 Items - %					100.00%	14.51%	44.14%	41.35%
2005 Items:								
Total 2005 Items - \$	\$ 26,711,625	\$ -	\$ 26,711,625		\$ 26,711,625	\$ 3,958,159	\$ 14,970,606	\$ 7,782,859
Total 2005 Items - %					100.00%	14.82%	56.05%	29.14%
2004 Items:								
Total 2004 Items - \$	\$ 5,726,343	\$ -	\$ 5,726,343		\$ 5,726,343	\$ 276,760	\$ 3,574,168	\$ 1,875,415
Total 2004 Items - %					100.00%	4.83%	62.42%	32.75%
2003 Items:								
Total 2003 Items - \$	\$ 1,195,217	\$ -	\$ 1,195,217		\$ 1,195,217	\$ 17,626	\$ 986,474	\$ 191,116
Total 2003 Items - %					100.00%	1.47%	82.54%	15.99%
2002 Items:								
Total 2002 Items - \$	\$ 3,229	\$ -	\$ 3,229		\$ 3,229	\$ 696	\$ 1,671	\$ 862
Total 2002 Items - %					100.00%	21.55%	51.75%	26.70%
2001 Items:								
Total 2001 Items - \$	\$ 13,151	\$ -	\$ 13,151		\$ 13,151	\$ 2,834	\$ 6,806	\$ 3,511
Total 2001 Items - %					100.00%	21.55%	51.75%	26.70%
2000 Items:								
Total 2000 Items - \$	\$ 873	\$ -	\$ 873		\$ 873	\$ 163	\$ 497	\$ 213
Total 2000 Items - %					100.00%	18.64%	56.91%	24.45%
Totals for 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007 - \$	\$ 88,528,355	\$ -	\$ 88,528,355		\$ 88,528,355	\$ 11,950,210	\$ 42,228,151	\$ 34,349,993
1999 & Previous Items:								
Total 1999 Items - \$	\$ 4,688	\$ (4,688)	\$ -		\$ -	\$ -	\$ -	\$ -
Total 1999 Items - %					0.00%	0.00%	0.00%	0.00%
Total Unrecovered Plant in Service - \$	\$ 88,533,043	\$ (4,688)	\$ 88,528,355		\$ 88,528,355	\$ 11,950,210	\$ 42,228,151	\$ 34,349,993
- %					100.00%	13.50%	47.70%	38.80%

ATTACHMENT 2

**New England Governors
and Utility Regulatory
and Related Agencies**

Connecticut

The Honorable M. Jodi Rell
State Capitol
210 Capitol Ave.
Hartford, CT 06106

Connecticut Department of Public Utility Control
10 Franklin Square
New Britain, CT 06051-2605

Maine

The Honorable John E. Baldacci
One State House Station
Rm. 236
Augusta, ME 04333-0001

Maine Public Utilities Commission
State House, Station 18
242 State Street
Augusta, ME 04333-0018

Massachusetts

The Honorable Deval Patrick
Office of the Governor
Rm. 360 State House
Boston, MA 02133

Massachusetts Department of Public Utilities
One South Station
Boston, MA 02110

New Hampshire

The Honorable John H. Lynch
State House
25 Capitol Street
Concord, NH 03301

New Hampshire Public Utilities Commission
21 South Fruit Street
Suite 10
Concord, NH 03301-2429

Rhode Island

The Honorable Donald L. Carcieri
State House Room 115
Providence, RI 02903

Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Vermont

The Honorable James H. Douglas
109 State Street, Pavilion
Montpelier, VT 05609

Vermont Public Service Board
112 State Street, Drawer 20
Montpelier, VT 05620-2701

**New England Governors
and Utility Regulatory
and Related Agencies**

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New England Governors' Conference, Inc.
76 Summer Street, 2nd Floor
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