



February 12, 2010

**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 2009; Docket No. ER09-\_\_\_\_-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 (the “Tariff”),<sup>1</sup> 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, 2009 (collectively, the “Fourth Quarter 2009 Report”). The ISO respectfully requests that the Commission accept the Fourth Quarter 2009 Report as filed, effective January 1, 2010.

**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

---

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

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 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 2009. The first chart included in Attachment 1 constitutes the ISO's Capital Projects Report for the quarter ending December 31, 2009. 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, 2009, 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 2009 Report provides actual capital expenditures incurred by the ISO through 2008 on multi-year capital projects, year-to-date spending during 2009 and forecasts for capital projects for 2010. The ISO's forecasted annual capital budget, which the Commission accepted for 2009 at \$24.5 million,<sup>2</sup> cannot predict with perfect accuracy the exact manner in which the ISO will incur capital expenditures.<sup>3</sup> 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, 2010. The ISO also discussed the contents of the draft filing letter and attachments at the February 11, 2010 meeting of the NEPOOL Budget & Finance Subcommittee.

The following discussion highlights some of the changes from the Third Quarter 2009 Report. Specifically, the discussion below includes: (i) newly chartered<sup>4</sup> capital projects; (ii)

---

<sup>2</sup> See Commission letter order issued to ISO New England Inc. in Docket No. ER09-146-000 (Oct. 28, 2008).

<sup>3</sup> See also ISO New England Inc., 2009 Capital Budget and Capital Budget Quarterly Filing for Second Quarter of 2009, Transmittal Letter at 16, Docket No. ER09-1587-000 (August 14, 2009) (explaining how the capital budget may need to be adjusted as the year progresses).

<sup>4</sup> 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.

projects completed in current quarter; (iii) capital projects with significant changes; (iv) capital projects in “Planning/Conceptual” stages; and (v) non-project capital expenses.

**A. New Projects with Approved Charters**

**1. Market Monitoring Enhancements (MME) – Reliability Commitment Mitigation (\$1,355,000)**

This project is required to implement the Net Commitment Period Compensation (NCPC) mitigation reform filed with the Commission on August 5, 2009. The project includes three phases: enhancements, automation, and benchmarking.

In this first phase, the enhancements will enable mitigation of resources that violate the low load offer test for NCPC before the commitment and dispatch of the resource (ex-ante mitigation). The changes to the NCPC mitigation rules maintain NCPC’s original purpose of assuring that resources recover their offer cost, but significantly reduce a resource’s ability to earn net revenues through NCPC. This is done by changing the current mitigation standard, which mitigates if a resource’s individual offer parameters exceed reference levels to a standard that mitigates based on the cost of running at minimum load.

The second phase will include automation that will improve the ISO’s ability to implement the relevant Market Rule 1 Appendix A provisions. The final phase will be benchmarking with PROBE to provide a better, more sophisticated tool to measure market competitiveness and also enable the performance of “what if” studies to assess whether particular units had an adverse impact on the market.

**2. Facility Outage Scheduler (FOSS) Phase II (\$1,245,500)**

The Facility Outage Scheduling System (FOSS) Phase I project was migrated into production in December 2008. The major component of this original phase was to allow System Operations and Local Control Centers to enter and manage Transmission Outage Requests and all surrounding functionality using the Control Room Outage Window (CROW) application developed by Equinox Software Design Corporation.

The scope of this next Facility Outage Scheduler System Phase II project includes the following elements relating to the CROW application:

- Addition of generation outage requests
- Changes to transmission outage requests
- Reporting
- Financial settlement flagging and data bridging
- Network model maintenance changes
- Retirement of the current SAM application

FOSS Phase II will include further CROW customization by Equinox to satisfy ISO-NE’s generation requirements. The new software will improve operational efficiency in the Control

Room and within the ISO-NE outage scheduling group. It will also provide improved communication and reporting for Local Control Centers, Transmission and Generation Owners, and Participants.

### **3. Credit & Billing Enhancements (\$826,300)**

This project balances ISO-NE's competing goals of minimizing risk to non-defaulting market participants while, at the same time, ensuring that the credit or collateral requirements of all market participants are not so stringent that they unnecessarily inhibit access to the marketplace. It is similar to other commission approved initiatives in other regions of the country intended to reduce credit exposure for participants in ISO/RTO markets, including reductions in unsecured credit limits and acceleration of payment and settlement procedures. With its goals in mind, the ISO has been working with stakeholders since October 2008 to create changes to the Financial Assurance and Billing Policies, collectively called the Credit & Billing Enhancements project (CBE).

The modifications under the CBE project include changes such as the acceleration to twice-weekly billing, the elimination of corporate guarantees and unsecured credit for all Market Participants other than Municipals and Transmission and Distribution Companies serving native load customers, separate billing and collateralization of ISO Charges and Transmission Charges, the allocation of cash shortfalls resulting from payment defaults by Market Participants with unsecured credit to other Market Participants with unsecured credit, and the creation of restrictions on banks issuing letters of credit.

### **4. Network Model Management (\$320,000)**

This project will enhance the scheduling services and services for bulk power system reliability provided by the ISO to its participants. This will include the implementation of Siemens Enterprise Model On Demand tool for the purposes of managing the various base cases that are used by the System Planning, FCM Administration, System Operations Support Services and Power System Modeling departments.

### **5. Oracle 11G Upgrade Phase III (\$160,000)**

Many of the business applications used at the ISO (Electronic Dispatch, Day Ahead and Real Time Markets, Settlements, Finance, etc.) rely on an Oracle database. To obtain the level of support needed from Oracle to meet reliability/availability goals, the ISO must run on the current Oracle database version. Therefore, the ISO must update to Oracle 11G, the current Oracle database version. The ISO has completed the upgrade for many applications during Phases I and II of the Oracle 11G Upgrade project and will complete the remaining systems in Phase III, which is the final phase of this upgrade.

In addition to remaining current with Oracle support, 11G provides valuable new functionality, as follows:

- Database Replay provides the ability to simulate workloads based on information captured from actual production workloads, allowing full testing of the performance impact of any database patch, OS change, application architecture changes or hardware upgrades before implementation.
- SQL Test Case Builder enables gathering of database and query information with a single command that can be sent to Oracle to help analyze production problems.
- Automatic Partition Management helps reduce the outages and support resources required to manage the Oracle table partitions in production databases.
- Query Results Caching improves application performance by caching and reusing the results of the database queries executed by multiple users or applications.

#### **B. Capital Projects Completed in Current Quarter**

As reflected in Attachment 1, the following projects were completed for a total spending of \$663,600: Network Model Management (Quick Wins), Single Sign-On (SSO) System Replacement, and External Affairs Contract Management – Phase I (included in “Projects Less Than \$100K in Value” category).

#### **C. Projects with Significant Budget Changes**

##### **1. Forward Capacity Market Phase III Budget Decrease of \$260,500 (from \$10,640,000 to \$10,379,500)**

The remainder of the FCM III project’s contingency fund for 2009 was not needed to achieve the milestones through the end of the year, and that portion has been removed from the project budget.

#### **D. Capital Projects in Planning/Conceptual Design**

Capital project priorities in the Planning and Conceptual design phase are fluid. The Capital Projects Report includes the ISO’s current best estimate as to how it will spend capital funds. 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.

#### **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 2009 Report, the ISO increased the 2009 budget for non-project capital spending by \$261,200 (from \$3,441,000 to \$3,702,200) in order to fund additional work on the Issue Resolution initiative related to clearing up the back log of SIR’s.

### III. ADDITIONAL SUPPORTING INFORMATION

The ISO submits 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:

- for the Fourth Quarter ending December 31, 2009, 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 2009 Report as filed, effective January 1, 2010. Since the information in the Fourth Quarter 2009 Report involves the period ending December 31, 2009, 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, to the governors and electric utility regulatory agencies for the six New England states that 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 2009 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 NEPOOL Budget and Finance Subcommittee reviewed this filing and the 2009 Capital Budget, and the NEPOOL Participants Committee voted to support the 2009 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* Assistant General Counsel – Corporate ISO New England Inc. One Sullivan Road Holyoke, MA 01040-2841 Tel: (413) 540-4473 Fax: (413) 535-4379 E-mail: <a href="mailto:MGulluni@iso-ne.com">MGulluni@iso-ne.com</a>	Daniel R. Simon* Ballard Spahr LLP 601 13 <sup>th</sup> Street NW Suite 1000 South Washington, DC 20005-3807 Tel: (202) 661-2200 Fax: (202) 626-9049 E-mail: <a href="mailto:simond@ballardspahr.com">simond@ballardspahr.com</a>
---	--

\*Persons designated for service

#### **V. CONCLUSION**

For the reasons stated herein, the ISO requests the Commission to accept the Fourth Quarter 2009 Report as filed, effective January 1, 2010.

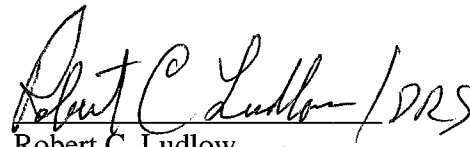
Honorable Kimberly D. Bose  
February 12, 2010  
Page 8 of 8

**V. CONCLUSION**

For the reasons stated herein, the ISO requests the Commission to accept the Fourth Quarter 2009 Report as filed, effective January 1, 2010.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert C. Ludlow / DRS". The signature is written in a cursive style with a horizontal line underneath the name.

Robert C. Ludlow  
Vice President, Chief Financial and  
Compliance Officer  
ISO New England Inc.

## **Attachment 1**

ISO New England Inc.  
Capital Projects Schedule  
For the Quarter ended 12/31/2009  
(\$000's)

<u>Description</u>	<u>Prior Year(s) Spending (1)</u>	<u>2009 Total Costs</u>	<u>2010 Cost to Complete</u>	<u>Total Project Costs (2)</u>
<b>Capital Projects - Approved Charters</b>				
. Forward Capacity Market Phase III	-	6,554.5	3,825.0	10,379.5
. Forward Capacity Market Phase II	7,169.5	1,753.1	-	8,922.7
. Demand Resource Integration	85.5	3,278.8	1,411.5	4,775.8
. SMD Software Upgrade Phase II (4)	427.8	3,009.2	374.3	3,811.3
. SMD Software Upgrade Phase I (4)	2,885.8	246.7	-	3,132.5
. BCP Infrastructure Enhancements	391.1	1,252.0	1,432.0	3,075.1
. (MME) - Reliability Commitment Mitigation	-	263.0	1,092.0	1,355.0
. Facility Outage Scheduler (FOSS) Phase II	4.0	41.5	1,200.0	1,245.5
. Outage Coord Econ Analysis (OCEAT)	320.6	466.3	148.0	934.9
. Credit & Billing Enhancements	-	76.3	750.0	826.3
. Q4 2008 Release	737.5	18.8	-	756.3
. Baseline Telemetry System	-	602.5	55.0	657.5
. Q2 Release - 2009	70.8	479.6	-	550.4
. Network Model Management	-	-	320.0	320.0
. Tariff Management Software	40.5	98.8	275.5	414.8
. Network Model Management (Quick Wins)	135.6	239.2	-	374.8
. E-Notification	344.4	11.0	-	355.4
. Single Sign-On (SSO) System Replacement	155.7	103.1	-	258.8
. Oasis 890	206.9	46.3	-	253.2
. Oracle 11G Upgrade Phase III	-	-	160.0	160.0
. Web Enhancements 2008-2009	40.2	116.1	-	156.4
. OIS Conversion to .NET	108.1	40.6	-	148.7
. System Restoration & Blackstart	29.2	41.1	37.1	107.4
. Projects Less Than \$100K in Value (Three Projects)	37.8	89.5	1.2	128.5
<b>Sub Total Projects with Approved Charters</b>	<b>13,191.1</b>	<b>18,828.2</b>	<b>11,081.5</b>	<b>43,100.8</b>
<b>Capital Projects in Planning/Conceptual Design (3)</b>				
. FCM Enhancements	-	437.9	4,000.0	4,437.9
. Smart Grid	-	-	3,000.0	3,000.0
. Price Responsive Demand	-	-	1,000.0	1,000.0
. SMD Phase III (EMS/eMarket Enhancements) (4)	-	3.8	2,000.0	2,003.8
. BCP Infrastructure Enhancements Phase II	-	-	1,000.0	1,000.0
. Long Term FTRs (5)	907.5	-	-	907.5
. Issue Resolution	-	-	750.0	750.0
. (MME) - Automation Tool	-	-	400.0	400.0
. (MME) - Benchmarking	-	-	400.0	400.0
. Audit and Testing	-	25.0	300.0	325.0
. Emerging Work Allowance	-	21.6	268.5	290.1
<b>Sub Total Capital Projects Planning/ Conceptual Design</b>	<b>907.5</b>	<b>488.3</b>	<b>13,118.5</b>	<b>14,514.4</b>
<b>Non-Project Capital Spending</b>	<b>-</b>	<b>3,702.2</b>	<b>3,300.0</b>	<b>7,002.2</b>
<b>Capitalized Interest &amp; Loan Fees</b>	<b>-</b>	<b>802.0</b>	<b>500.0</b>	<b>1,302.0</b>
<b>Total Capital Projects</b>	<b>14,098.7</b>	<b>23,820.7</b>	<b>28,000.0</b>	<b>65,919.3</b>

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

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

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

(4) SMD Software Upgrade Project will be implemented in multiple phases spanning several years.

(5) The LTRR project has been indefinitely deferred pending further guidance from FERC.

ISO NEW ENGLAND INC.

FERC COMPLIANCE FILING - 12/31/09

UNAMORTIZED COST OF CAPITAL EXPENDITURES

Line No.	Description	Unrecovered Costs			(e)	Tariff Schedules			
		Total	Adjustments	Adj. Total		Total	Schedule 1	Schedule 2	Schedule 3
	(a)	(b)	(c)	(d)		(f)	(g)	(h)	(i)
1	<b>2009 Items:</b>								
7	Total 2009 Items - \$	\$ 23,652,297	\$ -	\$ 23,652,297		\$ 23,652,297	\$ 4,851,071	\$ 7,597,710	\$ 11,203,516
8	Total 2009 Items - %					100.00%	20.51%	32.12%	47.37%
9									
10	<b>2008 Items:</b>								
16	Total 2008 Items - \$	\$ 14,533,397	\$ -	\$ 14,533,397		\$ 14,533,397	\$ 2,882,646	\$ 5,488,969	\$ 6,161,782
17	Total 2008 Items - %					100.00%	19.83%	37.77%	42.40%
18									
19	<b>2007 Items:</b>								
25	Total 2007 Items - \$	\$ 11,216,638	\$ -	\$ 11,216,638		\$ 11,216,638	\$ 1,746,878	\$ 4,032,117	\$ 5,437,643
26	Total 2007 Items - %					100.00%	15.57%	35.95%	48.48%
27									
28	<b>2006 Items:</b>								
34	Total 2006 Items - \$	\$ 15,813,592	\$ -	\$ 15,813,592		\$ 15,813,592	\$ 3,274,389	\$ 7,986,116	\$ 4,553,087
35	Total 2006 Items - %					100.00%	20.71%	50.50%	28.79%
36									
37	<b>2005 Items:</b>								
44	Total 2005 Items - \$	\$ 17,115,069	\$ -	\$ 17,115,069		\$ 17,115,069	\$ 3,571,952	\$ 8,931,282	\$ 4,611,835
45	Total 2005 Items - %					100.00%	20.87%	52.18%	26.95%
46									
47	<b>2004 Items:</b>								
52	Capital Interest/Fees	130,036	-	130,036		130,036	-	85,173	44,862
53	Total 2004 Items - \$	\$ 1,025,433	\$ -	\$ 1,025,433		\$ 1,025,433	\$ 192,500	\$ 548,834	\$ 284,099
54	Total 2004 Items - %					100.00%	18.77%	53.52%	27.71%
55									
56	<b>2003 Items:</b>								
61	Total 2003 Items - \$	\$ 1,981	\$ -	\$ 1,981		\$ 1,981	\$ -	\$ 1,297	\$ 683
62	Total 2003 Items - %					100.00%	0.00%	65.50%	34.50%
63									
64	<b>2000 Items:</b>								
68	Total 2000 Items - \$	\$ 84	\$ -	\$ 84		\$ 84	\$ 18	\$ 43	\$ 22
69	Total 2000 Items - %					100.00%	21.55%	51.75%	26.70%
70									
71	<b>Total Unrecovered Cost of Capital Expenditures - \$</b>	\$ 83,358,490	\$ -	\$ 83,358,490		\$ 83,358,490	\$ 16,519,453	\$ 34,586,369	\$ 32,252,667
72	<b>- %</b>					100.00%	19.82%	41.49%	38.69%

## **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**

Tim Woolf, President  
New England Conference of  
Public Utilities Commissioners, Inc.  
c/o Massachusetts Department of Public Utilities  
One South Station  
Boston, MA 02110

William M. Nugent  
Executive Director  
New England Conference of  
Public Utilities Commissioners, Inc.  
50 Forest Falls Drive, Suite 6  
Yarmouth, ME 04096-6937

Harvey L. Reiter, Esq.  
Counsel for New England Conference  
of Public Utilities Commissioners, Inc.  
c/o Stinson Morrison Hecker LLP  
1150 18th Street, NW, Suite 800  
Washington, DC 20036-3816

Power Planning Committee  
New England Governors' Conference, Inc.  
76 Summer Street, 2nd Floor  
Boston, MA 02110-1226

Heather Hunt  
Executive Director  
New England States Committee on Electricity  
[HeatherHunt@NESCOE.com](mailto:HeatherHunt@NESCOE.com)