



May 14, 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 First Quarter of 2010; Docket No. ER10-____-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"),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 March 31, 2010 (collectively, the "First Quarter 2010 Report"). The ISO respectfully requests that the Commission accept the First Quarter 2010 Report as filed, effective April 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

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

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 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 First Quarter of calendar year 2010. The first chart included in Attachment 1 constitutes the ISO's Capital Projects Report for the quarter ending March 31, 2010. 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 March 31, 2010, and the allocation of the costs to Schedules 1, 2 and 3 of Tariff Section IV.A.

II. DISCUSSION OF THE FIRST QUARTER REPORT

The First Quarter 2010 Report provides actual capital expenditures incurred by the ISO through 2009 on multi-year capital projects, year-to-date spending during 2010 and forecasts for capital projects for 2011. The ISO's forecasted annual capital budget, which the Commission accepted for 2010 at \$28.0 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 May 7, 2010. The ISO also discussed the contents of the draft filing letter and attachments at the May 13, 2010 meeting of the NEPOOL Budget & Finance Subcommittee.

² See Commission letter order issued to ISO New England Inc. in Docket No. ER10-112-000 (Nov. 23, 2009).

³ See also ISO New England Inc., 2009 Capital Budget and Capital Budget Quarterly Filing for the Fourth Quarter of 2009, Transmittal Letter at 16, Docket No. ER10-741-000 (Feb. 12, 2010) (explaining how the capital budget may need to be adjusted as the year progresses).

The following discussion highlights some of the changes from the Fourth Quarter 2009 Report. Specifically, the discussion below includes: (i) newly chartered⁴ capital projects; (ii) projects completed in the 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. Forward Capacity Market (FCM) Enhancements (\$2,307,900)

The FCM Enhancements project will implement new functionalities, including conditional qualification, competitive offers for external transactions, and FCM capacity charges. Conditional qualification refers to the ability to qualify two new generating resource proposals to participate in the auction using the same interconnection point on the grid, with only one ultimately clearing with a capacity supply obligation.

Continuing the functionality implemented in the second quarter of 2009 in FCM, the “competitive offers for external transactions” element of the project will implement functionality specifically for FCM to ensure that all priced energy transactions supporting an import capacity supply obligation offer at the same external interface, offer competitively and deliver when requested.

This project also includes implementation of the financial assurance policy changes related to the load serving entity capacity charge obligations. These charges align the financial assurance requirements with actual obligations.

The Descending Clock Auction and Forward Capacity Tracking System applications must be modified to accommodate a primary and a conditional proposal for each conditional qualified scenario. For the Descending Clock Auction, this project will implement approximately 15 change requests in the areas of conditional qualification, removal of bidding groups, and other miscellaneous improvements.

The planned completion date for this project is August, 2010.

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.

2. Operational Enhancements (\$1,910,000)

This project will ensure that the ISO remains current with market rule changes, reduce risk exposure due to manual processing and implement improvements and updates based on reported issues. The project will implement the following functionalities:

- Wholesale Load Cost Reporting – The transition period cost to load will be replaced with the FCM cost to load in the Market Information System, effective with the settlement of the first obligation month of June 2010.
- Equivalent Planned Outage Hour Administration – In coordination with other projects (FCM III and Facility Outage Scheduler Phase 2), this project will implement functionality to administer planned outage exempt hour allotments to provide availability penalty exemptions for non-intermittent generating resources and import resources that are backed by a single external unit.
- Demand Resource Split – Multiple systems, including the Forward Capacity Tracking System, the Customer Asset Management System, the Market Information System and the Financial Assurance Management system, will all be modified to accommodate the need for the ISO to partially dispatch commercial demand resources beginning with the first commitment period, and to dispatch commercial and non-commercial demand resources by dispatch zone rather than by load zones beginning with the second commitment period.
- Resource Qualification (Forward Capacity Tracking System) – A variety of functionalities impacting resource qualification will be implemented, such as Designated Congestion Area input, consolidation/validation, FCM auction post processing, existing capacity qualification, and ARA-3 (Annual Reconfiguration Auction) significant decrease calculation for demand resources.

The targeted completion date for this project is the first quarter of 2011.

3. Issue Resolution (\$750,000)

The ISO has an outstanding list of issues that need to be addressed. Over the past several years, the primary focus of the ISO has been on implementing large projects that enhance the efficiency of wholesale markets and improve the reliable operation of the bulk transmission system. It is important that the backlog of outstanding issues on other existing systems be reduced in order to improve operational efficiency, improve accuracy and reduce risk. The project aims to resolve approximately 130 issues. The major areas targeted are Web Development, Settlement, Enterprise Support and the Energy Management System.

B. Capital Projects Completed in Current Quarter

As reflected in Attachment 1, there were no projects completed during the First Quarter of calendar year 2010.

C. Projects with Significant Changes

1. FCM Enhancements Budget Decrease of \$2,130,000 (from \$4,437,900 to \$2,307,900)

The FCM Enhancements Project's original 2010 budget estimate was \$4,000,000, and the total budget estimate made as of the Fourth Quarter 2009 report was \$4,437,900. After completing the planning phase, several aspects of this project were built into the Operational Enhancements project (see Section II.A.2 above for Operational Enhancements components). This change, in addition to the determination of final resource requirements, resulted in a chartered project budget of \$2,307,900.

2. Smart Grid Project 2010 Budget Decrease of \$1,500,000 (from \$3,000,000 to \$1,500,000)

In the fourth quarter of 2009, the ISO was awarded a Smart Grid Investment Grant from the Department of Energy (DOE) under Funding Opportunity 0000058 to focus on bulk power system operations through the installation of Phasor Measurement Units. The ISO is still in negotiations with the DOE and sub-recipient awardees to finalize the grant contract. Although the ISO's Smart Grid project plan for Phasor Measurement Units has not changed, the timing of the contract completion will reduce the 2010 portion of work and will move it out to 2011 and beyond. Based on this, the 2010 budget estimate has been reduced from \$3,000,000 to \$1,500,000. With this project still in the planning phase and the DOE contract still to be finalized, it is conceivable that the 2010 project could change again as these details are completed.

3. Price Responsive Demand 2010 Budget Decrease of \$500,000 (from \$1,000,000 to \$500,000)

The ISO's original 2010 Commission-approved Capital Budget included \$2,000,000 for the Price Responsive Demand (PRD) project. This amount was reduced in the Fourth Quarter 2009 report to \$1,000,000. The Commission then released a Notice of Proposed Rulemaking (NOPR) pertaining primarily to the compensation aspects of PRD and will be accepting comments from the ISO and other stakeholders on this topic. Therefore, the ISO has delayed this project pending a Commission ruling on this NOPR. The ISO now estimates that the 2010 portion of this project will be no more than \$500,000 and has adjusted the planning budget accordingly. Based on the timing and results of the PRD ruling and finalization of the project details, it is conceivable the 2010 project could change again.

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.

The Emerging Work Allowance is set aside to fund new capital projects that implement changes in Market Rules, enhancement requests of Market Participants or ISO Business Units, or other emerging priorities. Additionally, when project costs are reduced or come in under budget, the funds are deposited back into the Emerging Work Allowance. Funds to be allocated from the Emerging Work Allowance must be approved by Senior Management before being utilized.

As a result of updating timelines and budgets for existing projects, such as Smart Grid and Price Response Demand, the Emerging Work Allowance has increased by \$2,293,300 (from \$268,500 to \$2,561,800).

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 First Quarter 2010 Report, the ISO's budget for non-project capital spending is \$3,300,000 for 2010.

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 First Quarter ending March 31, 2010, 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 an electronic copy of this filing has been sent (Attachment 2).

35.13(b)(2) – The ISO requests that the Commission accept the First Quarter 2010 Report as filed, effective April 1, 2010. Since the information in the First Quarter 2010 Report involves the period ending March 31, 2010, 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 First Quarter 2010 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 2010 Capital Budget, and the NEPOOL Participants Committee voted to support the 2010 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.

Kimberly D. Bose, Secretary
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IV. COMMUNICATIONS

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

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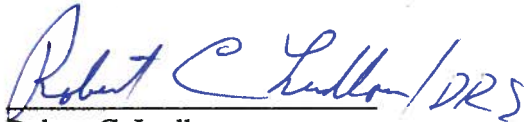
*Persons designated for service

V. CONCLUSION

For the reasons stated herein, the ISO requests that the Commission accept the First Quarter 2010 Report as filed, effective April 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,



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 3/31/2010

(\$000's)

Description	Prior Year(s) Spending (1)	2010 YTD Spending	2010 Cost To Complete	2010 Total Costs	2011 Cost to Complete	Total Project Costs (2)
Capital Projects - Approved Charters						
. Forward Capacity Market (FCM) Phase III	6,554.5	2,502.7	1,322.3	3,825.0	-	10,379.5
. Demand Resource Integration	3,364.4	499.8	911.6	1,411.5	-	4,775.8
. SMD Software Upgrade Phase II (4)	3,437.0	223.8	150.6	374.3	-	3,811.3
. BCP Infrastructure Enhancements	1,643.1	25.3	1,406.7	1,432.0	-	3,075.1
. FCM Enhancements	437.9	458.1	1,411.9	1,870.0	-	2,307.9
. Operational Enhancements	-	-	1,600.0	1,600.0	310.0	1,910.0
. (MME) - Reliability Commitment Mitigation	263.0	173.4	918.6	1,092.0	-	1,355.0
. Facility Outage Scheduler (FOSS) Phase II	45.5	272.8	927.2	1,200.0	-	1,245.5
. Outage Coord Econ Analysis (OCEAT)	786.9	49.6	98.4	148.0	-	934.9
. Credit & Billing Enhancements	76.3	151.3	598.7	750.0	-	826.3
. Issue Resolution	-	6.3	743.7	750.0	-	750.0
. Baseline Telemetry System	602.5	59.0	-	59.0	-	661.6
. Network Model Management	-	67.0	253.0	320.0	-	320.0
. Tariff Management Software	139.3	(3.3)	278.8	275.5	-	414.8
. Oracle 11G Upgrade Phase III	-	79.6	80.4	160.0	-	160.0
. System Restoration & Blackstart	70.3	6.0	31.1	37.1	-	107.4
. Projects Less Than \$100K in Value (Four Projects)	53.0	27.3	139.1	166.3	11.0	230.3
Sub Total Projects with Approved Charters	17,473.7	4,598.7	10,872.0	15,470.7	321.0	33,265.4
Capital Projects in Planning/Conceptual Design (3)						
. Smart Grid (5)	-	-	1,500.0	1,500.0	3,000.0	4,500.0
. SMD Phase III (EMS/eMarket Enhancements) (4)	3.8	52.5	1,947.5	2,000.0	-	2,003.8
. Price Responsive Demand (6)	-	-	500.0	500.0	-	500.0
. BCP Infrastructure Enhancements Phase II & III (6)	-	-	1,000.0	1,000.0	-	1,000.0
. (MME) - Automation Tool	-	-	400.0	400.0	-	400.0
. (MME) - Benchmarking	-	-	400.0	400.0	-	400.0
. Audit and Testing	25.0	43.9	256.1	300.0	-	325.0
. Long-Term FTRs (7)	907.5	-	-	-	-	907.5
. Emerging Work Allowance	-	3.6	2,558.2	2,561.8	-	2,561.8
Sub Total Capital Projects Planning/ Conceptual Design	936.3	100.0	8,561.8	8,661.8	3,000.0	12,598.1
Non-Project Capital Spending						
Capitalized Interest & Loan Fees	-	680.5	2,619.5	3,300.0	-	3,300.0
	-	150.7	416.8	567.5	-	567.5
Total Capital Projects	18,410.0	5,529.9	22,470.2	28,000.0	3,321.0	49,731.0

- (1) Prior Year(s) spending reflects only those projects with current and future spending.
- (2) Total project costs include 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) SMD Phase III is the final phase of the SMD Software Upgrade Project and will have costs in 2011. Final budget and timeline will be reported after reported after the project charter is approved.
- (5) The Smart Grid project has a current total estimated cost of \$9.0 million and is expected to continue until 2012 although the project may continue until 2013 depending on when contract negotiations with the Department of Energy are finalized.
- (6) The Price Responsive Demand and BCP Infrastructure Enhancements (Phases II & III) projects will both have costs in 2011 or beyond. Once project scopes are defined and each project is chartered the full budget and timeline will be approved and reported.
- (7) The LTRR project has been indefinitely deferred pending the development of appropriate credit requirements.

ISO NEW ENGLAND INC.

FERC COMPLIANCE FILING - 1/1/10 through 3/31/10

ALLOCATION ON UNRECOVERED PLANT IN SERVICE/UNAMORTIZED COST OF PLANT

Line No.	Description (a)	Unrecovered Basis		Self-Funding Tariff				
		Total (b)	Adj. Total (c)	Adj. Total (d)	Total (f)	Schedule 1 (g)	Schedule 2 (h)	Schedule 3 (i)
1	2010 Items:							
2	Total 2010 Items - \$	\$ 6,312,251	\$ -	\$ 6,312,251	\$ 6,312,251	\$ 1,063,302	\$ 1,423,112	\$ 3,825,837
3	Total 2010 Items - %				100.00%	16.85%	22.55%	60.61%
4								
5	2009 Items:							
6	Total 2009 Items - \$	\$ 22,194,006	\$ -	\$ 22,194,006	\$ 22,194,006	\$ 4,535,819	\$ 7,041,886	\$ 10,616,301
7	Total 2009 Items - %				100.00%	20.44%	31.73%	47.83%
8								
9	2008 Items:							
10	Total 2008 Items - \$	\$ 12,979,893	\$ -	\$ 12,979,893	\$ 12,979,893	\$ 2,616,624	\$ 4,882,506	\$ 5,480,763
11	Total 2008 Items - %				100.00%	20.16%	37.62%	42.23%
12								
13	2007 Items:							
14	Total 2007 Items - \$	\$ 9,602,905	\$ -	\$ 9,602,905	\$ 9,602,905	\$ 1,552,889	\$ 3,461,950	\$ 4,588,066
15	Total 2007 Items - %				100.00%	16.17%	36.05%	47.78%
16								
17	2006 Items:							
18	Total 2006 Items - \$	\$ 15,062,907	\$ -	\$ 15,062,907	\$ 15,062,907	\$ 3,187,565	\$ 7,556,605	\$ 4,318,737
19	Total 2006 Items - %				100.00%	21.16%	50.17%	28.67%
20								
21	2005 Items:							
22	Total 2005 Items - \$	\$ 16,851,672	\$ -	\$ 16,851,672	\$ 16,851,672	\$ 3,529,100	\$ 8,786,099	\$ 4,536,473
23	Total 2005 Items - %				100.00%	20.94%	52.14%	26.92%
24								
25	2004 Items:							
26	Total 2004 Items - \$	\$ 1,006,466	\$ -	\$ 1,006,466	\$ 1,006,466	\$ 190,253	\$ 537,844	\$ 278,369
27	Total 2004 Items - %				100.00%	18.90%	53.44%	27.66%
28								
29	2003 Items:							
30	Total 2003 Items - \$	\$ 1,405	\$ -	\$ 1,405	\$ 1,405	\$ -	\$ 920	\$ 485
31	Total 2003 Items - %				100.00%	0.00%	65.50%	34.50%
32								
33	Total Unrecovered Plant in Service - \$	\$ 84,011,505	\$ -	\$ 84,011,505	\$ 84,011,505	\$ 16,675,552	\$ 33,690,923	\$ 33,645,030
34	- %				100.00%	19.85%	40.10%	40.05%

Attachment 2

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