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November 8, 2002

VIA MESSENGER

Magalie R. Salas, Esq.
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: Application of ISO New England Inc. Under Section 204 of the Federal Power Act For An Order Authorizing the Issuance of Securities, Docket No. ES03-

Dear Ms. Salas:

Enclosed for filing are an original and four copies of the referenced document, relating to a term credit agreement.

Also enclosed is an extra copy of this filing. We request your staff to date-stamp it and return it to the messenger making this delivery.

If there are any questions concerning this filing, please call me at (202) 661-2205.

Very truly yours,

Howard H. Shafferman
Counsel for
ISO New England Inc.

Enclosures

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

ISO New England Inc.

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Docket No. ES03- -000

**APPLICATION OF ISO NEW ENGLAND INC.
UNDER SECTION 204 OF THE FEDERAL POWER ACT FOR AN ORDER
AUTHORIZING THE ISSUANCE OF SECURITIES**

Pursuant to Section 204 of the Federal Power Act, 16 U.S.C. §824c, ISO New England Inc. ("ISO-NE") files this application for Commission authorization of the issuance of promissory notes (the "Notes") evidencing additional borrowings under either that certain Credit Agreement dated as of September 26, 2002 between ISO-NE and KeyBank National Association, as agent and lender ("KeyBank"), and the financial institutions party thereto, each as a lender, (the "Existing Credit Agreement") or under a new credit facility with KeyBank and/or other banks selected by ISO-NE. ISO-NE anticipates that if the additional borrowing are covered under the Existing Credit Agreement, it will be amended to permit the additional borrowings, to add additional lenders and to make other changes that may be negotiated by ISO-NE and the lenders. The Existing Credit Agreement as so amended is referred to herein as the "Amended Credit Agreement."

I. SECTION 34.3 REQUIREMENTS

Pursuant to Section 34.3 of the Commission's regulations, 18 C.F.R. § 34.3 (2002), ISO-NE provides the following information:

A. Applicant's official name and principal business address.

ISO New England Inc.
One Sullivan Road
Holyoke, Massachusetts 01040-2841

B. State of incorporation and principal place of business.

On May 30, 1997, ISO-NE was organized as a non-profit, private corporation under the laws of the State of Delaware. ISO-NE is a non-profit independent system operator ("ISO") that, pursuant to the Interim Independent System Operator Agreement entered into as of July 1, 1997 between ISO-NE and the participants acting through the New England Power Pool ("NEPOOL") Management Committee (now the Participants Committee), is responsible for operating New England's bulk power system, including administration of the NEPOOL Open Access Transmission Tariff, and of the region's restructured wholesale electricity marketplace. The New England region controlled by ISO-NE is comprised of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. Its principal place of business is at the business address listed in a., above.

C. The name, address and telephone number of the person at ISO-NE authorized to receive notices and communications regarding this application.

Matthew F. Goldberg
Senior Regulatory Counsel
ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040-2841
(413) 535-4029.

ISO-NE requests that notices and communications regarding this application also be sent to:

Robert C. Gerlach, Esquire
Ballard Spahr Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103
(215) 864-8526.

D. Requested action date.

ISO-NE respectfully requests that, if possible, the Commission act by December 15, 2002.

E. Description of the securities to be issued.

1. Type and nature of securities

The Notes will be unsecured promissory notes evidencing borrowings under the Amended Credit Agreement or a new credit agreement.

2. Amount of securities

The principal amount of the Notes shall not exceed Twenty Million Dollars (\$20,000,000).

3. Interest or dividend rate

The Existing Credit Agreement currently provides, and ISO-NE expects, that any new credit agreement with KeyBank will provide, a rate equal to the Base Rate or 1, 2, 3 or 6 month LIBOR plus 137.5 basis points, at ISO-NE's option. The Base Rate is defined as KeyBank's prime rate. In the event that ISO-NE enters into a new credit facility with a lender other than KeyBank, it will attempt to obtain rates similar to those offered by KeyBank. ISO-NE also expects to pay an additional commitment fee in connection with either the Amended Credit Agreement or a new credit agreement.

4. Dates of issuance and maturity

ISO-NE will not enter into the Amended Credit Agreement or a new credit agreement and the Notes will not be issued until ISO-NE receives the Commission's approval for such issuance. The Notes will mature not more than five (5) years from the date of issuance.

5. Institutional rating of securities

The Notes will not be rated.

6. Stock Exchange on which security will be listed

None.

F. Purpose for which the securities are issued.

ISO-NE intends to borrow additional funds under the Amended Credit Agreement or a new credit agreement to fund capital expenditures required to be made during calendar year 2003 for support of its operations, including the implementation of the Standard Market Design for New England. ISO-NE's capital budget for 2003 is reflected in its November 1, 2002 filing of amendments to its Capital Funding Tariff ("CFT") in Docket No. ER03-148-000. The additional borrowings under the Amended Credit Agreement or a new credit agreement will enable ISO-NE to self-finance capital expenditures as required by the Commission's Order approving ISO-NE. See New England Power Pool, 79 FERC & 61,374 (1997). While ISO-NE's 2003 capital budget is approximately \$19.2 million,¹ authority to borrow \$20.0 million (*i.e.*, an additional \$0.8 million above the \$19.2 million) is requested because for 2002, the original capital budget was \$40.8 million,² and ISO-NE sought authority to borrow (and borrowed) only \$40.0 million.³ ISO-NE needs the same total amount of cumulative capital borrowing as is now reflected in the cumulative capital budgets in Attachment A of the CFT, and so the \$0.8 million is simply a "catch up" to reconcile the borrowings with the cumulative capital amounts reflected in the CFT.

¹ This figure does not include capital expenditures postponed from the 2002 capital budget.

² See ISO-NE filing in Docket No. ER02-233-000 (November 1, 2001), reflecting 2002 capital budget of \$40.8 million.

³ See ISO-NE filing in Docket No. ES02-7-000 (November 1, 2001), requesting authority to borrow \$40.0 million.

G. State Applications.

No applications with respect to the Amended Credit Agreement or the Notes will be filed with any state regulatory authority. ISO-NE is not a utility under the laws of any of the New England states. No state has sought to regulate ISO-NE's activities.

H. Facts relied upon to show that the issuance of the Note is lawful and necessary.

ISO-NE has the authority to issue the Notes pursuant to its Certificate of Incorporation and Bylaws. ISO-NE's corporate purposes as set forth in the Certificate of Incorporation are to act as the independent system operator for the parties to the Restated New England Power Pool Agreement dated as of September 1, 1971, as amended from time to time, with responsibility for directing the operation of the NEPOOL control area, administration of the NEPOOL Open Access Transmission Tariff, administration of a power exchange and to engage in any other lawful act or activity for which corporation may be organized under the General Corporation Law of Delaware. Section 122(13) of the Delaware General Corporation Law empowers a corporation created under Delaware law to borrow money at such rates of interest as the corporation may determine. ISO-NE's issuance of the Notes evidencing borrowings under the Amended Credit Agreement or a new credit agreement is consistent with its corporate purposes and responsibilities, its operation as an ISO, and the public interest. The additional borrowings under the Amended Credit Agreement or a new credit agreement are reasonably necessary for ISO-NE to finance the capital expenditures needed to properly perform the services of a public utility provider and will not impair its ability to perform as an ISO and a public utility.

I. Statement of the bond indentures(s) or other limitations on the issuance of additional debt or equity securities.

The Existing Credit Agreement contains a negative covenant preventing ISO-NE from incurring certain additional liabilities for borrowed money except to the lenders party to the

Existing Credit Agreement or as permitted by ISO-NE's Administrative Services Tariff, CFT or the NEPOOL Tariff. ISO-NE expects that any new credit agreement will contain a similar negative covenant.

ISO-NE is a non-stock corporation with no equity securities.

J. Summary of any rate change.

Changes in the tariff under which ISO-NE collects its administrative costs were effective January 1, 2002. ISO-NE filed further changes to that tariff on November 1, 2002 (with a proposed effective date of January 1, 2003), pursuant to an approved settlement, in order to collect its administrative costs for calendar year 2003. ISO-NE's CFT became effective on May 5, 2001,⁴ and was first amended with an effective date of January 1, 2002.⁵ On June 27, 2002, ISO-NE filed revised sheets to the CFT (with a requested effective date of August 1, 2002) to reflect the addition of \$24.5 million to the CFT funding mechanism.⁶ ISO-NE also filed changes to the CFT on November 1, 2002 (with a proposed effective date of January 1, 2003), in support of its acquisition of capital items during calendar year 2003.

K. Notice of filing.

A form of notice suitable for publication in the Federal Register is attached hereto as Attachment 1 and is also being provided on disk.

II. SECTION 34.2 REQUIREMENTS

Section 34.2 of the Commission's regulations requires that a utility obtain competitive bids from at least two prospective dealers, purchasers or underwriters, or negotiated offers from at least three prospective dealers, purchasers or underwriters, and that it accept the bid or offer that provides the utility with the lowest cost of money. 18 C.F.R. ' 34.2(a)(1), (a)(2), (a)(3)(i).

⁴ See letter order issued in Docket No. ER01-1382-000 (issued April 25, 2001).

In the alternative, a utility may obtain authorization from the Commission to accept bids or offers other than the types described above. 18 C.F.R. ' 34.2(a)(3)(iii).

ISO-NE is seeking authorization to borrow additional funds under either the Existing Credit Agreement or a new credit agreement and is limited in its ability to borrow from other lenders by the terms of the Existing Credit Agreement. As previously stated in Section I(e)(3), the Existing Credit Agreement currently provides for a rate equal to the Base Rate or 1, 2, 3 or 6-month LIBOR plus 137.5 basis points, at ISO-NE's option. The Base Rate is defined as KeyBank's prime rate. The Commission authorized the issuance by ISO-NE of forty-three million dollars (\$43,000,000) of term borrowings under a prior credit facility pursuant to a letter order dated March 30, 2001. *See* 94 FERC ¶ 62,272. The Commission authorized the issuance by ISO-NE of an additional forty million dollars (\$40,000,000) of term borrowings under a prior credit facility pursuant to an order issued December 20, 2001 and an additional twenty-four million five hundred thousand (\$24,500,000) of term borrowings under the Existing Credit Agreement pursuant to an order issued August 1, 2002. *See* 97 FERC ¶ 61,304 (2001) and 100 FERC ¶ 61,104 (2002).

Based on the facts set forth above, ISO-NE respectfully requests authorization from the Commission pursuant to §34.2(a)(3)(iii) to either amend the Existing Credit Agreement or to enter into a new credit agreement to provide for an additional twenty million dollars (\$20,000,000) of term borrowings.

(...continued)

⁵ See *ISO New England Inc.*, 97 FERC ¶ 61,304 (2001).

⁶ See *ISO New England Inc.*, 100 FERC ¶ 61,130 (2002).

III. SECTION 34.4 EXHIBITS

Pursuant to § 34.4 of the Commission's regulations, 18 C.F.R. § 34.4 (2002), ISO-NE submits the following exhibits:

A. Exhibit A. Statement of corporate purposes.

Attached as Exhibit A is Article 3 of ISO-NE's Certificate of Incorporation setting forth the purposes and powers of ISO-NE.

B. Exhibit B. Resolutions of the applicant's directors authorizing issuance of securities.

Attached as Exhibit B are resolutions, certified by the Secretary of ISO-NE as having been adopted by the ISO-NE Board of Directors, authorizing ISO-NE to enter into a credit facility agreement relating to ISO-NE's capital expenditure needs.

C. Attachment 2 (2001 audited financial statements with notes) and Exhibit C (Balance Sheet)

Attachment 2 is the December 31, 2001 set of audited financial statements (with notes) for ISO-NE. These financial statements are the most current audited financial statements published by ISO-NE. Also attached is the unaudited Balance Sheet for the nine-month period ended September 30, 2002 and pro forma statements that include the Notes to be issued under either the Amended Credit Agreement or a new credit agreement (\$20,000,000).

D. Exhibit D (Statements of Activities (Income Statement))

Attached as Exhibit D is the unaudited Statements of Activities of ISO-NE for the nine-month period ended September 30, 2002 and pro forma statements that include the Notes to be issued for either the Amended Credit Agreement or a new credit agreement.

E. Exhibit E (Statements of Cash Flows and Computation of Interest Coverage)

Attached as Exhibit E is the unaudited Statement of Cash Flows for the nine-month period ended September 30, 2002 and pro forma statements that include the Notes to be issued for either the Amended Credit Agreement or a new credit agreement.

F. Exhibit F

Exhibit F is not applicable because no registration statement is required.

G. Request for waivers.

ISO-NE hereby requests any waivers necessary in order for these documents to be accepted in satisfaction of the requirements of Section 34.4(c). Also, the GAAP format of these statements provides more useful information than the Form 1 format, given the unique non-traditional nature of ISO assets and operations.

IV. CONCLUSION

WHEREFORE, ISO-NE respectfully requests that the Commission authorize the issuance of the Notes.

Respectfully submitted,

Robert C. Gerlach
Ballard Spahr Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
(215) 665-8500

Howard H. Shafferman
Ballard Spahr Andrews & Ingersoll, LLP
601 13th Street, N.W.
Suite 1000 South
Washington, D.C. 20005
(202) 661-2205

Counsel for ISO New England Inc.

November 8, 2002

Attachment 1

Notice of Filing

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

ISO New England Inc.

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Docket No. ES03- -000

NOTICE OF FILING

Take notice that on November 8, 2002, ISO New England Inc. tendered for filing an application under Section 204 of the Federal Power Act, 16 U.S.C. ' 824c, for an order authorizing the issuance of additional promissory notes in the amount not to exceed \$20,000,000 under an existing term credit facility or a new credit facility.

Any person desiring to be heard or to protest such filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR §§ 385.211 and 385.214). All such motions and protests should be filed on or before the comment date. Protests will be considered by the Commission to determine the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may be viewed on the web at <http://www.ferc.gov> using the "FERRIS" link, select "Docket #" from the FERRIS Menu and follow the instructions (please call (202) 208-2222 for assistance). Comments, protests and interventions may be filed electronically via the internet in lieu of paper. See, 18 CFR 385.2001(a)(1)(iii) and the instructions on the Commission's web site at <http://www.ferc.gov> under the link to the User's Guide. If you have not yet established an account, you will need to create a new account by clicking on "Login to File" and then "New User Account."

Comment date:_____

Magalie R. Salas
Secretary

Attachment 2

ISO-NE Audited Financial Statements for 2001

ISO New England Inc.

Financial Statements

For the Years Ended December 31, 2001 and 2000

ISO New England Inc.
Financial Statements
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PricewaterhouseCoopers LLP
One International Place
Boston MA 02110
Telephone (617) 478 5000
Facsimile (617) 478 3900

Report of Independent Accountants

To the Board of Directors of
ISO New England Inc.:

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of ISO New England Inc., ("the Company") at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

March 14, 2002

ISO New England Inc.
Statements of Financial Position
As of December 31, 2001 and 2000

	2001	2000
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,300	\$ 9,608
Cash held for Hydro Quebec (Note 1)	-	7,582
	<u>19,300</u>	<u>17,190</u>
Total cash and cash equivalents	19,300	17,190
Accounts receivable, net (Note 1)	11,238	11,637
Prepaid expenses	255	6
Noncurrent assets:		
Property and equipment, net (Note 3)	50,628	19,591
Deferred charges (Note 1)	3,271	-
Other assets (Note 1)	38,850	4,791
	<u>38,850</u>	<u>4,791</u>
Total assets	<u>\$ 123,542</u>	<u>\$ 53,215</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable (Note 1):		
Settlement, net	\$ 164	\$ 8,442
Administration	10,948	5,381
Deposits payable	39,326	5,135
Revolving credit (Note 4)	5,500	-
Interest payable	68	-
Daily billing advance collections (Note 1)	14,296	-
Accrued expenses	6,292	2,159
Working capital advances from NEPOOL Participants (Note 1)	-	10,521
Accrued pension and postretirement benefits (Note 5)	1,369	1,058
Deferred income (Note 1)	2,579	6,234
Capital expenditure funding from NEPOOL participants	-	14,285
Long-term liabilities:		
Term loan (Note 4)	<u>43,000</u>	<u>-</u>
Total liabilities	123,542	53,215
Unrestricted net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 123,542</u>	<u>\$ 53,215</u>

The accompanying notes are an integral part of these financial statements.

ISO New England Inc.
Statements of Activities
For the Years Ended December 31, 2001 and 2000

	2001	2000
	(In thousands)	
Changes in unrestricted net assets:		
Revenues (note 1):		
ISO tariff revenues	\$ 61,392	\$ 43,362
Interest income	736	1,556
Fees and services	503	556
	<u>62,631</u>	<u>45,474</u>
Total unrestricted revenues	<u>62,631</u>	<u>45,474</u>
Expenses:		
General and administrative:		
Salaries and benefits	31,176	25,231
Professional and consultants	15,089	8,222
Rents and leases	2,994	3,079
Computer services	3,361	1,959
Depreciation expense	2,833	1,423
Communication expense	1,395	1,522
Interest expense	1,037	-
Other	4,746	4,038
	<u>62,631</u>	<u>45,474</u>
Total expenses	<u>62,631</u>	<u>45,474</u>
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	<u>-</u>	<u>-</u>
Unrestricted net assets, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

ISO New England Inc.
Statements of Cash Flows
For the Years Ended December 31, 2001 and 2000

	2001	2000
	(In thousands)	
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ -	\$ -
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	3,561	2,152
Decrease/(increase) in accounts receivable	399	(7,267)
Increase in deferred charges	(3,271)	-
(Increase)/decrease in other assets	(34,059)	19,340
(Increase)/decrease in prepaid expense	(249)	2
Increase/(decrease) in accounts payable:		
Settlement	(8,278)	8,442
Administration	5,567	1,108
Decrease in weekly billing advance collections	-	(6,433)
Increase in daily billing advance collections	14,296	-
Increase/(decrease) in accrued pension and postretirement benefits	311	(63)
Increase/(decrease) in accrued expenses	4,133	(1,032)
Increase in deposits payable	34,191	4,267
Decrease in disputes payable	-	(23,060)
Increase in interest payable	68	-
Decrease in deferred revenue	(3,655)	(438)
Net cash provided by (used in) operating activities	<u>13,014</u>	<u>(2,982)</u>
Cash flows from investing activities:		
Capital expenditures	<u>(34,598)</u>	<u>(15,897)</u>
Net cash used in investing activities	<u>(34,598)</u>	<u>(15,897)</u>
Cash flows from financing activities:		
Increase/(decrease) in working capital advance from NEPOOL Participants	(10,521)	2,121
Increase/(decrease) in capital expenditure funding from NEPOOL Participants	(14,285)	14,285
Proceeds from term loan	43,000	-
Proceeds from revolving credit, net	<u>5,500</u>	<u>-</u>
Net cash provided by financing activities	<u>23,694</u>	<u>16,406</u>
Net increase/(decrease) in cash and cash equivalents	2,110	(2,473)
Cash and cash equivalents, beginning of year	<u>17,190</u>	<u>19,663</u>
Cash and cash equivalents, end of year	<u>\$ 19,300</u>	<u>\$ 17,190</u>
Supplemental data:		
Cash paid during the year for interest:	<u>\$ 2,087</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

ISO New England Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Description of Business

ISO New England Inc. (the "Company" or "ISO") commenced operations on July 1, 1997 as the New England electric transmission independent system operator for the New England Power Pool ("NEPOOL") in compliance with the requirements of the Federal Energy Regulatory Commission ("FERC"). On May 1, 1999 the competitive market place opened in the ISO New England control area. The Company now administers NEPOOL's open-access transmission tariff, administers a power exchange, and ensures the reliable supply and transmission of electricity for the control area. The Company operates as an organization described in Section 501(c)(4) of the Internal Revenue Code and is exempt from tax pursuant to Section 501(a) of the Internal Revenue Code.

The FERC accepted ISO's "capital funding tariff" ("CFT"), filing for 2001. This filing supported the ISO's loan arrangements with various banks for a line of credit to fund the capital and working capital requirements of the Company. The CFT must be refiled with FERC to increase the limits on borrowing as necessary.

Cash Equivalents

The Company considers cash on hand and short-term marketable securities with original maturities of three months or less to be cash equivalents. The cash equivalents at December 31, 2001 and 2000 were held in overnight repurchase agreements and also in direct and indirect obligations of the United States.

Restricted balances at any point in time consist of dollars held in security until settlement of Participants' accounts. At December 31, 2001 and 2000 \$0 and \$7,582,000, respectively, was held in security for payment to Hydro-Quebec.

Accounts Receivable and Accounts Payable

In the course of bulk power transactions administered by the Company on behalf of the NEPOOL Participants, amounts for energy purchased and sold among Participants become payable to and receivable from such Participants. The Company summarizes and prices the energy transactions each month and provides an invoice or remittance advice to each Participant that summarizes the amount either payable to or receivable from each Participant.

Included in the invoice or remittance advice is each Participant's share of Company expenses, which is netted into the payable or receivable amount for each Participant. Accounts payable on the balance sheet are segregated between the amounts owed, for which the ISO functions as paying agent, for energy transactions and for the amounts incurred by the Company in the course of operations.

The net receivables at the end of each month include those amounts which will be billed and included in the invoice or remittance advice to Participants in the subsequent month. The net payables and receivables for energy transactions are settled with the Participants in the subsequent month.

Accounts receivable and accounts payable are reflected net of NEPOOL Settlement amounts, which were \$0 at December 31, 2001 and \$7,582,000 at December 31, 2000. A default payment liability of \$164,000 was outstanding at December 31, 2001 until it was invoiced to Participants. At December 31, 2000, a liability of \$860,000 was owed to a Participant under a special billing arrangement. The December 31, 2001 default payment liability is covered by deposits held under the financial assurance policy.

ISO New England Inc.

Notes to Financial Statements

Capital Expenditure Funding

Capital Expenditure Funding represents the liability due to the Participants for capital purchases of the Company plus accrued interest owed to the Participants for the year ending December 31, 2000. This balance was funded through April 2001 on a monthly basis by the NEPOOL Participants based upon their pro rata share of the ISO Tariff charges incurred by them for the previous month. Beginning January 1 of the year after the asset is placed in service, the amount of capital expenditures funded by the Participants shall be amortized in equal monthly amounts and repaid over the depreciation period as defined in accordance with generally accepted accounting principles, including interest thereon from the date of payment at a rate of 10.78%. This monthly repayment process began in January 2001 through April 2001. In June 2001, the Company received bank financing which enabled it to repay all remaining amounts due to NEPOOL participants and to fund future capital expenditures.

Property and Equipment

The Interim Independent System Operator Agreement between the Company and NEPOOL states that any fixed assets acquired or developed by the Company shall be the property of the NEPOOL Participants. In FERC's conditional approval of the Company there was a requirement that the Company, not NEPOOL, fund all the Company's capital expenditures. The Company is presently negotiating an amendment to this agreement with NEPOOL to comply with this and other conditions or requirements promulgated by FERC. The Company has elected to capitalize additions in excess of \$1,000 or whose useful life is greater than one year. Property and equipment is stated at cost, net of accumulated depreciation.

Depreciation

Depreciation is generally computed using straight-line methods over an estimated useful life ranging from three years to ten years (computer hardware, software and accessories – 5 years, software development costs – 5 years, furniture and fixtures – 7 years, leasehold improvements – 10 years, vehicles – 3 years). No depreciation is recorded for assets classified in "Work in Process" (Note 3). Depreciation expense is offset by amortization of Deferred Income related to fixed assets the Company purchased and placed in service in 1997 through 1999 that were pre-funded by NEPOOL participants.

Income Taxes

Income taxes are not provided by the Company because it is operating as a corporation described in Section 501(c)(4) of the Internal Revenue Code, exempt under Section 501(a) of the Internal Revenue Code, and has no unrelated business tax.

Working Capital Advances

The Company billed and collected its estimated working capital needs based on a rolling three month average of the charges under the ISO Tariff, and trued up this amount on a monthly basis. In June 2001, the Company utilized proceeds from its revolving credit agreement to fund its estimated working capital needs on a monthly basis and refunded previously advanced amounts to Participants.

Deferred Charges

The Company applies the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), which requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain charges or revenues because they are expected to be collected or refunded through future customer billings. During 2001, the Company determined that certain Congestion Management System and Multi-Settlement System costs totaling

ISO New England Inc.

Notes to Financial Statements

approximately \$3,300,000 that had been previously capitalized as part of work in process no longer had future value and were thus impaired. The cost of this impairment was not expensed since it will be recovered through future ISO Tariff rates and, in accordance with FAS 71, are now classified as Deferred Charges.

Other Assets

The NEPOOL Participants are required to comply with the NEPOOL Financial Assurance Policy. In the case of non-investment grade rated Participants that meet certain criteria, the NEPOOL Financial Assurance Policy requires these Participants to put in place alternate forms of financial assurance. There are several options allowed under the NEPOOL Financial Assurance Policy for compliance, one of which is to post cash as collateral. At December 31, 2001 and 2000 the balance of these deposits was approximately \$38,900,000 and \$4,800,000, respectively.

Certain Participants that do not meet the credit ratings criteria of the Financial Assurance Policy and have not provided an alternate form of financial assurance, can prepay an estimate of their monthly bill on a weekly basis or will be subject to default procedures to remove them from NEPOOL.

Daily Billing Advance Collections

During 2001, the ISO, NEPOOL, and certain Participants have entered into a Standstill Agreement. The Standstill Agreement requires the ISO to issue an invoice daily to the affected Participants, who are required to pay the invoice on a daily basis, which represents the amount of estimated charges they have incurred for each day. The amounts collected in advance are then true-up at the end of each month through the normal settlement billing process. In addition to daily billing, certain Participants who do not meet the credit ratings criteria of the Financial Assurance Policy, and who have not provided an alternate form of financial assurance, may prepay an estimate of their monthly bill on a weekly basis.

Revenue Recognition

The Company recovers its operating costs pursuant to the Tariff for Transmission Dispatch and Power Administration Services (ISO Tariff). The tariff provides for recovery of expenses through three schedules. Scheduling, System Control and Dispatch Service (Schedule 1) and Energy Administration Service (Schedule 2) recover related operating costs through a pre-approved rate applied to each month's activity. Reliability Administration Service (Schedule 3) recovered actual operating costs through June 30, 2001 through an allocation to Participants. Beginning July 1, 2001 these costs were recovered through a pre-approved rate applied to each month's activity. Schedules 1, 2, and 3 are subject to true-up through subsequent year's rates. The tariff may be redesigned for future years.

Deferred Income

Deferred income offsets the net fixed assets of the Company that were purchased and placed in service in 1997 and 1998, and the amount of the ISO Tariff for Schedules 1, 2, and 3 that was over/under collected from 1999 through 2001. The pre-funded fixed asset deferred income is being amortized into income over the life of the assets at the rate depreciation is recognized. The over/under collection amount of the ISO Tariff will be returned to the Participants through the mechanism provided for within the ISO Tariff.

Fair Values of Financial Instruments

The carrying amounts reported in the statement of financial position for current assets and liabilities approximate their fair values.

ISO New England Inc.

Notes to Financial Statements

Use of Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenses. Actual results could differ from those estimates.

Liquidity Information

In order to provide information about liquidity, assets have been sequenced according to their nearness to conversion to cash, and liabilities have been sequenced according to the nearness of their resulting use of cash.

2. Commitments and Contingencies

Funding Arrangements

The Company has incurred major expenses on behalf of NEPOOL relating to the development of NEPOOL's wholesale electric market for New England and the formation of the Company (implementation costs). Additional costs were incurred by NEPOOL itself. The final project costs were \$50,567,000, exclusive of interest.

In accordance with the fortieth amendment to the NEPOOL Agreement, ISO New England has begun administering repayment of these costs by the current NEPOOL membership to the members that originally funded the expenses. The repayment is to be made over a five-year period to the funding Participants at an interest rate of 8% per annum until August 18, 2001 and 10.78% per annum thereafter, beginning with the Second Effective date May 1, 1999 (the start of the wholesale electric markets in New England). The source of repayment was a monthly charge to NEPOOL Participants based on their pro rata share of ISO Schedule 2 costs which expired January 1, 2001.

Beginning January 1, 2001, the source of repayment for the remaining amounts is based fifty percent on Participants' pro rata share of electrical load and generating shares and fifty percent on Participants' pro rata share of electrical load and generating share peaks as defined in the Restated NEPOOL Agreement. At December 31, 2001 the amount of these costs to be repaid by the current NEPOOL membership to the members that originally funded the expenses was approximately \$25,998,000.

ISO Tariff Design

The 2000 ISO Tariff was accepted for filing by order of the FERC issued December 30, 1999 in Docket No. ER00-395-000, subject to a compliance filing. That compliance filing was made subsequently and accepted by the FERC. The FERC also rejected rehearing requests made by certain parties to that proceeding. The Company successfully completed settlement proceedings before the FERC involving the Company's recovery of its administrative costs for 2001, in Docket No. ER01-316-000. The revised tariff is in effect until December 31, 2003.

Legal Proceedings

The Company is party to various legal actions incident to its business; however, management believes that no material awards against the Company will result from such proceedings.

In accordance with the revised NEPOOL Billing Policy, formal billing disputes of Participants are no longer held in escrow until the dispute is resolved. However, approximately \$25,400,000 and \$38,700,000 remained in dispute at December 31, 2001 and 2000, respectively.

ISO New England Inc.
Notes to Financial Statements

3. Property and Equipment

Property and equipment at December 31 consists of the following:

	2001	2000
Computer hardware, software and accessories	\$ 14,215,000	\$ 12,257,000
Software development costs	3,234,000	2,787,000
Furniture and fixtures	540,000	603,000
Leasehold improvements	2,081,000	1,287,000
Vehicles	75,000	-
	<u>20,145,000</u>	<u>16,934,000</u>
Work in process (including \$1,148,000 and \$72,000 of capitalized interest)	37,438,000	6,051,000
Less: accumulated depreciation and amortization	<u>(6,955,000)</u>	<u>(3,394,000)</u>
	<u>\$ 50,628,000</u>	<u>\$ 19,591,000</u>

Internal software development costs capitalized as work in process in 2001 and 2000 were \$1,167,000 and \$860,000 respectively. These costs will be amortized over five years.

4. Credit Facilities

Revolving Credit Arrangement

On June 8, 2001, the Company entered into a \$15 million revolving credit arrangement, of which \$5.5 million was outstanding at December 31, 2001. Proceeds from the revolving credit arrangement were used to pay back NEPOOL participants for working capital advances and to fund future working capital requirements. Interest accrues on the revolving credit at a London Inter-bank Offering Rate ("LIBOR") of which the Company has the option of selecting the 30, 60, 90, or 180 day rate, plus a 1% spread. Interest is paid at the earlier of the selected LIBOR term or 90 days. The arrangement expires June 4, 2004 and any outstanding balance must be paid by this date. The Company is charged a fee of 0.25% on the entire line of credit. The weighted average interest rate for the year ended December 31, 2001 was 4.02%.

Term Loan

On June 8, 2001, the Company also entered into a \$43 million term loan. Proceeds from the term loan were used to pay back NEPOOL participants for capital expenditures advanced to the Company and to fund future capital expenditures. Interest accrues on the revolving credit at a London Inter-bank Offering Rate ("LIBOR") of which the Company has the option of selecting the 30, 60, 90, or 180 day rate, plus a 1.375% spread. Interest is paid at the earlier of the selected LIBOR term or 90 days. The weighted average interest rate for the year ended December 31, 2001 was 4.98%.

Principal payments on the term loan are due annually as follows:

2002	\$ -
2003	7,167,000
2004	14,333,000
2005	14,333,000
2006	<u>7,167,000</u>
	<u>\$ 43,000,000</u>

ISO New England Inc.

Notes to Financial Statements

These credit agreements also contain both affirmative and negative covenants, the most restrictive of which is the maintenance of a financial ratio related to revenue and expense plus debt service. The Company was in compliance with these ratios at December 31, 2001.

Interest incurred on the revolving credit and the term loan for the year ended December 31, 2001 was approximately \$1,180,000. Interest capitalized from the term loan for the year ended December 31, 2001 was approximately \$686,000.

In February 2002, the Company borrowed an additional \$40 million to fund additional capital expenditures.

5. Pension and Other Employee Benefits

The Company sponsors defined benefit pension and postretirement plans which cover substantially all union and nonunion employees and provide retirement income, medical, dental and life insurance benefits.

The Company sponsors two defined benefit pension plans which are funded solely by Company contributions. Benefits are determined based on years of service and average compensation.

The Company sponsors two defined benefit postretirement plans which provide medical, dental and life insurance benefits for union and nonunion eligible employees and their beneficiaries. The medical benefits are contributory with participants' contributions adjusted annually and participants are responsible for deductible and coinsurance amounts. Dental benefits are non-contributory but participants are responsible for deductible and coinsurance amounts. The life insurance benefits are noncontributory. The Company's future liability for medical benefits is limited to 200% of 1993 costs and as a result the impact of a one-percentage-point change in assumed health care cost trend is immaterial.

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31, 2001	2000	Years ended December 31, 2001	2000
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 21,226,000	\$ 16,386,000	\$ 1,887,000	\$ 1,520,000
Service cost	1,483,000	1,130,000	187,000	167,000
Interest cost	1,438,000	1,328,000	106,000	115,000
Plan amendments	41,000	-	-	-
Benefits paid	(281,000)	(250,000)	(15,000)	(7,000)
Actuarial (gain) loss	(231,000)	2,632,000	(334,000)	92,000
Benefit obligation at end of year	<u>23,676,000</u>	<u>21,226,000</u>	<u>1,831,000</u>	<u>1,887,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	16,887,000	15,795,000	-	-
Actual return on plan assets	(631,000)	(103,000)	-	-
Employer contributions	1,448,000	1,445,000	15,000	7,000 *
Benefits paid	(281,000)	(250,000)	(15,000)	(7,000)
Fair value of plan assets at end of year	<u>17,423,000</u>	<u>16,887,000</u>	<u>-</u>	<u>-</u>
Funded status	(6,253,000)	(4,340,000)	(1,831,000)	(1,887,000)
Unrecognized transition obligation	1,562,000	1,687,000	865,000	920,000
Unrecognized net actuarial (gain) loss	4,650,000	2,660,000	(403,000)	(91,000)
Unrecognized prior service cost	41,000	-	-	-
Prepaid (accrued) benefit cost	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ (1,369,000)</u>	<u>\$ (1,058,000)</u>

* Cash contributions made by employer to providers, insurers, trusts or participants for payment of claims.

ISO New England Inc.
Notes to Financial Statements

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31,		Years ended December 31,	
	2001	2000	2001	2000
Weighted-average assumptions:				
Discount rate	7.00%	7.25%	7.00%	7.25%
Expected return on plan assets	8.50%	9.25%	n/a	n/a
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

For measurement purposes, the assumed increase in per capita cost of dental benefits is 4.00% for 2001 and level thereafter. The medical trend rate no longer applies as the Company's commitment to cost sharing has reached caps.

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31,		Years ended December 31,	
	2001	2000	2001	2000
Components of net periodic benefit cost:				
Service cost	\$ 1,483,000	\$ 1,130,000	\$ 187,000	\$ 167,000
Interest cost	1,438,000	1,328,000	106,000	114,000
Expected return on plan assets	(1,575,000)	(1,507,000)	-	-
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	(16,000)	(25,000)	-	-
Amortization of unrecognized (gain)/loss	-	-	(22,000)	(5,000)
Net periodic benefit cost	<u>\$ 1,455,000</u>	<u>\$ 1,051,000</u>	<u>\$ 327,000</u>	<u>\$ 332,000</u>

6. Employee Retirement Annuity Payments:

Under a Separation Agreement entered into between Northeast Utilities Service Company ("NUSCO") and the Company, the Company agreed to honor a postretirement annuity contract entered into with a former key employee. The Company recognizes expense as payments are made which amounted to \$10,000 and \$30,000 in 2001 and 2000, respectively.

7. 401(k) Savings Plan:

The Company has a 401(k) Retirement and Savings Plan open to substantially all employees. This savings plan provides for employee contributions up to specified limits. The Company matches employee contributions up to 3% of eligible compensation and provides a 50% match on the next 2% of eligible compensation. The matching contributions for the Company were \$746,000 and \$467,000 for 2001 and 2000, respectively.

ISO New England Inc.

Notes to Financial Statements

8. Leases

The following is a schedule by year of future minimum rental payments for all noncancelable-operating leases:

2002	\$ 2,092,000
2003	2,092,000
2004	2,092,000
2005	<u>2,092,000</u>
Total minimum lease payments	<u>\$ 8,368,000</u>

The Company leases under a sublease from NEPOOL one of its buildings and various furniture and equipment with terms of up to 15 years and renewable options for additional periods. The sublease terminates on the earlier of the termination of the Interim ISO Agreement (5 years), termination of the NEPOOL Agreement, or under the terms and conditions contained in the underlying master lease. The Company is currently negotiating to extend the Interim ISO Agreement.

The Company currently houses its back-up facilities at Northeast Utilities for a minimum annual payment. The Company is negotiating for additional space at the same facility. The Company will exercise the automatic month-to-month renewal option on the current lease until the new lease is finalized.

Additionally, the Company leases office space in one other building. The additional office space is leased with an initial term of six years with an automatic month to month renewal option. The Company follows the provisions of Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, in determining the criteria for capital leases. Leases that do not meet such criteria are classified as operating leases, and related rentals are charged to expense in the year incurred. For fiscal years 2001 and 2000, minimum rental payments for operating leases were \$1,753,157 and \$1,774,245, respectively.

As part of a separation agreement with NUSCO, the Company has agreed to reimburse NUSCO for all charges related to providing service to NEPOOL. This includes charges for leased equipment used at the Control Center. These leases covered approximately \$5,600,000 in assets in both 2001 and 2000. The average monthly payment was approximately \$99,000 and \$106,000 for the years 2001 and 2000, respectively.

9. Expiration of ISO Interim Agreement

The Company currently operates under a five-year interim ISO Agreement with NEPOOL which expires June 30, 2002. The Company is currently negotiating with NEPOOL to extend this agreement beyond June 30, 2002. This extension would be subject to FERC approval.

Exhibit A

Article 3 of the ISO-NE Certificate of Incorporation

Statement of Corporate Purposes

Article 3 of ISO-NE's Certificate of Incorporation reads as follows:

PURPOSE. The purposes of the Corporation are to act as the independent system operator for the parties (the "NEPOOL Participants") to the Restated New England power Pool Agreement dated as of September 1, 1971, as amended from time to time (the "NEPOOL Agreement"), with responsibility for directing the operation of the New England Power Pool ("NEPOOL") control area, administration of the NEPOOL open-access transmission tariff and administration of a power exchange and to engage in any other lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

Exhibit B

Board of Directors Resolutions Authorizing the Issuance of the Notes

**ISO NEW ENGLAND INC.
CERTIFICATE OF SECRETARY**

I, Kathleen A. Carrigan, DO HEREBY CERTIFY that I am the Secretary of ISO New England Inc. and DO HEREBY FURTHER CERTIFY that the following are the true, correct and complete resolutions duly adopted by the Board of Directors of ISO New England Inc. at a regular meeting thereof duly called and held on November 7, 2002, and that such resolutions have not been amended, modified or revoked and are in full force and effect on the date hereof:

RESOLVED, that the officers of the Company are hereby authorized to negotiate arrangements for the borrowing by the Company of up to \$20 million to finance 2003 capital expenditures, including SMD project cost;

RESOLVED, that the officers of the Company are hereby authorized to make all necessary regulatory filings in connection with the borrowing of up to \$20 million to finance 2003 capital expenditures; and

RESOLVED, that the officers of the Company are hereby authorized to take all other actions necessary or advisable in connection with the foregoing resolutions.

Witness my hand and the official seal of ISO New England Inc., as of the 7th day of November, 2002.

(CORPORATE SEAL)

Subscribed and sworn to before me this 7th day of November, 2002

Notary Public

Exhibit C

ISO-NE Unaudited Balance Sheet for the Nine Months Ended September 30, 2002 and Pro Forma Adjustments

ISO NEW ENGLAND INC.
STATEMENTS OF FINANCIAL POSITION
NINE MONTHS ENDED 9/30/02 (unaudited) AND PRO FORMA
(In Thousands)

	Unadjusted September 30, 2002	Adjustments	Adjusted September 30, 2002
Assets:			
Current Assets	\$ 21,981	\$ 36,500	(a) \$ 57,981
		(947)	(b)
		447	(c)
Cash and cash equivalents			-
Cash held for Hydro Quebec			-
Total Cash and Cash Equivalents	21,981	36,000	57,981
Accounts receivable, net	12,680		12,680
Prepaid expenses	327		327
Non Current Assets:			
Property and equipment, net	83,187	500	83,687
Deferred Charges	3,271		3,271
Other assets	158,821		158,821
Total Assets	\$ 280,267	\$ 36,500	\$ 316,767
Liabilities and net assets:			
Current Liabilities			
Accounts payable:			
Settlement, net	\$ 402		\$ 402
Administration	9,456		9,456
Deposits payable	160,218		160,218
Revolving Credit	6,500		6,500
Interest Payable	246		246
Daily Billing Advance Collections	4,740		4,740
Accrued Expenses	4,839		4,839
Accrued pension and postretirement benefits	2,438		2,438
Deferred income	428		428
Capital expenditure funding from NEPOOL Participants	-		-
Long Term Liabilities:			
Term Loan	91,000	36,500	127,500
Total liabilities	280,267	36,500	316,767
Unrestricted net assets	-		-
Total Liabilities and Net Assets	\$ 280,267	\$ 36,500	\$ 316,767

For notes (a), (b), and (c), see Exhibit E.

Exhibit D

ISO-NE Unaudited Statements of Activities for the Nine Months Ended September 30, 2002 and Pro Forma Adjustments

ISO NEW ENGLAND INC.
STATEMENTS OF ACTIVITIES
NINE MONTHS ENDED 9/30/02 (unaudited) AND PRO FORMA
(In Thousands)

	Unadjusted	Adjustments	Adjusted
	September 30, 2002		September 30, 2002
Changes in unrestricted net assets:			
Revenues:			
ISO tariff revenues	\$ 48,615	\$ 447 (c)	\$ 49,062
Interest income	333		333
Fees and services	505		505
Total Unrestricted Revenues	49,453	447	49,900
General and administrative:			
Salaries and Benefits	25,769		25,769
Professional and Consultants	9,575		9,575
Rents and Leases	2,690		2,690
Computer Services	2,620		2,620
Depreciation Expense	2,533		2,533
Communication Expense	1,475		1,475
Interest Expense	578	447 (c)	1,025
Other	4,213		4,213
Total Expenses	\$ 49,453	\$ 447	\$ 49,900
Change in unrestricted net assets	-		-
Unrestricted net assets, beginning of quarter	-		-
Unrestricted Net Assets, end of quarter	\$ -		\$ -

For notes, see Exhibit E.

Exhibit E

ISO-NE Unaudited Statement of Cash Flows and for the Nine Months Ended September 30, 2002 and Pro Forma Adjustments

Computation of Interest Coverage on an Actual Basis and a Pro Forma Basis

ISO New England INC.
STATEMENT OF CASH FLOWS
NINE MONTHS ENDED 9/30/02 (unaudited) AND PRO FORMA
(In Thousands)

	Unadjusted September 30, 2002	Adjustments	Adjusted September 30, 2002
Cash flows from operating activities:			
Increase in Unrestricted Net Assets			
Adjustments to Reconcile Change in Unrestricted Net Assets			
to Net Cash Provided by Operating Activities			
Depreciation and Amortization	\$ 3,071		\$ 3,071
Decrease/(Increase) in Accounts Receivable	(1,442)		(1,442)
Increase/(Decrease) in Deferred Charges	-		-
Decrease/(Increase) in Other Assets	(119,971)		(119,971)
Decrease/(Increase) in Prepaid Expenses	(72)		(72)
Increase/(Decrease) in Accounts Payable:			
Settlement	238		238
Administration	(1,492)		(1,492)
Decrease in Weekly Billing Advance Collections	-		-
Increase/(Decrease) in Daily Billing Advance Collections	(9,556)		(9,556)
Increase/(Decrease) in Accrued Pension and Postretirement benefits	1,069		1,069
Increase/(Decrease) in Accrued Expenses	(1,453)		(1,453)
Increase in Deposits Payable	120,892		120,892
Decrease in Disputes Payable	-		-
Increase in Interest Payable	178		178
Decrease in Deferred Revenue	(2,151)		(2,151)
Net Cash Used in Operating Activities	(10,689)	-	(10,689)
Cash flows from investing activities:			
Capital expenditures	(35,630)	(500) (b),(c)	(36,130)
Net Cash Used in Investing Activities	(35,630)	(500)	(36,130)
Cash flows from financing activities:			
Increase/(Decrease) in Working Capital Advance from NEPOOL Participants	-		
Increase/(Decrease) in Capital Expenditure Funding from NEPOOL Participants	-		
Proceeds From Term Loan	48,000	36,500 (a)	84,500
Proceeds From Revolving Credit, Net	1,000		1,000
Net Cash Provided from Financing Activities	49,000	36,500	85,500

Net increase/(decrease) in cash and cash equivalents	2,681	36,000	38,681
Cash and cash equivalents, beginning of quarter	19,300		19,300
Cash and cash equivalents, end of quarter	<u>\$ 21,981</u>	<u>\$ 36,000</u>	<u>\$ 57,981</u>
Supplemental data:			
Cash Paid During Quarter for Interest	<u>\$ 1,694</u>	<u>\$ 947</u>	<u>(b) \$ 2,641</u>

Assumptions (also see table below):

- Remaining Term Credit Facility of \$16.5 million and proposed 2003 Term Credit Facility of \$20.0 million would be borrowed against at January 1, 2002.
- Additional interest charges would be incurred on \$16.5 million, which is the total remaining balance of the \$24.5 million, and the additional \$20.0 million assuming an interest rate of 3.46%.
- The non-capitalized interest expense would be recovered through the tariff.

A Borrowing

Remaining	16,500
New Borrowing	<u>20,000</u>
Total	<u><u>36,500</u></u>

B Interest Expense

Total Borrowing	36,500
Interest Rate	<u>3.460%</u>
Interest Expense	<u><u>1,263</u></u>
Interest 3QTRs	947

C Interest Expense Non-Capitalized

SMD Capital	13,965
Total Capital	26,437
% Capitalized	52.8%
% Not Capitalized	47.2%
Total Interest	947
Expense Portion	447
Capital Portion	500

Federal Energy Regulatory Commission Worksheet for computation of Interest Coverage	Actual for the quarter ended 9/30/02 (in thousands)	OMB control No. 1902-0043, pro forma for the quarter ended 9/30/02 (in thousands)
Net Income Add: Interest on Long-Term Debt, Interest on Short-Term Debt, Other Interest Expense Federal and State Income Taxes Income Before Interest and Income Taxes Computation of Interest Coverage: Income Before Interest and Income Taxes divided by Total Interest Expense = Interest Coverage	0 578 <u>0</u> <u>578</u> <u>1</u>	0 1,025 <u>0</u> <u>1,025</u> <u>1</u>
Federal Energy Regulatory Commission Worksheet for computation of Interest Coverage	Actual for the year ended 12/31/01 (in thousands)	OMB control No. 1902-0043, pro forma for the year ended 12/31/02 (in thousands)
Net Income Add: Interest on Long-Term Debt, Interest on Short-Term Debt, Other Interest Expense Federal and State Income Taxes Income Before Interest and Income Taxes Computation of Interest Coverage: Income Before Interest and Income Taxes divided by Total Interest Expense = Interest Coverage	0 1,037 <u>0</u> <u>1,037</u> <u>1</u>	N/A

VERIFICATION

Robert C. Ludlow, being first duly sworn, on oath, says that he is the Vice President and Chief Financial Officer of ISO New England Inc. (“ISO-NE”); that he caused the foregoing ISO-NE Application Under Section 204 of the Federal Power Act for an Order Authorizing the Issuance of Securities (“Application”) to be prepared; and that the Application and supporting data submitted as part of this filing are true, accurate, and current representations of ISO-NE’s books.

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

Subscribed and sworn to before me a notary public on this 7th day of November, 2002.

Notary Public

My Commission expires: _____