

ISO New England Inc.

Financial Statements

For the Years Ended December 31, 2008 and 2007

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Independent Auditors' Report

The Board of Directors
ISO New England, Inc.:

We have audited the accompanying statements of financial position of ISO New England, Inc. as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. 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 in accordance with auditing standards generally accepted in the United States of America. Those standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ISO New England, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the Company implemented the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefits and Other Post Retirement Plans*, as of December 31, 2007.

KPMG LLP

March 16, 2009

ISO New England Inc.
Statements of Financial Position
For Years Ended December 31, 2008 and 2007

	2008	2007
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 114,192	\$ 49,318
Security deposits	274,389	290,437
Unbilled receivable, net	21,285	18,671
Prepaid expenses and other assets	389	547
Regulatory assets – current (Note 1)	-	2,135
Restricted cash on deposit	18,659	8,934
Noncurrent assets:		
Property and equipment in-service, net (Note 3)	64,059	74,813
Work in process (Note 3)	18,886	13,720
Deferred charges (Note 1)	121	136
Regulatory assets, net of current portion (Note 1)	26,980	10,887
	<u>538,960</u>	<u>469,598</u>
Total assets	\$ 538,960	\$ 469,598
Liabilities and Net Assets		
Current liabilities:		
Accounts payable:		
Settlement, net	\$ 105,373	\$ 40,567
Administration	6,106	7,920
Deposits payable	281,902	296,674
Interest payable	886	1,068
Revolving credit (Note 4)	-	6,500
Accrued compensation	12,428	12,558
Deferred income – current	4,953	-
Restricted cash on deposit payable	18,659	8,592
Long-term debt-current portion (Note 4)	1,820	1,820
Long-term liabilities:		
Deferred income, net of current portion	358	1,697
Pension benefit liability (Note 5)	26,980	10,887
Long-term debt (Note 4)	79,495	81,315
	<u>538,960</u>	<u>469,598</u>
Total liabilities	538,960	469,598
Unrestricted net assets	<u>-</u>	<u>-</u>
Total liabilities and net assets	\$ 538,960	\$ 469,598

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

ISO New England Inc.
Statements of Activities
For Years Ended December 31, 2008 and 2007

	2008	2007
	(In thousands)	
Changes in unrestricted net assets:		
Revenues (Note 1):		
ISO tariff revenues	\$ 118,457	\$ 115,657
Interest income	1,776	3,315
Fees and services	338	306
	<u>120,571</u>	<u>119,278</u>
Total unrestricted revenues	120,571	119,278
Expenses:		
General and administrative:		
Salaries and benefits	60,155	57,761
Professional and consultants	12,882	14,539
Computer services	5,650	5,401
Depreciation and amortization expense	26,514	25,571
Communication expense	1,706	1,471
Insurance expense	1,667	1,660
Utilities	1,032	1,030
Board of directors	942	821
Building services	859	805
Northeast Power Coordinating Council Dues	2,511	2,160
Interest expense	2,853	3,886
Other	3,800	4,173
	<u>120,571</u>	<u>119,278</u>
Total expenses	120,571	119,278
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
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 Years Ended December 31, 2008 and 2007

	2008	2007
	(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 expense	26,514	25,571
Loss on impaired asset	144	-
(Increase) in unbilled receivable, net	(2,614)	(183)
Decrease in prepaid expense	158	348
Decrease/(increase) in regulatory assets	2,135	(826)
Increase/(decrease) in accounts payable:		
Settlement	64,806	37,568
Administration	(1,519)	1,010
(Decrease)/increase in accrued compensation	(130)	1,837
(Decrease) in interest payable	(182)	(75)
Increase/(decrease) in deferred income	3,614	(3,608)
Net cash provided by operating activities	<u>92,926</u>	<u>61,642</u>
Cash flows from investing activities:		
Capital expenditures	<u>(21,350)</u>	<u>(23,414)</u>
Net cash used in investing activities	<u>(21,350)</u>	<u>(23,414)</u>
Cash flows from financing activities:		
Decrease/(increase) in security deposits	16,048	(95,963)
(Increase)/decrease in restricted cash on deposit	(9,725)	17,482
Increase/(decrease) in restricted cash on deposit payable	10,067	(12,961)
(Decrease)/increase in deposits payable	(14,772)	100,497
Repayment on long-term debt	(1,820)	(3,988)
(Decrease) in net borrowings on working capital line	<u>(6,500)</u>	<u>(682)</u>
Net cash (used in)/provided by financing activities	<u>(6,702)</u>	<u>4,385</u>
Net increase in cash and cash equivalents	64,874	42,613
Cash and cash equivalents, beginning of year	<u>49,318</u>	<u>6,705</u>
Cash and cash equivalents, end of year	<u>\$ 114,192</u>	<u>\$ 49,318</u>
Supplemental data:		
Amounts included in Accounts Payable - Administration related to work in process	<u>\$ 2,263</u>	<u>\$ 2,558</u>
Cash paid during the year for interest, net of interest capitalized	<u>\$ 3,037</u>	<u>\$ 3,897</u>
Non-cash activity - Change in pension liability is net of regulatory assets	<u>\$ 16,093</u>	<u>\$ 10,887</u>

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

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

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 Inc. control area. During the period from July 1997 through January 31, 2005, the Company was operating under the Interim ISO Agreement and administered NEPOOL's tariff.

On February 1, 2005, the ISO became the Regional Transmission Organization ("RTO") for New England, with enhanced responsibilities as the transmission provider for New England and new governing documents (Transmission Operating Agreement, Participants Agreement, Market Participants Service Agreement, ISO New England Transmission, Markets and Services Tariff) in place of the existing governing documents (the Interim ISO Agreement, NEPOOL Tariff).

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, 2008 and 2007 were held in overnight repurchase agreements and also in direct and indirect obligations of the United States, with original maturities of three months or less.

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 week and provides an invoice or remittance advice to each Participant that summarizes the amount either receivable from or payable to each Participant.

Accounts payable on the balance sheet are segregated between (i) the amounts owed for energy transactions and transmission, for which the ISO functions as paying agent, which are included in accounts payable as "settlement, net," and (ii) the administrative expenses incurred by the Company in the course of operations. The reference to "settlement, net" is used due to the nature of billing and payment for the amounts owed for energy transactions and transmission markets, and represents the customer's net amount due, less any amounts which may have been owed to them.

The net unbilled receivables, the majority of which have been determined as a result of the settlement process, include those amounts that will be billed and included in the invoice or remittance advice to Participants in a subsequent weekly invoice issued. The balance at the end of the year represent mainly ISO tariff revenues. The net payables and receivables for those energy transactions stated above are settled with the Participants in the subsequent week.

Restricted Cash on Deposit

The balance of approximately \$18,659,000 and \$8,934,000 at December 31, 2008 and 2007, respectively, recorded as restricted cash on deposit, represents the Congestion Revenue Fund for both years and net proceeds from tax-exempt bond financing for 2007 only. The balance is offset by liabilities on the Statements of Financial Position. The restricted cash on deposit at December 31, 2008 and 2007 was held in overnight repurchase agreements and also in direct and indirect obligations of the United States, with original maturities of three months or less.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

Property and Equipment in Service and Work in Process

Property and equipment is stated at cost, net of accumulated depreciation.

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 the Company to capitalize the interest and fees associated with the borrowings that the Company has entered into for the acquisition of assets related to a project that has a material effect on the Company's financial position.

In addition, the Company follows the provisions of the Statement of Position 98-1, "Accounting for the Costs of Computer Service Software Development" ("SOP 98-1") in capitalizing internal software development costs.

Depreciation

Depreciation is generally computed using straight-line methods over an estimated useful life ranging from three years to twenty-five years (e.g., computer hardware, software and accessories – three to five years; software development costs – three to five years; vehicles – three to seven years; furniture and fixtures and machinery and equipment – seven years; building and leasehold/building improvements - one to twenty-five years or remaining life of the lease or building; building – twenty-five years). Capitalized interest and fees are amortized over the same useful life of the asset to which it pertains, principally software development costs and building. No depreciation is recorded for assets classified as work in process until the assets are placed into service (Note 3).

Deferred Charges and Regulatory Assets and Liabilities

The Company applies the provisions of 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 it is probable to be collected or refunded through future customer billings. The Company incurred costs with the purchase of land located at Sullivan Road. A portion of these costs, which were deferred, have been included in the current year's ISO Tariff filing and therefore amortized. The remaining cost, also deferred, will be collected in future tariff filings.

The following table is a detail of the deferred charges and regulatory assets balances as presented in the Statements of Financial Position:

Deferred charges	2008	2007
Land located on Sullivan Road	\$ 121,000	\$ 136,000
	<u>\$ 121,000</u>	<u>\$ 136,000</u>
Regulatory assets - current	2008	2007
Projected 2007 under collection true-up	\$ -	\$ 826,000
2006 under collection true-up	-	1,309,000
	<u>\$ -</u>	<u>\$ 2,135,000</u>
Regulatory assets, net of current portion	2008	2007
Asset related to pension benefit liability (Note 5)	\$26,980,000	\$10,887,000
	<u>\$26,980,000</u>	<u>\$10,887,000</u>

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

Income Taxes

The Company is an entity organized as a non-stock corporation under the General Corporation Law, as amended, of the State of Delaware. In a letter dated November 10, 2004 (the "Determination Letter"), the Internal Revenue Service (the "IRS") determined (i) that the Company is generally exempt from Federal income tax under Internal Revenue Code ("IRC") Section 501(c)(3), and (ii) that contributions to the Company are deductible under IRC Section 170. In the IRS Determination Letter, the IRS stated that, during the advance ruling period, the Company will be treated as a public charity, and not as a private foundation. The Company's advance ruling period ends on December 31, 2008. On November 10, 2008, the IRS issued a letter to the Company stating that donors can rely on the Company's current advance ruling letter. The Company's public charity status remains unless the IRS changes that status based on the Company no longer meeting an applicable public support test and a notice of change is published.

Effective January 1, 2008, The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FAS 109" (FIN48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on the Statement of Financial Position and Statement of Activities.

Security Deposits

The NEPOOL Participants are required to comply with the Financial Assurance Policy under ISO's Transmission, Markets & Services Tariff. In the case of non-investment grade rated Participants that meet certain criteria, the Company's Financial Assurance Policy requires these Participants to put in place alternate forms of financial assurance. There are several options allowed under the Company's Financial Assurance Policy for compliance, one of which is to post cash as collateral. The cash collateral deposits at December 31, 2008 and 2007 were approximately \$274,400,000 and \$290,400,000, respectively, and are recorded in deposits payable.

Revenue Recognition

The Company recovers its operating and debt service costs pursuant to the ISO's Transmission, Markets & Services Tariff, which provides for recovery of expenses through three schedules. Scheduling, System Control and Dispatch Service (Schedule 1), Energy Administration Service (Schedule 2) and Reliability Administration Service (Schedule 3) recover related costs through a pre-approved rate applied to each month's activity. Schedules 1, 2, and 3 are subject to true-up through subsequent years' rates, and any over or under collection is recorded as deferred charges or deferred income and will be recovered under future Tariff filings.

Deferred Asset/Income

Deferred asset/income represents the amount of the ISO Tariff for Schedules 1, 2, and 3 that was over/under collected from 2006 through 2008. The over/under collection amount of the ISO Tariff will be returned to the Participants through the true-up mechanism provided for within the ISO Tariff.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

Concentrations

The Company's top 10 participants represented approximately 47% or \$58,907,000 and 51% or \$56,402,000 in tariff revenues for the years ended 2008 and 2007, respectively. The Company's top 10 participants represented approximately 44% or \$9,459,000 and 48% or \$9,007,000 in accounts receivables as of December 31, 2008 and 2007, respectively.

Fair Values of Financial Instruments

The carrying amounts reported in the Statements of Financial Position for assets and liabilities approximate their fair values except as noted in footnote four – private placement debt arrangement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowance for doubtful accounts, reserve for employee benefit obligation and other contingencies. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

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.

Recently Issued Accounting Standards

In September 2006, FASB issued FAS 157 "Fair Value Measurements". FAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company has evaluated the impact of FAS 157 which has no material impact on the Statements of Financial Position and Statements of Activities.

In February 2007, FASB issued FAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FAS 115". FAS 159 gives entities the option to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. FAS 159 is expected to expand the use of fair value measurement, which is consistent with FASB's long-term measurement objectives for accounting for financial instruments. FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company has not elected to adopt FAS 159.

In December 2008, the FASB issued FASB Staff Position (FSP) FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." FSP FAS 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 also includes a technical amendment to FASB Statement No. 132(R), effective immediately, which requires nonpublic entities to disclose net periodic benefit cost for each annual period for which a statement of income is presented. The Company has disclosed net periodic benefit cost in Note 5. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. The Company is currently evaluating the impact of the FSP on its disclosures about plan assets.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

Revised Classification

The classification of certain amounts on the financial statements of the prior year have been revised to conform with the current year's basis of presentation.

2. Commitments and Contingencies

Capital Funding Tariff

The FERC accepted ISO's "capital funding tariff" ("CFT") filing for 2008 and 2007. These filings support the ISO's loan arrangements with various banks and note holders to fund the capital and working capital requirements of the Company.

Legal Proceedings

The Company is involved in various claims and legal proceedings of a nature considered normal to its business. The claims are in various stages and some may ultimately be brought to trial. While it is not feasible to predict or determine the outcome of any of these claims, it is the opinion of management that final outcome of these claims will not materially impact the Company's financial position.

3. Property and Equipment In-Service, net and Work in Process

	December 31,	
	2008	2007
Computer hardware, software and accessories	\$ 139,474,000	\$ 141,445,000
Software development costs	36,151,000	32,982,000
Furniture and fixtures	2,752,000	2,695,000
Machinery and equipment	70,000	64,000
Building and leasehold/building improvements	44,536,000	44,431,000
Capitalized interest and fees	6,769,000	6,292,000
Vehicles	55,000	35,000
	<u>229,807,000</u>	<u>227,944,000</u>
Less: accumulated depreciation and amortization	<u>(165,748,000)</u>	<u>(153,131,000)</u>
Property and equipment in-service, net	<u>\$ 64,059,000</u>	<u>\$ 74,813,000</u>
Work in process (WIP)	<u>\$ 18,886,000</u>	<u>\$ 13,720,000</u>

Costs represented in WIP includes Forward Capacity Market phase II and Outage Scheduler, which began in 2007 and a number of new projects which began in 2008, such as SMD Software Upgrade phase I and II, System Enhancements for 2008 including L/T & S/T Outage reports for FOSS, NERC Cyber Security, RIG Enhancements, Q2 2009 Release, and various other market enhancement projects that have not been placed in service as of December 31, 2008.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

In accordance with FAS 71, the associated interest cost capitalized for the years ended

	December 31,	
	2008	2007
Interest capitalized from the term loans and private placement debt	\$ 533,000	\$ 627,000
Net interest income and interest expense earned or paid on the building construction	(3,000)	(68,000)
Interest cost capitalized and recorded on the Statements of Financial Position	\$ 530,000	\$ 559,000

The amount of the interest capitalized and recorded on the Statements of Financial Position that was included in WIP for years ended December 31, 2008 and 2007 was \$498,000 and \$445,000, respectively.

Depreciation and amortization expense was \$26,514,000 and \$25,571,000 for 2008 and 2007, respectively.

4. Credit Facilities

Revolving Credit Arrangement

In June 2004, the Company entered into a \$15,000,000 revolving credit arrangement, of which the outstanding balances at December 31, 2008 and 2007 were \$0 and \$6,500,000, respectively. Interest accrues on the revolving credit at either Base Rate or 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 .60% spread. Interest is paid at the earlier of the selected LIBOR term or 30 days. The arrangement expires July 1, 2009 and any outstanding balance must be paid by this date. The Company is charged an annual fee of .15% on the entire line of credit. For the years ended December 31, 2008 and 2007, the weighted average interest rate is approximately 4.21% and 5.98% respectively.

The Company is currently in negotiation with various banking institutions to secure a new \$15,000,000 revolving credit arrangement to replace the arrangement expiring in 2009. The Company will be making a 204 filing with the FERC to issue this new debt.

In June 2004, the Company also entered into a \$4,000,000 revolving credit arrangement, which was requested as a result of the change in the billing policy under ISO's Transmission, Markets & Services Tariff to go from monthly billing to weekly billing. The outstanding balance at December 31, 2008 and 2007 was \$0 for both years with no borrowings made in the reported periods. This arrangement serves as a line of credit to cover any potential payment defaults by a Participant. Interest accrues on the revolving credit at either Base Rate or 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 .60% spread. Interest is paid at the earlier of the selected LIBOR term or 30 days. The arrangement expires July 1, 2009 and any unpaid balances must be paid as of this date. The Company is charged an annual fee of .15% on the entire line of credit.

The Company is currently in negotiation with various banking institutions to secure a new \$4,000,000 revolving credit arrangement to replace the arrangement expiring in 2009. The Company will be making a 204 filing with the FERC to issue this new debt.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

Private Placement Debt Arrangement

In September 2004, the Company entered into a \$39,000,000 private placement loan, which is made up of ten year 5.60% senior notes. Payment is due in full on September 2, 2014 with no mandatory prepayments and interest accrued and paid bi-annually. This loan is included in long-term debt on the Statements of Financial Position. The fair market value of the private placement loan at December 31, 2008 was estimated at \$38,195,000.

In 2004, the Company incurred \$202,000 in debt issuance costs. These costs have been capitalized and are being amortized on a straight-line basis over the term of the loan. Total amortization expense for 2008 and 2007 was \$20,000 for each year respectively.

Tax-Exempt Bond Financing

In February of 2005, the Company entered into tax exempt financing of \$45,500,000 in the form of Multi-Mode Variable Rate Civic Facility Revenue Bonds ("Bonds"), which were issued by the Massachusetts Development Finance Agency. The proceeds of the Bonds were loaned to the Company to assist in financing and refinancing a project located at the Main Control Center. Principal payments of \$455,000 paid quarterly, began in May 2007 with the final repayment due on February 1, 2032. The tax exempt financing is backed by a letter of credit that the Company entered into in February of 2005. The letter of credit expires in 2013. Interest accrues quarterly on the \$45,500,000 tax exempt bonds, at a weekly variable rate based upon the Bond Market Association "BMA" Swap Index plus an average spread of two basis points. For the years ended December 31, 2008 and 2007, the weighted average floating interest rate was approximately 2.33% and 3.66%, respectively.

The total long-term debt at December 31, 2008 and 2007 was \$81,315,000 and \$83,135,000, respectively. Principal payments on the private placement debt and tax-exempt bonds are due annually as follows:

2009	\$ 1,820,000
2010	1,820,000
2011	1,820,000
2012	1,820,000
2013	1,820,000
Thereafter	<u>72,215,000</u>
	<u>\$ 81,315,000</u>

Interest incurred on the revolving credit, the term loans, private placement debt, and tax-exempt bonds for the years ended December 31, 2008 and 2007 was approximately \$3,386,000 and \$4,513,000, respectively.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

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 (one for union and the other for nonunion employees), each of which is funded solely by Company contributions. Benefits are determined based on years of service and average compensation.

The Company sponsors two defined benefit postretirement plans (one for union and the other for nonunion employees), which provide medical, dental and life insurance benefits for 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 measurement date used to determine pension and other postretirement benefit obligations for the pension plans and the postretirement benefit plan is December 31.

The Company has adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158"). FAS 158 requires the booking of an asset, if the plan is over funded or a liability, if the plan is under funded, rather than disclosing the funded status in a note to the financial statements. The amount recorded is the difference between the fair value of plan assets and the benefit obligation. The Company adopted the provision for the year ended December 31, 2007.

ISO New England Inc.

Notes to Financial Statements for Years Ended December 31, 2008 and 2007

The following table sets forth the plans' benefit obligations, fair value of the plans' assets, and the plans' funded status:

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,		Years Ended December 31,	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 57,488,000	\$ 52,003,000	\$ 6,761,000	\$ 5,097,000
Service cost	3,654,000	3,392,000	896,000	665,000
Interest cost	3,260,000	2,976,000	495,000	340,000
Benefits paid	(1,289,000)	(1,194,000)	(290,000)	(212,000)
Change in plan provisions	-	-	-	(18,000)
Plan participants' contributions	-	-	30,000	29,000
Actuarial (gain) loss	(3,792,000)	311,000	1,426,000	860,000
Benefit obligation at end of year	59,321,000	57,488,000	9,318,000	6,761,000
Change in plan assets:				
Fair value of plan assets at beginning of year	47,448,000	42,763,000	5,914,000	5,066,000
Actual return on plan assets	(13,260,000)	2,446,000	(1,683,000)	262,000
Employer contributions	3,645,000	3,433,000	1,144,000	769,000
Plan participants' contributions	-	-	30,000	29,000
Benefits paid	(1,289,000)	(1,194,000)	(290,000)	(212,000)
Fair value of plan assets at end of year	36,544,000	47,448,000	5,115,000	5,914,000
Funded status at end of the year	(22,777,000)	(10,040,000)	(4,203,000)	(847,000)
Transition obligation	-	-	-	-
Net actuarial (gain) loss	-	-	-	-
Prior service cost	-	-	-	-
Net amount recognized as non-current liabilities	\$ (22,777,000)	\$ (10,040,000)	\$ (4,203,000)	\$ (847,000)

The Company has determined that the pension liability is probable of recovery through the ISO Tariff and has recorded a regulatory asset as of December 31, 2008 and 2007 in the accompanying Statements of Financial Position.

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Components of net periodic benefit cost:				
Service cost	\$ 3,654,000	\$ 3,392,000	\$ 896,000	\$ 665,000
Interest cost	3,261,000	2,976,000	494,000	340,000
Expected return on plan assets	(3,640,000)	(3,290,000)	(460,000)	(397,000)
Amortization of transition obligation	125,000	125,000	56,000	56,000
Amortization of net actuarial loss	244,000	228,000	143,000	-
Amortization of unrecognized Prior Service Cost	2,000	2,000	15,000	51,000
Net periodic benefit cost	\$ 3,646,000	\$ 3,433,000	\$ 1,144,000	\$ 715,000

	Pension Benefits		Other Postretirement Benefits	
	Years ended December 31,		Years ended December 31,	
	2008	2007	2008	2007
Prepaid benefit cost at beginning of year	\$ -	\$ -	\$ 54,000	\$ -
Employer contributions	3,646,000	3,433,000	1,144,000	769,000
Net periodic benefit cost	(3,646,000)	(3,433,000)	(1,144,000)	(715,000)
Prepaid benefit cost at end of year	\$ -	\$ -	\$ 54,000	\$ 54,000

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The following table sets forth the amount expected to be amortized into net periodic benefit cost over the next fiscal year ending December 31, 2009:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
Expected amortization of transition obligation	\$ 125,000	\$ 56,000
Expected amortization of net actuarial loss	1,050,000	275,000
Expected amortization of prior service cost	2,000	-

The primary economic assumptions used to value these liabilities are summarized in the following chart. These assumptions are selected as the measurement data based on prevailing economic conditions.

Weighted-average assumptions used to determine net periodic benefit cost for the following years ended:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Discount rate	5.75%	5.75%	5.75%	5.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Health Care cost trend rates - initial	-	-	10.00%	8.00%
Health Care cost trend rates - ultimate	-	-	5.00%	5.00%
Ultimate year	-	-	2015	2010

Weighted-average assumptions used to determine benefit obligation for the following years ended:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Discount Rate	6.13%	5.75%	6.27%	5.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

A one percentage point change in the assumed health care cost trend rates would either increase the Accumulated Post Retirement Benefit ("APBO") as of December 31, 2008 by approximately \$450,000 or decrease the APBO by approximately \$407,000. Additionally, a one percentage point change in the assumed health care cost trend rates would increase or decrease the net post retirement cost for 2008 by approximately \$93,000 and \$83,000, respectively.

In 2008, the methodology for selecting the discount rate for the Plan is to match the plan's expected benefit payments to that of a yield curve that provides the equivalent yield on zero-coupon corporate bonds and estimate a single interest rate that produces a present value equal to the present value produced by the full yield curve as of the annual measurement date, subject to change each year. For 2007, the discount rate for the Plan was based on the annualized Moody's Aa rate at the measurement date, rounded to the nearest 25 basis points.

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ISO's pension plan and postretirement benefit plan weighted-average asset allocations and expected returns by asset category are as follows:

	Target	Percentage of Plan		Weighted Average
	Allocation	Assets at December 31		
	2009	2008	2007	Expected Long-Term
				Rate of Return - 2009
Equity Securities	60%	61%	59%	5.40%
Debt Securities	40%	39%	41%	2.10%
Total	100%	100%	100%	7.50%

The forward-looking estimates of total return are generated through combined assessment of current valuation measures, income, economic growth and inflation forecasts, and historical risk premiums. The long-term bond forecast is derived from the expected long-term return of a portfolio of corporate, government and high yield debt instruments. The equity forecasts are based on the long-term real returns of a portfolio of US large cap, US small cap, international developed markets and emerging markets equity securities.

The Plan's investment portfolio is to be invested to provide benefits for qualified employees of ISO New England Inc. Investments are to be compatible with the liquidity requirements determined by the plan's actuary. An optimal target allocation of 60/40 between equities and fixed income investments is to be kept with an allowance of fifteen percent (15%) over/under deviation from the optimal allocation target.

The Company expects to contribute \$5,746,000 to its pension plan and \$1,381,000 to its postretirement benefit plan in 2009.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension	Other
	Benefits	Benefits
2009	\$ 1,420,000	\$ 370,000
2010	1,560,000	454,000
2011	1,685,000	549,000
2012	1,910,000	610,000
2013	2,112,000	687,000
Years 2014-2018	13,977,000	4,990,000
Total	\$22,664,000	\$7,660,000

6. 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 \$1,616,000 and \$1,508,000 for 2008 and 2007, respectively.

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7. Leases

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

2009	46,000
2010	46,000
2011	<u>27,000</u>
Total minimum lease payments	<u>\$119,000</u>

The Company currently houses its back-up facilities at a separate location on a net lease basis which includes the cost of utilities with three year renewal periods through 2017. Additionally, the Company was leasing office space in one other building in 2007. The Company terminated this lease on July 1, 2007, paying an early termination payment of \$37,000, representing 50% of the last month's rent. For fiscal years 2008 and 2007, rental payments for operating leases were \$46,000 and \$511,000, respectively.