Maria A. Gulluni
Deputy General Counsel

May 13, 2013

Ms. Kimberly Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: ISO New England Inc., Docket Nos. ER13-185, ER13-192
Settlement Agreement

Dear Ms. Bose:

Pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2012), ISO New England Inc. ("ISO-NE") hereby submits a Settlement Agreement between it and: the Connecticut Public Utilities Regulatory Authority, Elin Swanson Katz, the Connecticut Consumer Counsel, George Jepsen, Attorney General for the State of Connecticut, the Rhode Island Division of Public Utilities and Carriers, Peter F. Kilmartin, Attorney General for Rhode Island, Susan W. Chamberlin, New Hampshire Consumer Advocate, and Agnes Gormley, Maine Public Advocate (collectively, the "New England State Parties"); and the New England Power Pool Participants Committee ("NEPOOL") and the Office of the Massachusetts Attorney General (with NEPOOL, the "Intervenors"). ISO-NE, the New England State Parties, and the Intervenors are referred to collectively herein and in the attached documents as the "Settling Parties."

This filing consists of the following documents:

- an Explanatory Statement;
- the Settlement Agreement;
- a draft Order approving the Settlement Agreement; and
- a Certificate of Service.

The Settling Parties respectfully request that Judge Michael J. Cianci, Jr. certify this Settlement Agreement, which resolves all matters in the above-listed dockets, to the Commission as an uncontested settlement. Further, the Settling Parties request that the Commission take prompt action to accept the settlement in its entirety and, in accordance with the terms of the Settlement Agreement, terminate the relevant dockets. The Settling

Parties also request that the Commission provide for a shortened comment period – five business days for initial comments and three business days for reply comments for those parties wishing to comment on the Settlement Agreement.

Respectfully submitted,

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cc: Judge Curtis Wagner, Jr.
Judge Michael J. Cianci, Jr.
Service List for above-listed dockets

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc.	Docket No. ER13-185
ISO New England Inc.	Docket No. ER13-192
	(not consolidated)

EXPLANATORY STATEMENT

ISO New England Inc. ("ISO-NE") and the New England State Parties[1] submit this Explanatory Statement in support of the Settlement Agreement being filed concurrently in the above-captioned proceedings. The Settling Parties[2] are filing the Settlement Agreement and this Explanatory Statement pursuant to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission" or "FERC").[3]

Following inquiry, the Settling Parties do not believe that any of the non-settling parties object to the Commission's approval of this settlement.[4] The Commission's Trial Staff participated in this proceeding, and supports the settlement. Upon approval by the Commission without modification or condition unacceptable to any Settling Party, the Settlement Agreement

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[1] The New England State Parties are: the Connecticut Public Utilities Regulatory Authority; Elin Swanson Katz, the Connecticut Consumer Counsel; George Jepsen, Attorney General for the State of Connecticut; the Rhode Island Division of Public Utilities and Carriers; Peter F. Kilmartin, Attorney General for Rhode Island; Susan W. Chamberlin, New Hampshire Consumer Advocate; and Agnes Gormley, Maine Public Advocate.

[2] The Settling Parties are: ISO-NE, the New England State Parties, the New England Power Pool Participants Committee ("NEPOOL"), and the Attorney General of the Commonwealth of Massachusetts.

[3] 18 C.F.R. § 385.602 (2012).

[4] The only party in Docket No. ER13-192-000 that is not a Settling Party is the Northeast Utilities Service Company ("NU"). The non-settling parties in Docket No. ER13-185-000 are NU, the Massachusetts Department of Public Utilities, the Massachusetts Municipal Wholesale Electric Company, the New Hampshire Electric Cooperative, Inc., and the Maine Public Utilities Commission.

will resolve all issues set for hearing in Docket No. ER13-185 or pending on rehearing in that docket and Docket No. ER13-192.

While required by Rule 602(c)(1)(ii),[5] this Explanatory Statement is offered for informational purposes and does not alter any of the terms of the Settlement Agreement. In the event of an inconsistency between the Explanatory Statement and the Settlement Agreement, the Settlement Agreement shall control.

I. BACKGROUND

If approved, the Settlement Agreement will resolve disputes pending in two unconsolidated Commission proceedings. The first is Docket No. ER13-185, involving ISO-NE's filing of revised tariff sheets from Section IV.A of the ISO's Transmission, Markets and Services Tariff ("Tariff") in order to collect its administrative costs for calendar year 2013 (the "2013 Administrative Revenue Requirement"). The second is Docket No. ER13-192, involving ISO-NE's filing of its capital budget for calendar year 2013 (the "2013 Capital Budget") and supporting materials.

A. Docket No. ER13-185

ISO-NE filed its 2013 Administrative Revenue Requirement on October 25, 2012.[6] The ISO's annual administrative revenue requirement consists of the combination of: (a) its Core Operating Budget, which covers the administrative costs of running the ISO; (b) depreciation and amortization of the ISO's capital assets; and (c) true-ups for past under- or over-collections of revenues as compared to expenses. In its October 25 filing, the ISO explained that its 2013 Core

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[5] 18 C.F.R. § 385.602(c)(1)(ii).

[6] Filing of Revised Tariff Sheets for Recovery of 2013 Administrative Costs, *ISO New England, Inc.*, Docket No. ER13-185-000 (Oct. 25, 2012), eLibrary No. 20121025-5068 ("2013 Administrative Revenue Requirement Filing").

Operating Budget increased by approximately $11.6 million from 2012 levels.[7] The New England State Parties protested the ISO's 2013 Administrative Revenue Requirement filing.[8] The Commission accepted the proposed Tariff revisions for filing, suspended them for a nominal period, allowed them to become effective January 1, 2013, subject to refund, and established hearing and settlement judge procedures.[9]

The New England State Parties filed a motion for clarification or, in the alternative, for rehearing of one aspect of the Commission's order.[10] The motion sought clarification of ISO-NE's obligations associated with the Commission's decision to make the 2013 Administrative Revenue Requirement tariff changes effective subject to refund. The Commission granted rehearing for further consideration, but otherwise has not acted on the New England State Parties' motion.

In accordance with the parties' request, Chief Administrative Law Judge Wagner appointed Administrative Law Judge Cianci to serve as a Settlement Judge. After approximately four months of negotiations, the Settling Parties reached the compromise set forth in the attached Settlement Agreement.

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7 *Id.* at 5.

8 Joint Comments and Protest of the Connecticut Public Utilities Regulatory Authority, Connecticut Consumer Counsel, Attorney General for Connecticut, Rhode Island Division of Public Utilities and Carriers, Attorney General for Rhode Island, New Hampshire Consumer Advocate, and Maine Public Advocate, *ISO New England, Inc.*, Docket No. ER13-185-000 (Nov. 28, 2012), eLibrary No. 20121128-5018.

9 *ISO New England, Inc.*, 141 FERC ¶ 61,272 (2012), *reh'g pending.*

10 Motion for Clarification or, in the Alternative, Request for Rehearing, of Joint New England Agencies, *ISO New England, Inc.*, Docket No. ER13-185-000 (Jan. 30, 2013), eLibrary No. 20130130-5242.

B. Docket No. ER13-192

On October 25, 2012, ISO-NE also filed its 2013 Capital Budget and supporting materials.[11] ISO-NE generally borrows funds to finance capital budget expenditures, and recovers the debt service costs and depreciation or amortization of capital investments through its annual Administrative Revenue Requirement filings. Section IV.B of the Tariff allows the ISO to collect certain capital costs from Market Participants in the event that the costs are not financed by the ISO or that prepayments or accelerated repayments are required.[12] This backstop function supports the ISO's ability to obtain third-party financing.

The 2013 Capital Budget Filing proposed a budget of $29.3 million,[13] an increase of $1.3 million from its 2012 capital budget.[14] The filing explained that the 2013 Capital Budget would be funded by $39 million of 10-year private placement debt with an additional $11 million of Senior Unsecured Notes expected to be issued in the fourth quarter of 2012.[15]

The Connecticut Agencies protested the 2013 Capital Budget Filing.[16] They also sought consolidation of the capital and administrative budget proceedings. The Commission denied that request, and accepted the 2013 Capital Budget without suspension.[17] The Connecticut Agencies

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[11] 2013 Capital Budget and Capital Budget Quarterly Filing for Third Quarter of 2012, *ISO New England, Inc.*, Docket No. ER13-192-000 (Oct. 25, 2012), eLibrary No. 20121025-5097 ("2013 Capital Budget Filing").

[12] *See generally* 2013 Capital Budget Filing at 2.

[13] *See id.* at 6.

[14] *See id.* at 4 n.9 (citing Letter Order in Docket No. ER12-189-000 (Nov. 22, 2011) (accepting 2012 Capital Budget Filing of $28.0 million).

[15] *See id.* at 6-7.

[16] The Connecticut Agencies are: the Connecticut Public Utilities Regulatory Authority; Elin Swanson Katz, the Connecticut Consumer Counsel; and George Jepsen, the Attorney General for the State of Connecticut.

[17] *ISO New England, Inc.*, 141 FERC ¶ 61,275 (2012), *reh'g pending*.

sought rehearing of the Commission's order.[18] The Commission granted rehearing for further consideration, but otherwise has not acted on the rehearing request.

II. PROVISIONS OF THE SETTLEMENT AGREEMENT

The first paragraph of the Settlement Agreement sets out the signatories thereto. The signatories are ISO-NE, all of the parties that filed protests in either docket, and two of the six intervenors. While four intervenors did not sign the Settlement Agreement, the Settling Parties do not expect that they have any objection thereto (as stated above). The filed version of the Settlement Agreement includes all signatures except that of NEPOOL. NEPOOL will file its signature page separately, following a formal vote of the Participants Committee on May 16. The Participants Committee has already orally indicated its support for the Settlement Agreement and its intent to execute it.

Article I of the Settlement Agreement explains the Agreement's scope. Upon approval of the Settlement Agreement in its entirety without change or condition, the Agreement will resolve all issues set for hearing in Docket No. ER13-185 and those pending on rehearing in that docket and Docket No. ER13-192. The Settling Parties ask the Commission to approve the Agreement without change or condition and, once that approval becomes final and non-appealable, to deem the pending rehearing requests withdrawn and to terminate both of the dockets. The Settling Parties ask the Commission to take those steps on an expedited basis.

Article II sets forth the Settling Parties' agreement regarding reforms to the process for review of the ISO's annual administrative and capital budgets. The purpose of these changes is to further enhance the information provided to the states and NEPOOL regarding the ISO's budgets

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[18] The Connecticut Agencies' Request for Rehearing Regarding ISO-NE's 2013 Capital Budget, *ISO New England, Inc.*, Docket No. ER13-192-000 (Jan. 30, 2013), eLibrary No. 20130130-5296.

and the feedback received from those parties such that all information and feedback is transparent and accessible to all parties. Accordingly, the Settling Parties intend that NEPOOL and the various state agencies will engage with ISO throughout the budget development and filing process, and will share comments and information openly throughout the process.

Section A of Article II states that, in developing future budgets and work plans, the ISO will rely to the greatest extent possible on current employees to perform existing and proposed new projects. Section A provides that ISO-NE will document its efforts to do so as set forth in subsequent provisions.

Article II, Section B, describes reforms to the budget-review process that occurs before the ISO's annual budget filings with the Commission. Section B.1 provides for ISO-NE to present administrative and capital budget information to each of the New England states' public utility commissions comprising the New England Conference of Public Utilities Commissioners ("NECPUC"), the Connecticut Consumer Counsel, the New Hampshire Consumer Advocate, the Maine Public Advocate, and the Attorneys General of Connecticut, Massachusetts and Rhode Island (collectively, the "State Agencies"), at the annual NECPUC Symposium each June. At least one week before the NECPUC Symposium, ISO-NE will provide information regarding the ISO's anticipated and estimated budgets for administrative activities and for capital projects to the State Agencies, NEPOOL, and other interested stakeholders. The Settlement Agreement provides that, during or shortly after the presentation, the State Agencies may provide feedback and suggestions on those budgets.

Article II, Section B.2, states that each year ISO-NE will present its proposed administrative and capital budget at the annual August meeting of the NEPOOL Budget and

Finance Subcommittee.[19] Section B.2 also requires ISO-NE to present those budgets at a meeting to be organized by ISO-NE for the State Agencies within three business days of the NEPOOL meeting. Section B.2 describes the minimum level of information to be included in those presentations. In addition to the type of information contained in the 2013 budget presentation, future presentations to the State Agencies in accordance with Section B.2 will include (a) a brief narrative of each budget category for items that are not self-explanatory and (b) a brief narrative describing each proposed rate increase, highlighting and explaining items that include proposed increases that exceed the greater of 5% or $500,000.

Article II, Section B.3, provides for ISO-NE to continue to provide budget variance information on a quarterly basis at NEPOOL Budget and Finance Subcommittee meetings, with the information presented at the level of detail customarily provided. In addition, Section 3 requires ISO-NE to provide budget variance information during the annual August budget presentation meeting with State Agencies. The information presented during that meeting will include a table showing side-by-side comparisons of operating budget amounts and actual results, by cost category, for the two prior budget years. The table will treat depreciation as a separate cost category from debt service. It also will provide breakdowns for, at minimum, (a) salaries and overhead amounts and (b) professional fees and consultant costs. For salaries and overhead, the table will break out base salaries and wages, overtime wages, incentive or bonus payments, and each employee benefit program with an annual cost greater than $200,000. Professional fees and consultant costs will be stated separately by department. Section 3 requires

[19] As explained later in the Settlement Agreement, ISO-NE agrees to file its administrative and capital budgets in a single proceeding beginning with the 2014 budgets.

ISO-NE to explain in writing each actual-to-budget variance in excess of $1 million depicted in the table.

Article II, Section B.4, also requires ISO-NE to provide certain information during the annual August budget presentation meeting with State Agencies. Specifically, Section 4 requires the ISO to provide the actuarial assumptions it used in projecting the pension expense and the other postretirement benefits expense that is set forth in the proposed budgets for the upcoming year.

Article II, Section B.5, provides that, within two weeks of the August meeting, the State Agencies may submit questions concerning the proposed budgets. Section 5 requires ISO-NE to respond in writing within one week, and explains that the parties will negotiate in good faith to resolve potential concerns over the scope of the questions. Additionally, Section 5 provides that the State Agencies may submit comments on the proposed budgets by the earlier of September 25 or five weeks after the August meeting. ISO-NE must respond in writing within two weeks but not later than five business days before the ISO Board votes on the proposed budgets.

Article II, Section C, requires the ISO to file both its administrative and capital budgets for the succeeding year in a single proceeding before the Commission. The ISO's filing must include (a) any timely written comments provided by any of the State Agencies and (b) ISO-NE's written response, including an explanation of whether and how each comment was addressed.

Article II, Section D, provides for ISO-NE to present a work plan to, and seek input from, the State Agencies and NEPOOL in the first quarter of the budget year. Future work plans will be presented in substantially the same form and level of detail as the 2013 work plan. Section D also requires certain additional information to be provided with respect to each project, including: (1) the time frame during which project activities are expected to be undertaken; (2) the project

driver; (3) a ranking of the project's anticipated impact on reliability and/or market efficiency; (4) estimated capital project costs; (5) information about the number of personnel assigned to each capital project and whether they are existing, new, or outside personnel; (6) any impact analyses performed by or for ISO-NE, including but not limited to quantitative and qualitative analyses performed in accordance with the Tarff; and (7) either the cost-benefit analysis or value-proposition memorandum that served as the basis for including the project in the work plan. ISO-NE also shall identify which elements of the work plan are supported by prior year budgets, the current year's budget, or will require support in future budgets. Within four weeks of receiving the proposed work plan, the State Agencies may provide feedback and suggestions regarding the plan.

Article III of the Settlement Agreement sets forth the Settling Parties' agreement as to ISO-NE's 2013 Administrative Revenue Requirement and 2013 Capital Budget. ISO-NE agrees that it will not incur administrative budget expenses in excess of $162,707,800 for 2013, thereby reducing its 2013 Administrative Revenue Requirement by $2.25 million as compared to the requirement set forth in its October 25, 2012 filing. ISO-NE also agrees to reduce its 2013 Capital Budget by $600,000. ISO-NE agrees that it will not surcharge customers in order to fund the rate reductions provided for in the Settlement Agreement, and will not treat the reduced revenues resulting from the Settlement Agreement as an under-collection when applying the tariff's true-up provisions in future years. Rather, ISO-NE will have a guaranteed true-up credit of at least $2.25 million for 2013, to be reflected in subsequent years' rates. The reduction in the capital budget will be reflected in the second quarter 2013 capital funding tariff filing. Article III makes clear that nothing in the Settlement Agreement is intended to affect the operation of the

Tariff's true-up provisions with respect to excess or shortfalls in collections resulting from actual-to-projected billing-unit deviations.

Article III also sets forth certain agreements with respect to future rates. ISO-NE agrees that, beginning with its 2014 budget, it will no longer include the cost of golf tournaments or charitable contributions in its rates. ISO-NE also agrees that it will switch from a defined-benefit pension plan to a defined-contribution pension plan for new employees effective January 1, 2014. Before implementing the defined-contribution plan, ISO-NE agrees to provide information to the State Agencies and NEPOOL regarding the cost and structure of the defined-contribution plan and any associated post-retirement benefits.

Article IV of the Settlement Agreement sets forth the Settling Parties' agreement with respect to the implementation and termination of the agreement. If the Commission conditionally approves the Settlement Agreement, the Settling Parties must confer to determine whether they accept the conditions. Absent unanimous acceptance of the conditions, the Settling Parties will negotiate in good faith to restore the balance of risks and benefits reflected in the Settlement Agreement. Article IV provides that the Settling Parties shall have fifteen calendar days from the date of a conditional approval order to agree upon and file either an agreement conforming to the Commission's conditions or a renegotiated agreement. That period may be extended by agreement of all Settling Parties. If the period lapses without such a mutually-agreed upon filing, the Settlement Agreement shall terminate.

Article V states that the Settlement Agreement shall not be amended, changed, modified, abrogated, or superseded by a subsequent agreement unless all Settling Parties sign the new agreement. Article V also provides for the Commission to apply the ordinary just and reasonable standard of review to any proposed modifications to the Settlement Agreement.

Article VI includes miscellaneous standard settlement provisions. Among other things, Article VI states that the Settlement Agreement is a negotiated agreement that is not intended to establish any precedent; that the Commission's acceptance of it shall not constitute a determination by the Commission as to the merits of any contention made in the course of the litigation; and that, by signing the Settlement Agreement, no Settling Party makes any admission or shall be deemed to have accepted any fact, concept, or method relating to the matters at issue in these proceedings.

III. REQUIRED INFORMATION

The Settling Parties provide the following responses to the five questions required to be addressed in an Explanatory Statement.[20]

A. What are the issues underlying the settlement and what are the major implications?

If accepted without modification or condition, the Settlement Agreement will resolve all issues set for hearing in Docket No. ER13-185 and all issues pending on rehearing regarding ISO-NE's 2013 Administrative Revenue Requirement. It also will resolve all issues pending on rehearing in Docket No. ER13-192 regarding ISO-NE's 2013 Capital Budget. Additionally, the Settlement Agreement will prohibit the inclusion of certain types of costs in future rates, and will require the ISO to provide information to the New England State Agencies and NEPOOL before implementation of a new defined-contribution pension plan for new employees. More generally, the Settlement Agreement modifies and adds certain additional requirements to facilitate meaningful participation in the process by which ISO-NE develops, receives pre-filing comments on, and seeks Commission approval of its annual administrative and capital budgets.

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[20] *See* Chief Administrative Law Judge Wagner's Notice to the Public, "Information To Be Provided With Settlement Agreements" (Oct. 23, 2003), available at http://www.ferc.gov/legal/admin-lit/rev-errata.pdf.

B. Do any of the issues raise policy implications?

The Settlement Agreement does not raise any policy implications. As noted above, if approved, the Settlement Agreement will resolve all issues now pending in two Commission proceedings, without establishing any precedent regarding those issues.

C. Are there other pending cases that may be affected?

The Settling Parties are aware of no other pending proceedings affected by the Settlement Agreement.

D. Does the settlement involve issues of first impression, or are there any previous reversals on the issues involved?

The Settling Parties do not believe that the Settlement Agreement involves issues of first impression. The Settling Parties are not aware of any reversals on the issues involved in these proceedings.

E. Is the proceeding subject to the ordinary just and reasonable standard or the *Mobile-Sierra* application of that standard?

ISO-NE's 2013 Administrative Revenue Requirement Filing and 2013 Capital Budget Filing were unilateral tariff filings establishing rates subject to the ordinary just and reasonable standard. Article V of the Settlement Agreement states that the Settlement Agreement may not be amended, changed, modified, abrogated, or superseded by a subsequent agreement unless all Settling Parties have signed the later agreement. Article V also states that the ordinary just and reasonable standard shall apply to proposed modifications to the Settlement Agreement.

IV. CONCLUSION

The Settling Parties respectfully submit that the Settlement Agreement is fair and reasonable and its approval is in the public interest. The Settlement Parties request that the Commission approve the Settlement Agreement on an expedited basis without amendment, modification, or condition.

Respectfully submitted,

ISO NEW ENGLAND INC.

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EXECUTION COPY – CONFIDENTIAL UNTIL FILED

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc.	**Docket No. ER13-185**
ISO New England Inc.	**Docket No. ER13-192 (not consolidated)**

SETTLEMENT AGREEMENT

(May 13, 2013)

This Settlement Agreement (the "Agreement"), submitted for approval of the Federal Energy Regulatory Commission (the "Commission") pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2012), is made and entered into by ISO New England Inc. (the "ISO-NE**"**); the Connecticut Public Utilities Regulatory Authority, Elin Swanson Katz, the Connecticut Consumer Counsel, George Jepsen, Attorney General for the State of Connecticut, the Rhode Island Division of Public Utilities and Carriers, Peter F. Kilmartin, Attorney General for Rhode Island, Susan W. Chamberlin, New Hampshire Consumer Advocate, and Agnes Gormley, Maine Public Advocate (collectively the **"**New England State Parties**"**); the New England Power Pool Participants Committee ("NEPOOL") and the Office of the Massachusetts Attorney General (with NEPOOL, the "Intervenors"). Together, ISO-NE, the New England State Parties and the Intervenors shall be referred to herein as the **"**Settling Parties."

AGREEMENT

Subject in every particular to the conditions set forth in this Agreement, including approval of this Agreement by the Commission in its entirety without change

or condition, and with the understanding that each term of the Agreement is in consideration and support of every other term, it is agreed as follows:

I. SCOPE

The Commission's approval of this Agreement will resolve all issues set for hearing in Docket No. ER13-185, *ISO New England Inc.*, 141 FERC ¶ 61,272 (2012) (concerning ISO's proposed 2013 administrative budget) and all matters at issue in Docket No. ER13-192, *ISO New England Inc.*, 141 FERC ¶ 61,275 (2012) (concerning ISO's proposed 2013 capital budget) (together, the "Proceedings"). The Settling Parties ask the Commission to approve this Agreement without change or condition and, following final and non-appealable orders, to deem Docket Nos. ER13-185 and ER13-192 terminated and the Requests for Rehearing in both dockets withdrawn. The Settling Parties request that the Commission take those actions on an expedited basis.

II. BUDGET REVIEW PROCESS REFORMS

A. **Controlled Growth Work Planning.** In developing budgets and work plans going forward, ISO-NE will rely to the greatest extent possible on its current employee complement to perform all existing and proposed new projects, and shall document its efforts to do so as set forth below.

B. **Pre-filing Review.**

1. **June Presentation.** ISO-NE will present administrative and capital budget information to each of the New England states' public utility commissions comprising the New England Conference of Public Utilities Commissioners (NECPUC), the Connecticut Consumer Counsel, the New Hampshire Consumer Advocate, the Maine Public Advocate, and the Attorneys General of Connecticut, Massachusetts and Rhode Island (collectively, the **"**State

Agencies") at the NECPUC Symposium in June. At least one week prior to the NECPUC Symposium, ISO-NE will provide to the State Agencies, NEPOOL, and other interested stakeholders information regarding the following:

a. ISO-NE's anticipated and estimated budget for administrative activities; and

b. ISO-NE's anticipated and estimated budget for capital projects.

During the June presentation or shortly thereafter, the State Agencies may provide feedback and suggestions to ISO-NE on the proposed administrative and capital budget.

2. **August Budget Presentation.** ISO-NE will present its proposed administrative and capital budget at the August meeting of the NEPOOL Budget and Finance Subcommittee. Within three business days of this NEPOOL meeting, ISO-NE shall likewise present its proposed administrative and capital budgets at a meeting to be organized by ISO-NE for the State Agencies. As a minimum baseline, the budget presentation shall contain the information contained in the 2013 budget presentation.[1] The proposed administrative and capital budgets provided to the State Agencies shall also contain:

   a. a brief narrative of each budget category for items that are not self-explanatory; and

[1] See, e.g., http://www.iso-ne.com/committees/comm_wkgrps/prtcpnts_comm/budgfin_comm/budgfin/mtrls/2012/aug242012.

b. a brief narrative describing each proposed adjustment (increase) to rates highlighting any items where increases above 5% or $500,000, whichever is higher, are sought and providing an explanation for each such increase.

3. **Budget Variance Information**. ISO-NE shall continue to provide budget variance information on a quarterly basis at the NEPOOL Budget and Finance Subcommittee meetings. Such updates shall include the level of detail customarily provided. In addition, at the time of the August Budget Presentation to the State Agencies, ISO-NE shall also provide budget variance information, including a table showing a side-by-side comparison of the approved operating budget amounts and the actual results, by cost category, for the two prior budget years (i.e., budget year completed in the 4th quarter of the prior year and the budget year one year prior). At a minimum, the table shall include breakdowns of the following categories:

   a. Salaries and Overhead amounts, separated by base salaries and wages, overtime wages, incentive or bonus payments, and each of the separate employee benefits with a cost over $200,000 annually included in the salaries and overhead category;
   b. Professional fees and consultant costs separated by department; and
   c. Depreciation as a separate cost category from Debt Service.

ISO will provide a written explanation of all variances between the budgeted and actual amounts contained in the table for which the variance is greater than $1 million ($1,000,000.00).

4. **Actuarial Assumptions**. ISO-NE shall provide the actuarial assumptions it used in projecting the pension expense and the other postretirement benefits expense contained in the budget.

5. **State Comments and ISO-NE Response.** The State Agencies may submit questions concerning the proposed budget within two weeks from the August budget presentation meeting and ISO-NE shall respond in writing within one week. The parties will engage in good faith negotiations regarding any concerns about the questions asked. The State Agencies may submit comments regarding any proposed adjustments to the proposed budget within five weeks after the August budget presentation meeting but no later than September 25. ISO-NE shall respond in writing to any written comments and proposed adjustments within two weeks of receipt, but no later than five business days before the ISO-NE Board of Directors votes on the proposed budgets.

C. **ISO-NE Budget Filing.** ISO-NE will file both its administrative and capital budgets for the succeeding year in one proceeding with the Federal Energy Regulatory Commission. The ISO-NE filing shall include (a) any written comments provided by any of the State Agencies by the above deadline, and (b) ISO-NE's written response to such written comments, including an explanation of whether and, if so, how each comment was addressed in the budgets as filed.

D. **Annual Work Plans.** In the first quarter of the budget year, ISO-NE shall produce a work plan and present that work plan to, and seek input from, the State Agencies and NEPOOL.

As a minimum baseline, the work plan shall include detail regarding the priorities and related projects in substantially the form of the 2013 work plan (see http://www.iso-ne.com/committees/comm_wkgrps/prtcpnts_comm/prtcpnts/mtrls/2013/feb12013/npc_20130201_supp_1.pdf). The projects shall be divided into one of three "priorities": Planning/Operations Related Priorities, Market-Related Priorities, and Capital Project Priorities.

In addition, the work plan shall include the following information with respect to each of the identified projects:

1. expected time frame during that one year period in which specific efforts are to be undertaken;
2. the key driver for each project (e.g., regulatory order, compliance with mandatory reliability standards, stakeholder request, operations improvement, Strategic Planning Initiative, etc.);
3. ISO-NE's ranking of each project's anticipated impact on reliability and/or market efficiency (low, medium or high);
4. ISO-NE's estimate of the projected costs of each capital project;
5. the projected full-time equivalent (FTEs) personnel assigned to each capital project, including detail on whether they are from existing, new or outside personnel;
6. the impact analyses performed by or for ISO-NE, including but not limited to quantitative and qualitative analyses performed by ISO-NE in accordance with the ISO Tariff; and
7. either the cost-benefit analysis or the value proposition memorandum that served as the basis for including the project in the work plan.

State Comments. The State Agencies may provide feedback and suggestions to ISO-NE on the proposed work plan within four weeks from receipt of the proposed work plan.

Work Plan – Budget Interaction. ISO-NE shall identify which elements of the work plan are implementing the current year's budget, which elements are

implementing the prior year's budget and which elements will require dedication of resources in future years' budgets.

III. 2013 BUDGET REDUCTIONS

ISO-NE agrees to the following terms:

1. ISO-NE will not incur administrative budget expenses in excess of $162,707,800 for 2013, thereby reducing the 2013 Revenue Requirement by $2.25 million.[2]

2. ISO-NE agrees that it will switch from a defined benefit to a defined contribution pension plan effective January 1, 2014 for new employees. ISO-NE further agrees that before implementing its defined contribution pension plan and any associated post-retirement benefits ISO-NE will provide the State Agencies and NEPOOL information regarding the cost and structure of the proposed defined contribution pension plan and any associated post-retirement benefits.

3. Starting with the 2014 budget, ISO-NE agrees to no longer fund golf tournaments or charitable contributions and further agrees to not request same in any future budgets.

4. ISO-NE agrees to reduce its 2013 capital budget by $600,000.

5. ISO-NE agrees that it will not surcharge customers in order to fund the rate reductions provided for by this settlement, and it will not treat the reduced revenues resulting from this settlement as an under-collection when applying the tariff's true-up provisions in future years. Rather, ISO-NE will have a guaranteed true-up credit of at least $2.25 million. The reduction in the capital budget will be reflected

[2] The 2013 Revenue Requirement included in the ISO's October 25, 2012 filing in Docket No. ER-185 was $164,957,800.

in the second quarter 2013 capital funding tariff filing. Nothing in this Agreement is intended to affect the operation of the tariff's true-up provisions with respect to excess or shortfalls in collections resulting from actual-to-projected billing-unit deviations.

IV. IMPLEMENTATION AND TERMINATION

If the Commission's order approving this Agreement is conditioned on the modification of any of the terms of this Agreement (a "Conditional Approval Order"), the Settling Parties shall confer to determine whether they accept such modifications, and if they accept such modifications, shall make the necessary compliance filing. If one or more Settling Parties do not accept such modifications, the Settling Parties will negotiate in good faith to restore the balance of risks and benefits reflected in this Agreement as executed, and any such renegotiated agreement shall be filed with the Commission. If the Settling Parties do not either accept and file the Agreement as modified or agree to and file a renegotiated agreement within fifteen calendar days of the date of the issuance of the Conditional Approval Order, this Agreement shall terminate unless all of the Settling Parties agree to extend the time period for such negotiations.

V. SUBSEQUENT AGREEMENT

This Agreement shall not be amended, changed, modified, abrogated, or superseded by a subsequent agreement, unless all Settling Parties sign such subsequent agreement. The standard of review the Commission shall apply when acting on proposed modifications to this Settlement Agreement shall be the ordinary "just and reasonable" standard of review and not the public interest standard of review, whether initiated under section 205 or 206 of the Federal Power Act. The ordinary

"just and reasonable" standard shall apply whether the change is proposed by a Settling Party, a non-party or by the Commission acting *sua sponte*.

VI. MISCELLANEOUS

A. It is specifically understood and agreed that this Agreement represents a negotiated agreement, and no Settling Party shall be deemed to have approved, accepted, agreed, or consented to any fact, concept, theory, principle, or method related to the justness or reasonableness of any matter, premise, or issue in these proceedings, or as precedent with respect to any matters involved herein. Nothing in this Agreement is intended to establish any precedent concerning the outcome of any such future consideration by the Commission. This Agreement shall not be deemed to be a "settled practice" as that term was interpreted and applied in *Public Service Commission of State of N.Y. v. FERC*, 642 F.2d 1335 (D.C. Cir. 1980).

B. Except as otherwise specifically provided for herein, the filing of this Agreement or the support of it by any Settling Party shall not be deemed in any respect to constitute an admission by any such Settling Party that any allegation or contention made by any other party in this proceeding is true or valid. The acceptance of this Agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any allegation or contention made by the parties hereto in this proceeding.

C. Each Settling Party hereby represents as to itself and warrants to the other Settling Parties that this Agreement has been duly authorized, executed, and delivered by and is enforceable against such Settling Party in accordance with its terms.

D. This Agreement constitutes the entire agreement of the Settling Parties and, except as specifically provided herein, supersedes any and all prior negotiations, correspondence, undertakings and agreements between the Settling Parties concerning the subject matter of this Agreement. If there are any discrepancies or differences between this Agreement and any terms previously negotiated between the Settling Parties, this Agreement shall govern.

E. This Agreement shall be binding upon and inure to the benefit of the Settling Parties hereto and their respective successors and assigns.

F. None of the provisions of this Agreement shall be considered waived by any Settling Party unless such waiver is given in writing. The failure of any Settling Party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provision or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

G. This Agreement is the result of negotiation and each Settling Party has participated in the preparation of this Agreement. Accordingly, any rules of construction to the effect that an ambiguity is to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

H. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

I. Each Settling Party shall cooperate with and support, and shall not take any action inconsistent with, the filing of this Settlement Agreement with the

Commission or efforts to obtain Commission acceptance or approval of the Settlement Agreement.

[SIGNATURES APPEAR ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the parties hereto have executed this Settlement Agreement as of the date first written above.

ISO NEW ENGLAND INC.

By:_____
Robert Ludlow
Vice President and Chief Financial Officer

CONNECTICUT PUBLIC UTILITIES REGULATORY AUTHORITY

By:_____
Arthur H. House
Chairman

CONNECTICUT CONSUMER COUNSEL

By:_____
Elin Swanson Katz
Consumer Counsel

ATTORNEY GENERAL FOR THE STATE OF CONNECTICUT

By:_____
George Jepsen
Attorney General

RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

By:_____
Leo Wold
Assistant Attorney General

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By:_____
Leo Wold
Assistant Attorney General

ATTORNEY GENERAL FOR RHODE ISLAND

By: _____
Leo Wold
Assistant Attorney General

NEW HAMPSHIRE CONSUMER ADVOCATE

By: _____
Susan Chamberlin
Consumer Advocate

MAINE PUBLIC ADVOCATE

By: _____
Agnes Gormley
Senior Counsel

ATTORNEY GENERAL FOR RHODE ISLAND

By:_____
Leo Wold
Assistant Attorney General

NEW HAMPSHIRE CONSUMER ADVOCATE

By:_____
Susan Chamberlin
Consumer Advocate

MAINE PUBLIC ADVOCATE

By: Agnes Gormley
Agnes Gormley
Senior Counsel

ATTORNEY GENERAL, COMMONWEALTH OF MASSACHUSETTS

By: Patrick Tarmey
Patrick Tarmey
Assistant Attorney General

NEPOOL PARTICIPANTS COMMITTEE

By:_____
Name:
Title:

PROPOSED ORDER

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

In Reply Refer To:
ISO New England Inc.
Docket Nos. ER13-185
ER13-192

[Date: _____, 2013]

ISO New England Inc.
Attn: Maria A. Gulluni
Deputy General Counsel
One Sullivan Road
Holyoke, MA 01040
Telephone: (413) 540-4473

Dear Counsel and Parties:

1. On May 13, 2013, a Settlement Agreement among the following parties was filed in the above-captioned dockets: ISO New England Inc.; the Connecticut Public Utilities Regulatory Authority; Elin Swanson Katz, the Connecticut Consumer Counsel; George Jepsen, Attorney General for the State of Connecticut; the Rhode Island Division of Public Utilities and Carriers; Peter F. Kilmartin, Attorney General for Rhode Island; Susan W. Chamberlin, New Hampshire Consumer Advocate; Agnes Gormley, Maine Public Advocate; the New England Power Pool Participants Committee; and the Office of the Massachusetts Attorney General. [On _____, 2013, comments were filed by: _____]. On _____, 2013, Judge Michael J. Cianci, Jr. certified the uncontested settlement to the Commission.

2. The Settlement Agreement resolves all remaining issues in these proceedings. It is in the public interest and is hereby approved. The Commission's approval of this settlement does not constitute approval of, or precedent regarding, any principle or issue in this proceeding.

3. This letter order terminates Docket Nos. ER13-185 and ER13-192.

By direction of the Commission.

Honorable Kimberly D. Bose
Secretary

cc: All Parties

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing documents to be served upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated on this 13th day of May, 2013.

/s/ Linda M. Morrison

Linda M. Morrison
FERC/Tariff Coordinator
ISO New England Inc.