

**MEMORANDUM OF UNDERSTANDING AMONG
ISO NEW ENGLAND INC.,
THE NEW ENGLAND POWER POOL, AND
NEW ENGLAND STATES COMMITTEE ON ELECTRICITY, LLC**

This Memorandum of Understanding (this “MOU”) is made and entered into as of _____, 2007 by and among ISO New England Inc., a Delaware corporation (“ISO”), the New England Power Pool (“NEPOOL”), an unincorporated association created pursuant to the NEPOOL Agreement that has been amended numerous times and twice restated, and the New England States Committee on Electricity, LLC (“NESCOE”). Collectively, ISO, NEPOOL and NESCOE may be referred to herein as the “Parties” and, individually, each may be referred to as a “Party.”

WHEREAS, ISO is the private, non-profit entity that serves as the Regional Transmission Organization for New England, and in such capacity operates the New England bulk power system and administers the New England wholesale energy markets pursuant to the ISO New England Transmission, Markets and Services Tariff (the “ISO Tariff”) and the Transmission Operating Agreement with the New England transmission owners (the “TOA”);

WHEREAS, NEPOOL is a voluntary association of more than 340 members that includes all of the electric utilities rendering or receiving service under the ISO Tariff, as well as independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users, demand response providers, developers, and a merchant transmission provider;

WHEREAS, NESCOE is a limited-liability company formed by its sole member, the New England Governors Conference, Inc., in order to serve as the Regional State Committee for New England and to represent the policy perspectives of the New England Governors and their collective interests in promoting a regional electric system that assures the lowest reasonable long-term cost for customers while maintaining reliable service and environmental quality;

WHEREAS, the Participants Process under the Participants Agreement between ISO and NEPOOL has been the means for consideration of proposals for changes to New England arrangements and for reaching common understanding and consensus if possible on such changes, and the Parties wish to use that Participants Process to consider, discuss, and seek consensus on NESCOE proposals as appropriate;

WHEREAS, NEPOOL, ISO and NESCOE have each previously approved the term sheet attached hereto as Exhibit A (the “Term Sheet”) and desire to make the understandings contained therein binding;

WHEREAS, NEPOOL, ISO and NESCOE have filed Schedule 5 to Section IV.A of the ISO Tariff with the Federal Energy Regulatory Commission (the “FERC”) in order to provide a mechanism for the collection and distribution to NESCOE of funds for

NESCOE's operation and wish to further outline the processes for the collection and distribution of those funds;

NOW, THEREFORE, ISO, NEPOOL and NESCOE, in consideration of the mutual agreements set forth herein, agree as follows:

SECTION 1. TERM AND TERMINATION.

1.1 Effectiveness. This MOU shall be effective as of the first calendar day of the month immediately following satisfaction of the last to occur of the following conditions:

- (a) Schedule 5 to Section IV.A. of the ISO Tariff and the rate contained therein are accepted or approved by the FERC;
- (b) Thirty (30) days have passed since NESCOE has submitted formal notice to the FERC indicating that it is operational and prepared to receive funding for the purposes specified in the Term Sheet;
- (c) NESCOE has submitted to ISO, NEPOOL and the FERC (as part of the foregoing formal notice) its LLC Operating Agreement in the form accepted by the ISO and the Clerk of the Commonwealth of Massachusetts (the "Operating Agreement") and its Code of Conduct in a form approved by ISO and NEPOOL; and
- (d) Thirty (30) days have passed since ISO, NEPOOL, and NESCOE have submitted this MOU to the FERC.

1.2 Termination. The term of this MOU shall continue until such time as a Party terminates the MOU, provided that the terminating Party shall provide the other Parties with ninety (90) days' prior written notice during which the other Parties shall have the opportunity to seek a FERC order delaying the termination. Notwithstanding the foregoing, unless all of the Parties agree otherwise in writing, this MOU shall terminate as provided in Section 4.5 or automatically upon the occurrence of any of the following events:

- (a) the withdrawal from NESCOE by one of the six New England states;
- (b) ISO ceases to be the RTO for New England;
- (c) the TOA among ISO and transmission owners that are members of NEPOOL is terminated; or
- (d) the Participants Agreement among ISO, NEPOOL and Individual Participants is terminated.

SECTION 2. BINDING NATURE OF TERM SHEET.

The Parties agree that the Term Sheet attached hereto is the binding obligation of the Parties. In particular, the Parties acknowledge that the agreement of ISO and NEPOOL to the terms and conditions of this MOU is conditioned on the following commitments of NESCOE and, accordingly, without limiting the breadth of the preceding sentence, NESCOE agrees to honor the following commitments (contained in more detail in the Term Sheet) to:

- (a) maintain the decision-making process that requires policy determinations to be made only by a majority vote of the six New England states, both in number and weighted to reflect relative electric load of each state within the New England region's overall load;
- (b) seek FERC approval before increasing its scope of activities beyond those activities identified in the Term Sheet;
- (c) unless and until changed by agreement of the Parties, work within the process established by ISO and NEPOOL as outlined in Section 11.4 of the Participants Agreement, more specifically, (i) provide feedback on ISO's annual proposed Installed Capacity Requirement ("ICR") at the relevant NEPOOL Reliability Committee meeting, and (ii) have a representative at the NEPOOL Participants Committee meeting at which the ICR vote will be taken, in order to present NESCOE's position;
- (d) work with the Planning Advisory Committee ("PAC"), which is the FERC-approved body for providing advisory input to ISO regarding the development of the Regional System Plan;
- (e) make every effort to avoid duplication of efforts or conflicting policy positions with the New England Conference of Public Utility Commissioners Inc. and the New England Governors' Conference Power Planning Committee, including to the extent possible meeting with representatives of these organizations, ISO staff and other stakeholders on issues of common interests;
- (f) consult regularly and substantially with ISO, the Participating Transmission Owners ("PTO") Administrative Committee ("PTO AC"), the PAC, NEPOOL participants and other interested stakeholders on matters within NESCOE's scope of activities, primarily by its participation in the Participant Process as set forth in Section 4.3 below, including, without limitation, the submission of its proposals to the NEPOOL Participants Committee for vote;
- (g) if significant concerns arise, submit to audit and review by an independent and qualified management consulting firm of the NESCOE budget, activities and spending, with the firm chosen by, and the scope of audit and review and methods for such review, to be agreed upon among the Parties, and a

draft report from any such review circulated to the Parties for comment before the report is finalized;

(h) produce and submit annual budgets for its first five years of operation within the limits and on the schedule outlined in the Term Sheet and propose frameworks for future budgets also as described therein;

(i) produce an annual public report to the New England Governors that includes any finalized report from an audit or review of the NESCOE budget activities and spending; and

(j) upon request by the PTO AC or an individual transmission owner that is a party to the TOA (a "PTO"), (i) file comments and documentation in a rate-making proceeding before any New England state public utility commission that support cost recovery of NESCOE-related costs in retail rates, and generally support the PTOs' collection of all NESCOE costs through filings, letters, and consultations with each state regulatory agency; (ii) request ISO to classify all NESCOE costs as "Regulatory Costs"; (iii) support a finding by the FERC that NESCOE costs are prudent, just and reasonable as "Regulatory Costs"; and (iv) support any ISO Tariff amendments needed to effectuate cost recovery.

SECTION 3. COLLECTION OF NESCOE FUNDS.

3.1 ISO's Obligations. ISO will collect costs associated with NESCOE's activities from all Regional Network Load through and in accordance with Schedule 5 to Section IV.A of the ISO Tariff, as accepted and approved by FERC. Except to the extent any such amounts collected are collected subject to refund pursuant to a FERC order, ISO shall remit such amounts to NESCOE monthly following their collection from Transmission Customers, by wiring such funds pursuant to instructions provided by NESCOE. Any amounts retained by ISO because they have been collected from Transmission Customers subject to refund shall either be remitted to NESCOE or refunded as appropriate promptly following a FERC order with respect to such collections that is no longer subject to or the subject of an appeal.

3.2 NESCOE's Obligations. NESCOE shall provide ISO with wiring instructions for the submission of its funds. Revenues received from ISO for NESCOE operations will be used exclusively for the purposes described in Section 4.1 below and will not be commingled with the funds of any other organization.

SECTION 4. NESCOE'S ORGANIZATION.

4.1 NESCOE Operating Agreement; Purpose. The Operating Agreement is attached hereto as Exhibit B. NESCOE shall not change the Operating Agreement without the prior written consent of ISO and NEPOOL. NESCOE further agrees that it shall operate exclusively for religious, charitable, scientific, literary, or educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, including the purposes described in the Term Sheet.

4.2 Code of Conduct. NESCOE will cause all of its employees to abide by a Code of Conduct in the form of Exhibit C hereto.

4.3 Consultation with ISO and NEPOOL; Involvement in Participant Processes. To implement the understandings in the Section of the Term Sheet entitled “Consultation and Dispute Resolution,” NESCOE shall participate in NEPOOL activities as follows:

(a) NESCOE shall receive notice of and be entitled to attend all Principal Committee meetings, as well as meetings of any other committees, subcommittees, task forces, working groups or other bodies established by the Principal Committees or jointly by ISO and the Participants Committee, and shall have a reasonable opportunity to express views on any matter to be acted upon at such meeting, on the same basis as if it were a voting Participant, except for matters to be addressed in executive session;

(b) NESCOE shall identify a non-voting member and an alternate for each NEPOOL Principal Committee for the purposes of receiving notices of and background materials (other than confidential materials to be considered in executive session) for such meetings. The member and alternate shall each designate and maintain a current e-mail address to which such notices may be delivered. Such designation shall be in a written or electronic notice delivered to the Secretary of the Principal Committee which sets forth the name of the member or alternate and the current e-mail address;

(c) NESCOE shall present policy proposals it plans to initiate through changes to Market Rules, Operating Procedures, Manuals, Reliability Standards, General Tariff Provisions, or Non-TO OATT Provisions for Governance Participant consideration and NEPOOL Participant vote in accordance with the procedures set forth in Section 11 of the Participants Agreement and such NESCOE proposals shall be subject to the same Principal Committee consideration and action under Section 11 as ISO proposals; and

(d) NESCOE shall, whenever possible, collaborate with stakeholders to achieve negotiated resolutions that address its concerns.

4.4 No Participation in New England Markets. NESCOE shall not participate in the New England wholesale electricity markets and rights and attributes associated with such markets including, without limitation, Financial Transmission Rights and renewable and carbon attributes related to such electricity markets.

4.5 Required Renegotiation. In the event that a Court issues a final order materially altering the process for determining the ICR for New England (with such materiality to be reasonably determined by the initiating Party), any Party hereto may initiate a renegotiation of this MOU by submitting a written notice of renegotiation to the other Parties to this MOU. All Parties shall negotiate in good faith to modify the MOU to reflect the final order. In the event that the Parties are not able to reach agreement on

renegotiated terms and conditions within ninety (90) days from the date of the aforementioned notice, this MOU shall automatically terminate.

SECTION 5. MISCELLANEOUS.

5.1 NEPOOL Representative; Amendments.

5.1.1 NEPOOL Representative. The Participants Committee, or its designee(s), shall have authority to act for NEPOOL in connection with the administration of this MOU and its amendment.

5.1.2 Amendments. This MOU may be amended only in writing and as agreed to by each Party. In order for a proposed amendment to this MOU to be approved by the Participants Committee, the Minimum Response Requirement must be satisfied with respect to the proposed amendment, and the affirmative ballot votes with respect to the proposed amendment must equal or exceed seventy percent (70%) of the aggregate Sector Voting Shares.

5.2 Dispute Resolution. The Parties agree that any dispute arising under this MOU or regarding the NESCOE budget shall be submitted to the FERC for resolution.

5.3 Governing Law. The terms of this MOU shall be construed and enforced in accordance with the laws of the State of Delaware.

5.4 No Assignment. The MOU shall not be assigned by any Party without the prior written consent of the other Parties. This MOU shall enure to the benefit of, and shall be binding upon, the permitted successors and assigns of the Parties.

5.5 Relationship of Parties. Nothing in this MOU is intended to create a partnership, joint venture or other joint legal entity making any Party jointly or severally liable for the acts or omissions of any other Party. Nothing in this MOU is intended to create a principal/agency relationship between or among any of the Parties and no Party shall have any authority, in any way, to bind any other Party. Each Party is acting in its individual capacity and has the full right to enforce its rights against the others under this MOU.

5.6 Waiver. Delay by any Party in enforcing its rights under this MOU shall not be deemed a waiver of such rights. Any waiver of rights by any Party with respect to any default or other matter arising under this MOU shall not be deemed a waiver with respect to any additional default or other matter arising under this MOU.

5.7 Notices. Any notice, demand, request or other communication required or authorized by this MOU to be given to a Party shall be in writing, and shall be (1) personally delivered to the Party's highest ranking officer; (2) mailed, postage prepaid, to the Party's highest ranking officer at its principal office; (3) sent by facsimile to the Party at the fax number of its highest ranking officer; or (4) delivered electronically to the Party's highest ranking officer at his or her electronic mail address. Any such notice, demand or request shall be deemed given when received by the Party to which it is sent.

5.8 No Third-Party Beneficiaries. This MOU is intended to be solely for the benefit of the Parties and their respective successors and permitted assigns and is not intended to and shall not confer any rights or benefits on any third party (other than successors and permitted assigns) not a signatory hereto.

5.9 Counterparts. This MOU may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same agreement.

5.10 Defined Terms; Documents. Terms used in this MOU that are not defined herein shall have the meanings ascribed to them in the NEPOOL Agreement, the Participants Agreement, or the ISO Tariff. All references to documents other than the Code of Conduct, Term Sheet and NESCOE's Operating Agreement are references to documents as the provisions thereof may be amended, modified or waived from time to time or successor documents thereof.

EXECUTION COPY

IN WITNESS WHEREOF, ISO, NEPOOL, and NESCOE have caused this MOU to be executed by their duly authorized representatives as of the date first written above.

ISO NEW ENGLAND INC.

By: _____
Name: Gordon van Welie
Title: President and Chief Executive Officer

NEW ENGLAND POWER POOL

By: _____
Name: Peter Fuller
Title: Chair, NEPOOL Participants Committee

NEW ENGLAND STATES COMMITTEE ON ELECTRICITY, LLC

By: _____
Name:
Title:

New England States Committee on Electricity (NESCOE)

Term Sheet

September 8, 2006

Introduction:

This term sheet presents the key points of the New England states' proposal to create a *Regional State Committee* or RSC as contemplated by the Federal Energy Regulatory Commission (FERC) in their SMD White Paper.¹ The contents are taken in part from the states' revised Petition filed with the Commission in January of 2005² and from the NESCOE Plan of Organization prepared by the states in April of 2005.³ This term sheet has been created by the states to provide a readily accessible description of their plans for NESCOE and to facilitate dialogue with interested persons on the issues it raises. It reflects extensive consultations with many stakeholders in the New England region and includes many commitments designed to address their concerns. The states agree that they will seek FERC approval to create NESCOE consistent with the terms set forth herein and, if approved, will operate NESCOE in a manner consistent with these terms.

Organization:

The organization will be a not-for-profit corporation called the "New England States' Committee on Electricity" or NESCOE.

It will be directed by a committee representing the six New England States, with one or more representatives appointed by each Governor to represent their state.⁴ It will have a staff sufficient to undertake the research and analysis, communication and consultation, and advocacy necessary to achieve its mission.

Decision-making:

Regardless of the number of individuals appointed by each Governor, each state will have one, undivided vote to cast in arriving at NESCOE determinations.

NESCOE will make policy determinations with a majority vote (i.e. ...a numerical majority [of the states]) and a majority weighted to reflect relative electric load of each state within the region's overall load.⁵

¹ See SMD NOPR; "White Paper, Wholesale Power Market Platform,," FERC Docket No. RM01-12-000, April 28, 2003 ("White Paper")

² Joint Amended Petition For Declaratory Order To Form A New England Regional State Committee, FERC Docket No. EL04-112-000, January 11, 2005. ("Revised Petition")

³ NESCOE: Plan of Organization, April 2005, ("Plan of Organization")

⁴ Revised Petition, p 16

⁵ Revised Petition, p 3

Mission:

NESCOE's mission will be to represent the interests of the citizens of the New England region by advancing policies that will provide electricity at the lowest possible price over the long term, consistent with maintaining reliable service and environmental quality. Through collaboration with stakeholders and presentation of NESCOE's views to regulators, it will advance policies which seek to facilitate the efficient development of power generation, demand management and transmission resources needed to reliably serve the electricity requirements of consumers. It will seek to accomplish its objectives in the context of a wholesale electricity market that is primarily characterized by competitive market mechanisms, subject to the constraints and directions of law, regulation and public policy.

Scope of Activities

NESCOE will be active, and express its views, in two areas: resource adequacy and system planning and expansion. NESCOE's activities are in no way intended to diminish or affect any of the responsibilities and objectives of ISO-NE or NEPOOL relating to resource adequacy or system planning and expansion, as stated in all of their governing documents. NESCOE will strive to achieve a comprehensive and integrated approach to achieving resource adequacy and system planning and expansion without relying unduly on any single resource or type of infrastructure.

Resource Adequacy: NESCOE will recommend policies and comment on proposed market rule and tariff changes related to resource adequacy, demand response and energy efficiency. NESCOE will work within the process established by ISO-NE and NEPOOL as outlined in Section 11.4 of the Participants Agreement and, more specifically, (i) provide feedback on ISO-NE's annual proposed Installed Capacity Requirement ("ICR") at the relevant NEPOOL Reliability Committee meeting, and (ii) have a representative at the NEPOOL Participants Committee at which the ICR vote will be taken, in order to present NESCOE's position.⁶

In addition, NESCOE will work with State policy makers and legislatures to encourage the use of diverse fuels, including renewable fuels, for electricity generation, customer participation in demand response programs, implementation of cost-effective energy efficiency programs and retail pricing that aligns well with wholesale market pricing.

System Planning and Expansion: NESCOE will recommend policies designed to ensure that resources are available to provide for regional electric reliability and, where it is feasible and cost-effective, to eliminate persistent and costly congestion over

⁶ The manner in which the ICR is determined is the subject of litigation brought by the State of Connecticut in the U.S. Court of Appeals for the District of Columbia, Docket No. 05-1411. The states recognize that the ICR determination process may be altered by the resolution of that litigation, which would take precedence over any commitments made here by the states on this issue.

transmission lines⁷ and to enable the inter-connection of generation resources. In addition, NESCOE will study and evaluate approaches to the siting of interstate transmission lines on a regional basis.⁸ On these issues, NESCOE will work with the Planning Advisory Committee, which is the Commission-approved body for providing advisory input to ISO-NE regarding the development of the Regional System Plan.

The scope of activities set forth herein can only be expanded in the future beyond resource adequacy and system planning and expansion with the unanimous approval of the six states.⁹ NESCOE would give due notice and opportunity for consultation to interested stakeholders of any proposed change in its scope of activities and will obtain approval by the Commission before acting on such a change.

NESCOE is not intended to replace or constrain the functioning of either the New England Conference of Public Utility Commissioners (NECPUC) or the Power Planning Committee (PPC) of the New England Governors Conference or the Commission-approved stakeholder processes for providing input to ISO-NE and the PTO Administrative Committee.¹⁰ NECPUC and the PPC are expected to continue to carry out many of the functions they do now and in much the same way. Nevertheless, NESCOE will make every effort to avoid duplication of efforts or conflicting policy positions with these organizations. To the extent possible, this would include joining with them to meet jointly with ISO-NE staff and other stakeholders on issues of common interests.

NESCOE will communicate regularly with NECPUC and the PPC and will seek to hold a formal coordination meeting with both groups at least once a year to discuss upcoming regional electricity policy issues and allocate lead responsibility for developing recommendations to ISO-NE and NEPOOL. The purpose of these communication measures will be to avoid conflicting recommendations and to make efficient use of available staff and resources. The PPC and NECPUC will be asked to relay any particular concerns to NESCOE about its jurisdiction or position on issues. NESCOE will make every effort to address and reconcile such concerns before it makes a final recommendation to ISO-NE or NEPOOL on an issue. Whenever possible, through these regular and extensive communications, decisions on these matters will be made by consensus among the two or three organizations. When that is not possible, NESCOE will use its formal voting method to determine whether a matter is within its scope of activities, or to develop its recommendations on matters within its scope of activities.

⁷ Revised Petition, p 13

⁸ Revised Petition, p 15

⁹ Revised Petition, p 11

¹⁰ For example, NECPUC and its member commissions have a jurisdiction that goes well-beyond electricity to natural gas, telecommunications, and other industries. It also has unique expertise in rate-making issues that render it far better equipped to address specific electricity rate-making issues in matters before the FERC, expertise that will not be duplicated by NESCOE. Likewise, the Power Planning Committee engages in activities that go well beyond electricity issues to all matters dealing with energy, including other fuels and uses (including for space heating and transportation).

Consultation and Dispute Resolution:

NESCOE will consult regularly and substantially with ISO-NE, the Participating Transmission Owners (“PTO”) Administrative Committee, the PAC, NEPOOL participants and other interested stakeholders on matters within its scope of activities. A primary means to accomplish this result will be NESCOE’s functioning as an “Individual Participant” in NEPOOL advisory activities. Thereby NESCOE would engage in regular and active participation in the established NEPOOL and PAC stakeholder consultation process. NESCOE would submit any policy proposals it plans to initiate to these organizations’ review processes and, where applicable, would bring those proposals to the NEPOOL Participants Committee for an advisory vote.¹¹ In so doing, NESCOE will make every effort to avoid duplication of consultative processes with these particular stakeholders. NESCOE also may, from time to time, undertake additional consultations or inquiries as it may find necessary and useful. To the extent this arrangement would benefit from being addressed explicitly in the Second Restated NEPOOL Agreement and/or the Participants Agreement, NESCOE would endeavor to reach agreement with NEPOOL and ISO-NE on implementation of those changes as soon as possible. In the event NEPOOL does not support a NESCOE policy proposal following this review and advisory vote, NESCOE reserves the right to pursue this policy proposal independently. More generally, in any instance when ISO-NE, the PTO Administrative Committee, NEPOOL participants and other interested stakeholders file proposed actions with the FERC concerning matters within the scope of NESCOE’s activities, NESCOE reserves the right to intervene in such proceedings and file comments with the FERC stating NESCOE’s views of the proposed action.

Following the consultations described above, including completion of the NEPOOL review and advisory voting process, NESCOE may seek a formal commitment from ISO-NE to pursue implementation of NESCOE’s recommendation. Depending upon the nature of the NESCOE recommendation, NESCOE will request a written response from ISO-NE within a reasonable time frame as to whether ISO-NE intends to implement the recommendation or, if ISO-NE will not pursue implementation of the NESCOE recommendation, an explanation as to why not. If ISO-NE does not commit to pursue implementation of the NESCOE recommendation or proposes a schedule for implementation which is not acceptable to NESCOE, NESCOE will allow a reasonable period of time to attempt to resolve the matter with ISO-NE (and NEPOOL, if applicable) to the parties’ mutual satisfaction. If the consultations described above and any further efforts to resolve the matter do not produce a resolution satisfactory to NESCOE, NESCOE may then forward as appropriate its recommendation directly to the FERC for action, including by means of one or more filings pursuant to Section 206 of the Federal

¹¹ In the event that NESCOE supports a market rule change different from a change proposed by ISO-NE, NESCOE would seek a vote of NEPOOL on the proposal. If NEPOOL supports NESCOE’s proposal, the proposal will be subject to the “jump ball” filing provisions set forth in Section 11.1.5 of the Participants Agreement.

Power Act. NESCOE will only take such action following a prevailing vote, determined in accordance with its formal voting process, and consultation with ISO-NE and NEPOOL in the manner outlined above.

NESCOE will not use litigation as a primary means to accomplish its mission, but rather, whenever possible, collaborate with stakeholders to achieve negotiated resolutions that address its concerns. Nevertheless, NESCOE reserves the right to use litigation to accomplish its mission if all attempts at negotiation and formal dispute resolution fail to do so.

Operating Expenses:

It is likely to take five years for NESCOE to reach its steady-state size and full capabilities. A first year staff of 3 persons would include the Executive Director and most of the senior staff. This staff is expected to grow to a total of 7 individuals in year five.

Salaries and benefits are anticipated to cost just over \$430,000 in the first year and rise to \$1.2 million in year five. Consulting services for economic, financial and engineering analyses along with legal service are anticipated to cost on average \$350,000 per year over the five years. Operational expenses including rent and utilities, office equipment leases, fees for accounting and information technology assistance and travel are expected to average in total¹² about \$200,000 per year. Allowing for a contingency at ten percent of expenses, the annual operating budget is expected to be approximately \$930,000 in the first year and rise to slightly more than \$2 million in the fifth year. At no time will NESCOE seek approval of a budget in excess of \$1.4 million per year in its first two years of operation and no more than \$2.2 million in its third through fifth year of operation.

Not later than the end of year four of its operations, NESCOE will present a framework for its annual budgets for years six through ten of its operations to the NEPOOL Participants Committee, the PTO Administrative Committee and ISO-NE for their review in the manner described in the next section (“Budget Timeline”). In the absence of agreement with at least the NEPOOL Participants Committee to the contrary, this framework will call for annual budgets that do not increase more than 15% in any one year and do not increase more than 50% on a cumulative basis over that five year period.

Unless altered or eliminated by agreement with at least the NEPOOL Participants Committee, NESCOE will continue to propose and obtain FERC approval of five-year budget frameworks following a consultative process similar to that described in this section as long as its operations continue. In light of the fact that five-year budget frameworks for NESCOE’s operations will be established by agreement with these three organizations and/or by approval of the FERC, the annual review of its proposed budgets

¹² Revised Petition, p 3

by at least the NEPOOL Participants Committee will be limited to considerations of accounting and reconciliation, so long as spending remains within the boundaries established by those frameworks.

NESCOE will develop an operating budget recommendation for each year in consultation with NEPOOL, the PTO Administrative Committee and ISO-NE within the boundaries of the then-approved five year budget framework following a process and timeline as described in the next section.

Each year NESCOE will produce a “Report to the New England Governors” that will document its accomplishments from the preceding year and its projected policy priorities for the coming two years. This report will be public and shall be released to NEPOOL and ISO-NE simultaneously with its release to the New England Governors. This report will include a full accounting of spending by NESCOE during the preceding year and proposed budgets for each of the upcoming two years. Before NESCOE submits its proposed budget for the upcoming year to the FERC for approval, it will take a formal vote of the member states according to the voting methodology described above in the “Decision-Making” section to provide a public record of the states’ positions on that budget.

Budget Timeline:

NESCOE would coordinate its budget process with the budget cycle that ISO-NE currently uses for its annual administrative expenses recovery filing with the Commission. The schedule below is a rough approximation of this timeline.

June	Draft budget prepared for the coming calendar year
August	Draft budget presented to NESCOE Board for review & analysis
September	Proposed budget presented to ISO-NE and NEPOOL Budget & Finance Subcommittee for review, input, and recommendations
October (begin)	Presentation of proposed budget to NEPOOL Participants Committee for review, input, and advisory vote.
October (mid)	Proposed budget to NESCOE Board for approval
No later than October 20	Filing to be prepared by NESCOE and submitted to ISO-NE; ISO-NE will use its best efforts to file any late submissions by November 1.
November 1	Adopted budget filed by ISO-NE in a stand-alone filing with the Commission.
January 1	Requested effective date

Within this time frame, NESCOE will also seek input from interested stakeholders and provide ISO-NE and stakeholders an opportunity to provide comments. Ultimately, NESCOE has the responsibility to justify to FERC that its budget is just and reasonable.

If a significant concern arises during ISO-NE's and/or the NEPOOL review of the NESCOE budget, ISO-NE and/or the NEPOOL Participants Committee may request an audit/review of NESCOE's activities and spending by an independent and qualified management consulting firm. Such firm shall be chosen by agreement of NESCOE, ISO-NE and the Participants Committee and paid under a contract with NESCOE. The scope of the audit/review and methods used by the management consulting firm will be agreed upon by NESCOE, ISO-NE and the Participants Committee. This review will culminate in a report that will be made available to stakeholders in draft form, with an opportunity for them to comment before it is made final by the management consulting firm. The finalized report shall be formally transmitted to the Governors, ISO-NE and NEPOOL in the context of NESCOE's annual "Report to the Governors."

For its first year of operation, NESCOE's budget review process may not align exactly with the annual ISO-NE budget review cycle. In this event, NESCOE will endeavor to complete each of the steps in the review process outlined above in the most expeditious manner possible.

Cost Allocation and Revenue Collection:

ISO-NE in a filing to be joined by the six New England States will seek FERC approval for a tariff mechanism that will enable funding sufficient to cover NESCOE's costs to be collected from all Regional Network Load. Costs associated with NESCOE's activities would be collected by ISO-NE from all Regional Network Load through a new schedule included in Tariff Section IV.A¹³ As defined by Section II.1.110 of the Tariff, Regional Network Load includes the load designated by all Network Customers. The filing will seek FERC approval for classification of all of NESCOE's costs as "Regulatory Costs" for purposes of cost recovery.

Under this arrangement, NESCOE's annual budget will not need the approval of ISO-NE nor will ISO-NE be required to defend the specifics of the tariff filing or the budget. More specifically, in its filings with the FERC related to NESCOE's costs, ISO-NE will support the collection of costs of NESCOE, in general, but will not take any position on the specific budget or costs of operation proposed by NESCOE. NESCOE will lead (and fund) any necessary defense of the specifics of its annual budget proposal and any other of its filings.

¹³ "Budget Process, Cost Allocation and Stakeholder Coordination..." Communication from Transmission Owners, July 26, 2005 "...Schedule 1 charges are billed directly by the ISO to Network Load (all regulated utility companies and municipal loads). The billing determinants for Schedule 1 are the monthly Network Load, and the Reserved Capacity of Point-to-Point Transmission Service. Schedule 1 revenues collected from Point-to-Point Transmission Service customers are credited to each Network Customer's monthly Network Load in that month."

Updates to the NESCOE rates would be filed by ISO-NE, separately from ISO-NE's own budget updates. NESCOE will work with the PTO Administrative Committee and ISO-NE to arrive at exact language to facilitate the collection of funds from all Regional Network Load.

Revenue would be forwarded by ISO-NE to NESCOE on a schedule and in amounts consistent with NESCOE's FERC-approved budget. Over- or under-collections in a current year relative to amounts actually spent will be reconciled in the following year's budget.

Cost Recovery:

Participating Transmission Owners (as defined in the Transmission Operating Agreement) and their Distribution Affiliates that serve Network Load must have the ability to recover all costs they pay out for NESCOE activities, not just those costs that might be narrowly defined as "transmission related."

Upon request of the PTO Administrative Committee or an individual TO, NESCOE will file comments and documentation in a rate-making proceeding before any New England state public utility commission that support cost recovery of NESCOE-related costs in retail rates, and will generally support the TOs' collection of all NESCOE costs through filings, letters, and consultations with each state regulatory agency, will request ISO-NE to classify all NESCOE costs as "Regulatory Costs," will support a finding by FERC that NESCOE costs are prudent, just and reasonable as "Regulatory Costs," and will support any tariff amendments needed to effectuate cost recovery.

**OPERATING AGREEMENT
OF
New England States Committee on Electricity, LLC**

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OPERATING AGREEMENT

OF

New England States Committee on Electricity, LLC

THIS OPERATING AGREEMENT (this "**Agreement**"), is made as of November 15, 2007 by New England States Committee on Electricity, LLC, a Massachusetts limited liability company ("**NESCOE**"), and New England Governors' Conference, Incorporated, a Massachusetts not for profit corporation, ("**NEGC**").

NEGC has caused NESCOE to be formed as a limited liability company under the Massachusetts Limited Liability Company Act and, as the sole Member of NESCOE, desires to adopt this Agreement as the operating agreement of NESCOE.

In consideration of the premises and the agreements contained herein, the undersigned declare and agree as follows:

ARTICLE I
DEFINITIONS

1.1. Terms Defined Herein. As used herein, the following terms have the following meanings:

"**Act**" means the Massachusetts Limited Liability Company Act, as amended from time to time.

"**Agreement**" means the Operating Agreement of NESCOE, as amended from time to time.

"**Certificate**" means the Certificate of Organization of NESCOE as filed with the Massachusetts Secretary of State, as amended from time to time.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time, or the corresponding provisions of future federal tax laws.

"**Credits**" means all tax credits allowed by the Code with respect to activities of the NESCOE or the Property.

"**Distributions**" means any distributions by NESCOE to Member of Liquidation Proceeds. Such distributions are strictly prohibited except for Liquidation Proceeds, but only if Section 4.2 permits them.

"**Fair Value**" of an asset means its fair market value.

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"**Income**" and "**Loss**" mean, respectively, for each fiscal year or other period, an amount equal to the NESCOE's taxable income or loss for such year or period, determined in accordance with the Code.

"**Interest**" refers to all of Member's rights and interests in NESCOE in Member's capacity as the sole Member of NESCOE, all as provided in the Certificate, this Agreement and the Act, including Member's interest in the capital, income, gain, deductions, losses, and credits of NESCOE.

"**Liquidation Proceeds**" means all Property at the time of liquidation of NESCOE and all proceeds thereof.

"**Member**" means NEGC.

"**NEGC**" means New England Governors' Conference, Incorporated, a Massachusetts not for profit corporation, the sole member of NESCOE, sometimes referred to herein as "Member" or any successor-in-interest to NEGC who becomes a Member in accordance with the Act and as provided in this Agreement.

"**NESCOE**" means New England States Committee on Electricity, LLC, a Massachusetts limited liability company..

"**Person**" means any individual, partnership, limited liability company, corporation, cooperative, trust or other entity.

"**Property**" means all properties and assets that NESCOE may own or otherwise have an interest in from time to time.

"**Reserves**" means amounts set aside from time to time by NESCOE pursuant to Section 4.4.

"**Substitute Member**" has the meaning set forth in Section 7.1.

"**Transfer**" means (i) when used as a verb, to give, sell, exchange, assign, transfer, pledge, hypothecate, bequeath, devise or otherwise dispose of or encumber, and (ii) when used as a noun, the nouns corresponding to such verbs, in either case voluntarily or involuntarily, by operation of law or otherwise.

"**Transferee**" has the meaning set forth in Section 7.1.

1.2. Other Definitional Provisions.

As used in this Agreement, accounting terms not defined in this Agreement, and accounting terms partly defined to the extent not defined, have the respective meanings given to them under generally accepted accounting principles.

The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision of

this Agreement, and section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

Words of the masculine gender are deemed to include the feminine or neuter genders, and vice versa, where applicable. Words of the singular number are deemed to include the plural number, and vice versa, where applicable.

Additional terms may be found in the remaining Articles of this Agreement and are defined therein.

ARTICLE II
PURPOSES AND OFFICES

2.1. Purpose. The purpose of NESCOE will be to function as a regional state committee as contemplated by the Federal Energy Regulatory Commission (FERC) for the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. NESCOE is organized exclusively for such purpose and as a not for profit entity and no part of the net earnings of NESCOE shall inure to the benefit of any private shareholder or individual; no substantial part of the activities of NESCOE shall be carrying on propaganda, or otherwise attempting to influence legislation (except as otherwise provided in Code Section 503(h). NESCOE shall not participate in, or intervene in (including the publishing and distributing or statements) any political campaign on behalf of (or in opposition to) any candidate for public office. NESCOE is organized and will be operated exclusively for charitable and scientific purposes. NESCOE is formed only for such purposes and will not be deemed to create any declaration or agreement by NESCOE or by the Member with respect to any other activities whatsoever other than the activities within such purpose.

2.2. Powers. In addition to the powers and privileges conferred upon the Company by law and those incidental thereto, the Company has all the powers set forth in the Act and the same powers as a natural person to do all things necessary or convenient to carry out its purposes and affairs:

sue and be sued, complain and defend, and participate in administrative or other proceedings, in its name;

purchase, take, receive, lease as lessee, take by grant, gift, legacy, or otherwise acquire, own, hold, improve, use, and otherwise deal in and with any real or personal property, or any interest therein, wherever situated;

sell, convey, mortgage, pledge, lease as lessor, exchange, transfer, and otherwise dispose of all, any part of, or any interest in, its property and assets;

purchase, take, receive, subscribe for or otherwise acquire, own, hold, vote, use, employ, sell, mortgage, loan, pledge, or otherwise dispose of, and otherwise use and deal in and with, shares or other interests in, or obligations of, other domestic or foreign limited liability companies, corporations, associations, general or limited partnerships, or individuals, or direct or indirect obligations of the United States or of any other

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government, state, territory, governmental district or municipality or of any instrumentality thereof;

incur liabilities, borrow money for its proper purposes at any rate of interest that NESCOE may determine without regard to the restrictions of any usury law, issue notes, bonds, and other obligations, secure any of its obligations by mortgage or pledge or deed of trust of all or any part of its property, franchises, and income, and make contracts, including contracts of guaranty and suretyship;

invest its surplus funds from time to time, lend money for its proper purposes, and take and hold real and personal property as security for payment of funds so loaned or invested, except that no funds of NESCOE shall be commingled with funds of the Member, nor shall NESCOE loan funds to the Member nor make any distribution of funds to the Member, except upon the liquidation of NESCOE and then only if permitted by Section 4.2 hereof;

conduct its purposes and activities, carry on its operations, have offices within and without the Commonwealth of Massachusetts, and exercise in any other state, territory, district, or possession of the United States or in any foreign country the powers granted by the Act, the Certificate or this Agreement;

appoint agents and hire employees of NESCOE, define their duties, and fix their compensation and to indemnify them to the extent and in the manner permitted by law;

make and alter this Agreement, in any manner not inconsistent with the Certificate, the laws of the Commonwealth of Massachusetts and the regulations and orders of FERC, for the administration and regulation of the affairs of NESCOE;

transact any lawful activities in aid of the United States.

2.3. **Principal Office.** The principal office(s) of NESCOE will be located at such place(s) as the Member may determine from time to time, provided that the principal office(s) shall be located at all times within the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island or Vermont.

2.4. **Registered Office and Registered Agent.** The location of the registered office and the name of the registered agent of NESCOE in the Commonwealth of Massachusetts will be as stated in the Certificate. The registered office and registered agent of NESCOE may be changed, from time to time, in accordance with the Act.

2.5. **Amendment of the Certificate.** NESCOE may amend the Certificate at such time or times and in such manner as may be required by the Act and this Agreement.

2.6. **Effective Date.** This Agreement will be effective on the date of this Agreement. The Company will continue until dissolved pursuant to the Act, the Articles, or this Agreement.

2.7. **No Liability of Member.** The Member, solely by reason of being a Member, will not be liable, under a judgment, decree or order of a court, or in any other manner, for a debt,

obligation or liability of NESCOE, whether arising in contract, tort or otherwise, or for the acts or omissions of NESCOE and any agent or employee of NESCOE. The failure of NESCOE to observe any formalities or requirements relating to the exercise of its powers or management of its activities or affairs under this Agreement or the Act will not be grounds for imposing liability on the Member for liabilities of NESCOE.

ARTICLE III
CAPITAL CONTRIBUTIONS AND LOANS

3.1. Capital Contributions. The Member is not obligated to make any contributions to the capital of NESCOE and, accordingly, the Member will not be liable for damage to NESCOE as a result of the failure of the Member to make any contributions. The Member may make capital contributions to NESCOE at such times and in such amounts as shall be determined and approved by the Member.

3.2. Capital Withdrawal Rights, Interest. Except as expressly provided in this Agreement or as otherwise determined by the Member, (a) the Member is not entitled to withdraw or receive any Distributions from NESCOE, and (b) the Member is not entitled to receive or be credited with any interest on any contributions made to NESCOE at any time.

3.3. Loans. The Member may make loans to NESCOE in such amounts, at such times, and on such terms and conditions as may be determined by the Member. Loans by the Member to NESCOE will not be considered as contributions to the capital of NESCOE.

ARTICLE IV
ALLOCATIONS AND DISTRIBUTIONS

4.1. Non-Liquidation Cash Distributions. No cash distributions shall be made from NESCOE to the Member, other than distribution of Liquidation Proceeds and no commingling or other combination of funds belonging to NESCOE shall be made with funds belonging to the Member.

4.2. Liquidation Distributions. Liquidation Proceeds will be distributed in the following order of priority:

To the payment of debts and liabilities of NESCOE (including those due to NEGC, to the extent otherwise permitted by law and applicable contractual restrictions) and the expenses of liquidation.

Next, to the setting up of such reserves as the Person required or authorized by law to wind up NESCOE's affairs may reasonably deem necessary or appropriate for any disputed, contingent or unforeseen liabilities or obligations of NESCOE, provided that any such reserves must be paid over by such Person to an independent escrow agent, to be held by such agent or its successor for such period as such Person deems advisable for the purpose of applying such reserves to the payment of such liabilities or obligations and, at the expiration of such period, the balance of such reserves, if any, will be distributed as hereinafter provided.

Next, to the return to ISO New England, Inc. of any remaining monies remitted to NESCOE by ISO New England, Inc. under Schedule 5 of the ISO New England tariff.

The remainder shall be distributed for purposes described in Code Section 501(c)(3) and may be distributed to the Member for such purposes, but only if the Member is then described in Code Section 501(c)(3). If the Member is not then described in Code Section 501(c)(3) then the remainder shall be distributed for purposes described in Code Section 501(c)(3).

4.3. Income, Losses and Credits. NESCOE's Income or Loss, as the case may be, and applicable Credits, for each fiscal year of NESCOE, as determined in accordance with such method of accounting as may be adopted for NESCOE, will be allocated to the Member for both financial accounting and income tax purposes, except as otherwise provided for herein or unless the Member determines otherwise.

4.4. Reserves. NESCOE has the right to establish, maintain and expend Reserves to provide for working capital, for future maintenance, repair or replacement of the Property, for debt service, for future investments and for such other purposes as NESCOE may deem necessary or advisable.

ARTICLE V
MANAGEMENT

5.1. Management. The business and affairs of the Company shall be managed by one or more Persons designated by the then sitting Governors of the member states of the NEGC, who shall be referred to as "Managers" and who, acting as a board, shall constitute the "Management Committee." Each Manager shall hold office until removed by the then sitting Governor of the member state of the NEGC who appointed the Manager or until such Manager's earlier death, resignation or removal, with or without cause, by the then sitting Governor of the member state of the NEGC who appointed the Manager. Except as expressly limited by law, the Certificate or this Agreement, the Property and the business of the Company shall be controlled and managed by the Management Committee. The Management Committee shall have and is vested with all powers and authorities, except as expressly limited by law, the Certificate or this Agreement, to do or cause to be done any and all lawful things for and in behalf of the Company, to exercise or cause to be exercised any or all of its powers, privileges and franchises, and to seek the effectuation of its objects and purposes. The Management Committee may from time to time, as reasonably necessary to carry on the day-to-day business and affairs of the Company and carry out the decisions of the Management Committee, delegate its powers and authorities to employees of the Company, or to any other representatives of the Company, as officers or in such other capacities as the Management Committee, with the approval of the Member, may determine.

5.2. Designation of Managers. Each then sitting Governor of the member states of the NEGC may at any time and from time to time designate one (1) or more Managers to serve on the Management Committee, which Managers shall serve until their successors have been duly designated by the then sitting Governor of the member state of the NEGC who appointed the Manager or until their earlier death, resignation or removal, with or without cause, by the then

sitting Governor of the member state of the NEGC who appointed the Manager. Designation of Managers shall not be required at any regular frequency, but, instead, shall occur at such times as the then sitting Governors of the member states of the NEGC shall individually determine.

5.3. Manner of Acting by Management Committee. Regardless of the number of individuals appointed by a Governor of a member state of the NEGC to serve as a Manager, each member state will have one, undivided vote to cast in arriving at NESCOE determinations. NESCOE will make policy determinations with a majority vote (i.e., a numerical majority of the member states of the NEGC **and** a majority weighted to reflect the relative electric load of each state within the overall load of the region encompassed by the NEGC. The relative electric load shall be based each calendar year on the relative peak electric loads of each member state reported in the Fourth Quarter Markets Report submitted to FERC by ISO New England, Inc. during the prior calendar year. The initial relative peak electric loads of each member state of NEGC for calendar year 2008 shall be based on figures contained in ISO New England's July 16, 2007 Fourth Quarter Markets Report for the fourth quarter of 2006.

5.4 Meetings of the Management Committee; Place of Meetings. Meetings of the Management Committee shall not be required to be held at any regular frequency, but, instead, shall be held upon the call of the Managers representing at least three (3) of the member states of the NEGC. All meetings of the Management Committee shall be held at any location within the member states of the NEGC as shall be designated by the Managers calling the meeting and stated in the notice of the meeting or in a duly executed waiver of notice thereof. Managers may participate in a meeting of the Management Committee by means of conference telephone equipment or similar communications equipment whereby all Managers participating in the meeting can hear each other and participation in a meeting in this manner shall constitute presence in person at the meeting.

5.5 Quorum; Voting Requirement. At all meetings of the Management Committee, the presence of Managers representing a majority of the member states of the NEGC shall constitute a quorum for the transaction of business. Subject to any and all other express restrictions or requirements under this Agreement, the act of a majority of the member states of the NEGC present at any meeting of the Management Committee at which a quorum is present shall be the act of the Management Committee.

5.6 Notice of Meeting. Notice of each meeting of the Management Committee, stating the place, day and hour of the meeting shall be given to each Manager at least two days before the day on which the meeting is to be held. The notice may be given by any Manager having authority to call the meeting. "Notice" and "call" with respect to such meetings shall be deemed to be synonymous.

5.7 Waiver of Notice. Whenever any notice is required to be given to any Manager under the provisions of this Agreement, a waiver thereof in writing signed by such Manager, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance of a Manager at any meeting shall constitute a waiver of notice of such meeting except where a Manager attends a meeting for the express purposes of objecting to the transaction of any business because the meeting is not lawfully called or convened.

5.8 Compensation of Managers. Managers shall not receive any compensation for their services as such, unless approved by the member states of NEGC appointing the Manager. Nothing herein contained shall be construed to preclude any Manager from serving the Company in any other capacity and receiving compensation therefor. In addition, subject to such reasonable policies and documentation requirements as the Management Committee may adopt from time to time, each Manager shall be entitled to payment by or reimbursement from the Company of all reasonable out-of-pocket expenses incurred by such Manager in the course of furnishing services as a Manager of the Company under this Agreement (other than for any salaries, wages, fringe benefits, or other compensation of such Manager or any agents or employees, or for any general overhead expenses incurred by such Manager, all of such expenses being the responsibility of the member state appointing the Manager).

5.9 Authority of the Member. The Member may at any time and from time to time impose such other or additional restrictions on the authority of the Management Committee as the Member may deem appropriate.

5.10 Execution of Documents Filed with State Secretary of Massachusetts. The Member, the Management Committee or the designee of the Management Committee shall be authorized to execute and file with the State Secretary of the Commonwealth of Massachusetts any document permitted or required by the Act. The Member hereby waives any requirement under the Act of receiving a copy of any document filed with the State Secretary of the Commonwealth of Massachusetts. The Member hereby ratifies and affirms the Certificate as heretofore filed on behalf of the Company.

5.11 Limitation of Liability; Indemnification.

(a) Limitation. To the fullest extent permitted by applicable law, no Person shall be liable to the Company or its Member for any loss, damage, liability or expense suffered by the Company or its Member on account of any action taken or omitted to be taken by such Person as a Member or Manager of the Company, or by such Person while serving at the request of the Company as an officer, agent, employee or in any other capacity for the Company, if such Person discharges such Person's duties in good faith, and in a manner such Person reasonably believes to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such Person's conduct was unlawful. The Member's or Manager's liability hereunder shall be limited only for those actions taken or omitted to be taken by such Member or Manager in connection with the management of the business and affairs of the Company.

(b) Right to Indemnification. To the fullest extent permitted by applicable law, the Company shall indemnify each Person who has been or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or appellate (regardless of whether such action, suit or proceeding is by or in the right of the Company or by third parties) by reason of the fact that such Person is or was a Member or Manager of the Company, or is or was serving at the request of the

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Company as a director, officer or in any other comparable position of the Company against all liabilities and expenses, including, without limitation, judgments, amounts paid in settlement, attorneys' fees, excise taxes or penalties, fines and other expenses, actually and reasonably incurred by such Person in connection with such action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding), if such Person discharged such Person's duties in good faith and in a manner such Person reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, if such Person had no reasonable cause to believe that such Person's conduct was unlawful; provided, however, that the Company shall not be required to indemnify or advance expenses to any Person from or on account of such Person's conduct that was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct; provided, further, that the Company shall not be required to indemnify or advance expenses to any Person in connection with an action, suit or proceeding initiated by such Person unless the initiation of such action, suit or proceeding was authorized in advance by the Company; provided, further, that a Member or Manager shall be indemnified hereunder only for those actions taken or omitted to be taken by such Member or Manager in connection with the management of the business and affairs of the Company and that the provisions of this Section 5.11 are not intended to extend indemnification to the Member or any Manager for any actions taken or omitted to be taken by the Member or Manager in any other connection, including, but not limited to, any other express obligation of the Member or Manager undertaken in this Agreement. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or under a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that such Person seeking indemnification did not discharge such Person's duties in good faith and in a manner such Person reasonably believed to be in or not opposed to the best interests of the Company, that such Person had reasonable cause to believe that such Person's conduct was unlawful with respect to any criminal action or proceeding, or that such Person's conduct was knowingly fraudulent, deliberately dishonest or willful misconduct.

(c) **Enforcement of Indemnification.** In the event the Company refuses to indemnify any Person who may be entitled to be indemnified or to have expenses advanced under this Section 5.11, such Person shall have the right to maintain an action in any court of competent jurisdiction against the Company to determine whether or not such Person is entitled to such indemnification or advancement of expenses hereunder. If such court action is successful and the Person is determined to be entitled to such indemnification or advancement of expenses, such Person shall be reimbursed by the Company for all fees and expenses (including attorneys' fees) actually and reasonably incurred in connection with any such action (including, without limitation, the investigation, defense, settlement or appeal of such action).

(d) **Advancement of Expenses.** Expenses (including attorneys' fees) reasonably incurred in defending an action, suit or proceeding, whether civil,

criminal, administrative, investigative or appellate, shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Person to repay such amount if it shall ultimately be determined that such Person is not entitled to indemnification by the Company. In no event shall any advance be made in instances where the Member or independent legal counsel reasonably determines that such Person would not be entitled to indemnification hereunder.

(e) **Non-Exclusivity.** The indemnification and the advancement of expenses provided by this Section 5.11 shall not be exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, or any agreement, policy of insurance or otherwise, both as to action in their official capacity and as to action in another capacity while holding their respective offices, and shall not limit in any way any right that the Company may have to make additional indemnifications with respect to the same or different Persons or classes of Persons. The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 5.11 shall continue as to a Person who has ceased to be a Member or Manager of the Company, and as to a Person who has ceased serving at the request of the Company as a director, officer or in any other comparable position of the Company and shall inure to the benefit of the heirs, executors and administrators of such Person.

(f) **Insurance.** Upon the approval of the Management Committee, the Company may purchase and maintain insurance on behalf of any Person who is or was a Member, Manager, agent or employee of the Company, or is or was serving at the request of the Company as a director, officer or in any other comparable position of the Company, against any liability asserted against such Person and incurred by such Person in any such capacity, or arising out of such Person's status as such, whether or not the Company would have the power, or the obligation, to indemnify such Person against such liability under the provisions of this Section 5.11.

(g) **Amendment and Vesting of Rights.** Notwithstanding any other provision of this Agreement, the terms and provisions of this Section 5.11 shall not be amended or repealed and the rights to indemnification and advancement of expenses created hereunder shall not be changed, altered or terminated except by the Member. The rights granted or created hereby shall be vested in each Person entitled to indemnification hereunder as a bargained-for, contractual condition of such Person's serving or having served as a Member or Manager of the Company or serving at the request of the Company as a director, officer or in any other comparable position of any Other Enterprise and, while this Section 5.11 may be amended or repealed, no such amendment or repeal shall release, terminate or adversely affect the rights of such Person under this Section 5.11 with respect to any act taken or the failure to take any act by such Person prior to such amendment or repeal or with respect to any action, suit or proceeding with respect to such act or failure to act filed after such amendment or repeal.

(h) Definitions. For purposes of this Section 5.11, references to:

"Company" shall include, in addition to the resulting or surviving limited liability company (or other entity), any constituent limited liability company (or other entity) (including any constituent of a constituent) absorbed in a consolidation or merger so that any Person who is or was a member or manager of such constituent limited liability company (or other entity), or is or was serving at the request of such constituent limited liability company (or other entity) as a director, officer or in any other comparable position shall stand in the same position under the provisions of this Section 5.11 with respect to the resulting or surviving limited liability company as such Person would if such Person had served the resulting or surviving limited liability company (or other entity) in the same capacity;

"defense" shall include investigations of any threatened, pending or completed action, suit or proceeding as well as appeals thereof and shall also include any defensive assertion of a cross-claim or counterclaim.

(i) Severability. If any provision of this Section 5.11 or the application of any such provision to any Person or circumstance is held invalid, illegal or unenforceable for any reason whatsoever, the remaining provisions of this Section 5.11 and the application of such provision to other Persons or circumstances shall not be affected thereby and, to the fullest extent possible, the court finding such provision invalid, illegal or unenforceable shall modify and construe the provision so as to render it valid and enforceable as against all Persons and to give the maximum possible protection to Persons subject to indemnification hereby within the bounds of validity, legality and enforceability. Without limiting the generality of the foregoing, if the Member or any Manager of the Company or any Person who is or was serving at the request of the Company as a director, officer or in any other comparable position of the Company, is entitled under any provision of this Section 5.11 to indemnification by the Company for some or a portion of the judgments, amounts paid in settlement, attorneys' fees, ERISA excise taxes or penalties, fines or other expenses actually and reasonably incurred by any such Person in connection with any threatened, pending or completed action, suit or proceeding (including, without limitation, the investigation, defense, settlement or appeal of such action, suit or proceeding), whether civil, criminal, administrative, investigative or appellate, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify such Person for the portion thereof to which such Person is entitled.

5.12 Contracts with the Member, any Manager, or Affiliates. No contract or transaction between the Company and the Member or any Manager or between the Company and any Person in which the Member or any Manager is a director or officer, or has a financial interest, shall be void or voidable solely for this reason, and the Member or applicable Manager shall not be obligated to account to the Company for any profit or benefit derived by the Member or applicable Manager if the Member consents to such contract or transaction.

5.13 Other Business Ventures. The Member or any Manager may engage in, or possess an interest in, other activities or ventures of every nature and description, independently or with others, whether or not similar to or in competition with the business of the Company, and neither the Company nor the Member shall have any right by virtue of this Agreement in or to such other activities or ventures or to the income or profits derived therefrom. Neither the Member nor any Manager shall be required to devote all of their time or efforts to the affairs of the Company, but shall devote so much of their time and attention to the Company as is reasonably necessary and advisable to manage the affairs of the Company.

ARTICLE VI
ACCOUNTING AND BANK ACCOUNTS

6.1 Fiscal Year. The fiscal year and taxable year of NESCOE will end on June 30 of each year, the same fiscal year as NEGC, unless otherwise established by the Code.

6.2 Books and Records. At all times during the existence of NESCOE, NESCOE will cause to be maintained full and accurate books of account, which must reflect all transactions of NESCOE and be appropriate and adequate for the activities of NESCOE. The books and records of NESCOE will be maintained at its principal office. The Member and all Managers shall have the right during ordinary business hours and upon reasonable notice to inspect and copy (at NEGC's expense) all books and records of NESCOE.

6.3 Bank Accounts. All funds of NESCOE must be deposited in a separate bank, money market or similar account or accounts approved by NEGC and in NESCOE's name. Withdrawals therefrom shall be made only by individuals authorized to do so by NESCOE.

ARTICLE VII
TRANSFERS OF INTERESTS

7.1 General Provisions. The Member may Transfer all or any part of its Interest. Upon any Transfer to any transferee (a "Transferee") of all or any part of the Member's Interest, such Transferee will become a Member of the Company (a "Substitute Member") only to the extent that the Member has expressly stated such intention in writing. Except to the extent that a Transferee becomes a Substitute Member, such Transferee shall not be entitled to exercise any rights as a Member in NESCOE, including the right to vote, grant approvals, or give consents with respect to the applicable Interest, the right to require any information or accounting of NESCOE's business or the right to inspect NESCOE's books and records, but such Transferee shall only be entitled to receive, to the extent of the Interest transferred to such Transferee, the Distributions attributable thereto.

7.2 Redemption of Interests. Any Interest may be redeemed by NESCOE, by purchase or otherwise, as determined by NESCOE with the approval of NEGC.

ARTICLE VIII
DISSOLUTION AND TERMINATION

8.1 Events Causing Dissolution. The Company will be dissolved only upon the first to occur of the following dates or events:

- (a) The written determination of the Member to dissolve.
- (b) Upon the entry of a decree of dissolution with respect to NESCOE by a court of competent jurisdiction.
- (c) When the Company is not the surviving entity in a merger or consolidation under the Act.

8.2 Effect of Dissolution. Except with respect to the occurrence of an event referred to in Section 8.1(c) and except as otherwise provided in this Agreement, upon the dissolution of NESCOE, the Member shall take such actions as may be required pursuant to the Act and shall proceed to wind up, liquidate and terminate the activities and affairs of NESCOE. In connection with such winding up, the Member will have the authority to liquidate and reduce to cash (to the extent necessary or appropriate) the assets of NESCOE as promptly as is consistent with obtaining Fair Value therefor, to apply and distribute the proceeds of such liquidation and any remaining assets in accordance with the provisions of Section 8.3, and to do any and all acts and things authorized by, and in accordance with, the Act and other applicable laws for the purpose of winding up and liquidation.

8.3 Application of Proceeds. Upon dissolution and liquidation of NESCOE, the assets of NESCOE shall be applied and distributed in the order of priority set forth in Section 4.2.

ARTICLE IX **MISCELLANEOUS**

9.1 Title to the Property. Title to the Property will be held in the name of NESCOE. Neither the Member or the Managers shall have any ownership interest or rights in the Property.

9.2 Notices and Determinations. Any notice or determination required or permitted to be given or made by this Agreement or the Act will be sufficient if given or made in writing.

9.3 No Third Party Rights. None of the provisions contained in this Agreement are for the benefit of or enforceable by any third parties, including creditors of NESCOE; provided, however, NESCOE or the Member may enforce any rights granted to them under the Act, the Certificate or this Agreement.

9.4 Amendments to this Agreement. This Agreement may not be modified or amended in any manner other than by the Member.

9.5 Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable to any extent, the legality, validity and enforceability of the remainder of this Agreement will not be affected thereby and will remain in full force and effect and shall be enforced to the greatest extent permitted by law.

9.6 Binding Agreement. The provisions of this Agreement are binding upon, and will inure to the benefit of, the parties hereto and their respective successors and permitted assigns.

EXHIBIT B

9.7 Headings. The headings of the Articles and the sections of this Agreement are for convenience only and may not be considered in construing or interpreting any of the terms or provisions thereof and hereof.

9.8 Governing Law. This Agreement is governed by, and is to be construed in accordance with, the laws of the Commonwealth of Massachusetts.

The Company, acting through the Member, and the Member have executed this Agreement as of the date first written above.

New England States Committee on Electricity, LLC (the “Company”)

By: New England Governors’ Conference, Incorporated (“the Member)

By: _____

**NEW ENGLAND STATES COMMITTEE ON ELECTRICITY, LLC
CODE OF CONDUCT**

The mission of the New England States Committee on Electricity, LLC, (NESCOE) the regional state committee for New England, is to represent the interests of the citizens of the New England region by advancing policies that will provide electricity at the lowest possible price over the long term while maintaining reliable service and environmental quality. NESCOE will fulfill its mission by carrying out the responsibilities within its scope, which is contractually limited to matters of resource adequacy and system planning and expansion. In carrying out NESCOE's mission, its Managers, officers and employees will act in a non-discriminatory fashion toward all participants in the electricity markets in New England. Accordingly, its Managers, officers and employees will strictly adhere to the rules and spirit of this *Code of Conduct*.

Capitalized terms not otherwise defined herein shall have the meanings given to them in the ISO New England Inc. ("ISO-NE") Transmission, Markets and Services Tariff.

1. CONFLICTS OF INTEREST

Certain contacts with Market Participants may constitute or appear to constitute a conflict of interest. For purposes of the *Code of Conduct*, the term "Market Participants" refers to the following persons (natural or legal) and their Affiliates: any person that is a party to the Participants Agreement, a Market Participant Service Agreement or a Transmission Service Agreement, other than (i) any Transmission Customer solely taking Through Service under the Tariff, and (ii) FTR Holders Only. The term "Affiliate," with respect to an entity, means any individual, corporation, partnership, firm, joint venture, association, joint-stock company, trust or unincorporated organization, or other form of entity, directly or indirectly Controlling, Controlled by, or under common Control with, such entity. The term "Control" means the possession, directly or indirectly, of the power to direct the management or policies of an entity. A voting interest of ten percent or more creates a rebuttable presumption of control.

Potential conflicts of interest are discussed below.

1.1 Prohibited Financial Interests

In order for NESCOE to be truly independent and free of any control and appearance of control of decision-making by any individual Market Participant or any one class of Market Participants, NESCOE Managers, officers and employees may not have a "Prohibited Financial Interest." A NESCOE Manager, officer or employee will be deemed to have a "Prohibited Financial Interest" if he or she, or his or her spouse or minor child owns, controls or holds with the power to vote Securities (defined below) of a Market Participant, whether directly or through participation in mutual funds concentrating in investments in Market Participants.

Prohibited Financial Interests do not include interests in a publicly traded or publicly available mutual fund or other collective investment fund or in a widely held pension or similar fund, provided that the fund's prospectus does not indicate the objective or practice of concentrating its investment in Market Participants or similar entities and there is no ability to exercise control over the financial interests held in the fund.

“Securities” means stocks, stock options, bonds and any other instruments of debt or equity, and includes all interests in debt or equity instruments, including, without limitation, secured and unsecured bonds, debentures, notes, securitized assets, commercial paper, preferred and common stock, any beneficial or legal interest derived from a trust, and any right to acquire any long or short position in such securities, including, without limitation, interests convertible into the aforementioned securities, options, rights, warrants, puts, calls and straddles with respect to such securities.

1.1.1 Prohibited Securities List

Please refer to the list of Market Participants at www.iso-ne.com.

1.1.2 Divestiture of Prohibited Securities

If a NESCOE Manager, officer or employee, or his or her spouse or minor children, has a Prohibited Financial Interest described above, divestiture must occur as follows:

- Within six months of the commencement of your relationship with NESCOE as a manager, director, officer or employee;
- If a Prohibited Financial Interest results from an entity becoming a Market Participant, within six months of receipt of the notice from NEPOOL regarding such new Market Participant; and
- If a Prohibited Financial Interest results from a gift, inheritance, distribution of marital property or other involuntary acquisition, within six months of the acquisition.

1.2 No Association with ISO-NE or Market Participants

A NESCOE Manager, officer or employee may not be “Associated” with ISO-NE or any Market Participant. For the purposes of this paragraph, a NESCOE Manager, officer or employee will be deemed “Associated” if he or she:

- is an officer, director, partner, or employee of ISO-NE or a Market Participant;

- served as a former executive officer or director of ISO-NE or a Market Participant within the last two years or is receiving continuing benefits under an existing employee benefit plan (other than a defined benefit pension plan or other plan pursuant to which the benefits are independent of the financial condition of ISO-NE or the Market Participant and pension payments are distributed by a trustee, not as compensation but in accordance with the rules of the pension plan), arrangement or policy of ISO-NE or the Market Participant;
- has a material ongoing business or professional relationship with ISO-NE or a Market Participant (including employees of ISO-NE and Market Participants); or
- has a spouse that is a director, partner, or employee of ISO-NE or a Market Participant.

1.3 Non-Participation in Market Transactions

To ensure that NESCOE maintains independence from ISO-NE and any Market Participant, NESCOE and its Managers, officers and employee are prohibited from engaging in any energy market transactions. This provision shall not, however, prevent NESCOE or any NESCOE Manager, officer or employee from purchasing electricity, power and energy as retail customers from a Market Participant.

1.4 Other Conflicts of Interest

Conflicts of interest can occur when positions or responsibilities in NESCOE present or appear to present an opportunity for personal gain, or when personal interests or the interests of family or cohabitants are, or appear to be, inconsistent with Company interests. This includes not only a conflict of interest but also any action that could reasonably be expected to create an appearance of a conflict of interest. Under all circumstances Managers, officers or employees are expected to adhere to and maintain the highest ethical standards when conducting Company business. In meeting this requirement, Managers, officers or employees must be careful to avoid any situations or relationships that can cause actual, potential or perceived conflicts of interest. A position in NESCOE may never be used to improperly benefit oneself, family members or cohabitants.

It will be considered a conflict of interest if a NESCOE Manager, officer or employee requests or accepts anything with a value of more than \$50 (“Nominal Value”), including but not limited to money, a loan or discount, vacations, property, contributions, goods or services from ISO-NE or a Market Participant or any other person or entity doing business with NESCOE. Such gifts should be returned or offers declined, with an appropriate explanation. Acceptance of an occasional business-related meal or entertainment is permissible when the value involved is not significant and clearly will not create any obligation to the donor.

If a NESCOE Manager, officer or employee is seeking other employment, or has an arrangement concerning prospective employment, with ISO-NE or a Market Participant, he or she must notify his or her supervisor and disqualify himself or herself from participating in any matter that will have an effect on the interests of ISO-NE or such Market Participant.

It will be considered a conflict of interest for a NESCOE Manager, officer or employee, spouse or minor children, or, with knowledge, any other family member or relative, to have an interest in any contractor, company, business, or enterprise which has, or is seeking to establish, business relations with NESCOE.

1.5 Consultants and Contractors

NESCOE shall develop and apply reasonable and objective conflict of interest guidelines for consultants and contractors. These criteria shall, whenever possible, prevent NESCOE's use of consultants and contractors who are simultaneously employed by ISO-NE, NEPOOL or a Market Participant.

2. TREATMENT OF CONFIDENTIAL INFORMATION

As a Manager, officer or employee of NESCOE, information may be received that is considered to be confidential and that NESCOE has committed to maintain in confidence. All such confidential information shall be treated in accordance with NESCOE's commitments to maintain the confidentiality of such information. A failure to do so will be considered a violation of this *Code of Conduct*.

3. COMPANY RECORDS

NESCOE requires that honest and accurate business records be maintained. NESCOE's books, records, accounts and financial information must be maintained in reasonable detail, must appropriately reflect all of its transactions and all other events that are the subject of a specific regulatory record-keeping requirement and must conform both to applicable legal requirements and to NESCOE's system of internal controls.

4. VIOLATIONS OF THE CODE OF CONDUCT; WAIVERS

If a NESCOE Manager, officer and employee violates the *Code of Conduct* or fails to report a known violation he or she may be subject to disciplinary action, including suspension from duties and termination from NESCOE. In addition, willful and knowing violation of the *Code of Conduct*, may require restitution to NESCOE for financial injury suffered by NESCOE as a result of the violation.

The highest-ranking officer of NESCOE is charged with overseeing the administration of this *Code of Conduct* and ensuring that prompt action is taken to investigate any potential violations of or noncompliance with NESCOE's policies. The highest-ranking officer of NESCOE shall report any violations of this *Code of Conduct* to

the Chief Executive Officer and General Counsel ISO-NE and to the Chairperson and Secretary of the NEPOOL Participants Committee.

The highest-ranking officer of NESCOE, following consultation with ISO-NE and the NEPOOL Participants Committee, may grant a waiver of compliance from a specific provision of the *Code of Conduct* to avoid unjust or unreasonable results.