



Agreement

This agreement, effective as of January 28, 2002, will confirm the intentions of the Boards of Directors of ISO NEW ENGLAND INC. ("ISO-NE") and the NEW YORK INDEPENDENT SYSTEM OPERATOR ("NYISO," and, together with ISO-NE, the "ISOs"), which are the independent system operators for New England and New York, respectively (New England and New York, together, the "Northeast"), for the development of a plan to establish a common market design. The ISOs believe that significant benefits can be derived from combining the NYISO and ISO-NE in forming a regional transmission organization. The ISOs agree, however, to conduct an in-depth evaluation of the feasibility, including the benefits, of the formation of a regional transmission organization, including the development of a plan for a regional transmission organization that may include one or more independent transmission companies (the "Northeast RTO" or "NERTO").

The development of the common market design shall include provision for participation by the Independent Electricity Market Operator of the Province of Ontario; TransÉnergie, responsible for operation of Québec's transmission system; the New Brunswick Power Corporation, responsible for operation of New Brunswick's transmission system; and Nova Scotia Power Inc., responsible for operation of Nova Scotia's transmission system (these four together, the "Canadian Control Areas"), to the extent they elect to participate. Any other operator of a system executing an agreement with the ISOs may also participate in the development of the common market design. The ISOs agree that the common market design shall conform as closely as is reasonably possible to any uniform market design adopted by the Federal Energy Regulatory Commission ("FERC") for all RTOs and ISOs.

The ISOs agree that the evaluation of the feasibility of forming a Northeast RTO should be conducted while the development of the common market design is taking place. The ISOs

agree that the objectives of the Northeast RTO include, without limitation, evaluation of the costs and benefits of RTO formation, ensuring the reliability of the bulk power systems, standardizing wholesale electricity markets, creating a single market for the Northeast, defining the components of the single market, managing parallel path flows, coordinating planning and scheduling to most efficiently develop and utilize any needed transmission additions, promoting development of efficient demand response mechanisms, streamlining and facilitating needed and approved interconnections, minimizing barriers to wholesale electricity trading between the Northeast RTO, adjacent U.S. control areas, and Canadian Control Areas, alleviating transmission congestion, maximizing the efficient use of the transmission system for both internal NERTO and external transactions, minimizing to the extent practicable the environmental impact in achieving the objectives of the Northeast RTO, and fostering innovation in both processes and technology.

In pursuing these objectives, the parties would accommodate the formation of Independent Transmission Companies (“ITCs”). The ISOs will work cooperatively with transmission owners (“TO”s), other stakeholders and regulators in pursuing these objectives and, to be responsive to their concerns, will provide ample opportunity for those concerns to be expressed. The ISOs recognize the importance of the participation of TOs in the Northeast RTO, as well as the need to obtain necessary approvals from FERC.

The ISOs agree that the evaluation of the feasibility of the potential Northeast RTO shall include the development of a plan (the “Northeast RTO Plan”) to address, without limitation: (i) the objectives of the Northeast RTO; (ii) market standardization, evolution, and consolidation; (iii) governance of the Northeast RTO; (iv) transition issues; (v) transmission tariff; (vi) services tariff; (vii) transmission planning; (viii) consideration of issues related to ITCs; (ix) accommodations for tax-exempt entities; (x) security plans for cyber, physical, and market integrity; (xi) considerations for protection of the natural environment; and (xii) coordination with neighboring control areas. The plan will be developed and evaluated in a collaborative manner with stakeholders, regulators, and TOs of both regions.

The ISOs shall create an “Oversight Committee” consisting of an equal number of members from each of their Boards of Directors. Each of the ISOs’ Chief Executive Officers, in

their capacity as co-chairs of the RTO Development Committee referred to below, shall use their best efforts to attend all meetings of the Oversight Committee. The Oversight Committee may expand its membership to include representation from any other operator of a system executing an agreement with the ISOs to participate in the development of a Northeast RTO Plan. The Oversight Committee shall have the overall responsibility for development of a Northeast RTO Plan for evaluation, including the resolution of issues that are not resolved by the RTO Development Committee referenced below, and shall be responsible for presenting a Northeast RTO Plan to the ISOs' full Boards of Directors. The Oversight Committee shall satisfy itself that the Northeast RTO Plan development takes place in a collaborative manner with stakeholders, regulators, and TOs. The Oversight Committee shall meet as frequently as its members deem necessary.

The ISOs shall each assign a representative to act as its project manager for the development of the Northeast RTO Plan. The two project managers shall serve on an "RTO Development Committee." The ISOs' Chief Executive Officers shall co-chair the RTO Development Committee. The RTO Development Committee shall report to the Oversight Committee and shall meet as frequently as its members deem necessary, but no less often than the Oversight Committee requires. The RTO Development Committee shall make provision for participation in the process by the Canadian Control Areas, and any other operator of a system that executes an agreement with the ISOs.

The RTO Development Committee may create a task force on any issue to be incorporated into the Northeast RTO Plan, including without limitation: (A) transition issues; (B) technology assessment; (C) stakeholder role in the Northeast RTO; (D) tariff development; (E) transmission planning; (F) market standardization and coordination; (G) participation in the common market design by the Canadian Control Areas; and (H) security. Each task force shall be comprised of equal numbers of representatives from the ISOs and, as appropriate, the Canadian Control Areas, and any other operator of a system that executes an agreement with the ISOs, which representatives shall be appointed by the CEO or designee for the relevant party. Task forces shall report to the RTO Development Committee and shall meet as frequently as the RTO Development Committee deems necessary. Task forces shall obtain stakeholder and

regulator input on the issues addressed by the task forces. The RTO Development Committee may also hire consultant(s) with Oversight Committee approval.

The ISOs agree to use best efforts (i) to provide a copy of this agreement to the FERC and state commissioners on or before January 31, 2002; (ii) if it is determined to proceed with a Northeast RTO, to file the Northeast RTO Plan including detailed timetables, supporting documentation, and an RTO application, with the FERC on or before June 30, 2002; and (iii) to secure an order from the FERC addressing the June 30, 2002 filing as soon as practicable thereafter.

Each of the parties to this agreement shall bear its costs incurred in the fulfillment of its obligations set forth herein. The ISOs, and any other operator of a system executing an agreement with the ISOs, as appropriate, shall share equally the expense of any consultant hired with Oversight Committee approval.

Either party may terminate its participation under this agreement at its sole discretion with thirty (30) days' written notice to the other party. Such termination of a party's participation under this agreement shall be accomplished without any liability of such party (except for any liability for a breach of a provision hereof by such party occurring prior to the date on which such party's termination becomes effective). Upon termination, the parties shall have no further obligation under this agreement except to pay expenses already incurred.

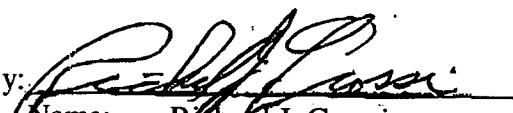
The ISOs shall execute a separate Confidentiality Agreement applicable to the activities contemplated hereunder, acceptable in form and substance to their respective general counsels.

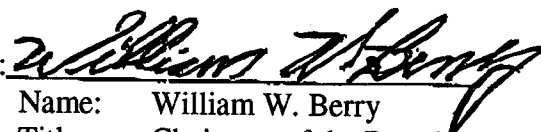
This agreement, and any disputes arising out of this agreement, shall be governed by and construed in accordance with the laws of the State of New York, without regard to its conflicts of laws principles.

The foregoing is accepted and approved as of the effective date of this agreement.

NEW YORK INDEPENDENT SYSTEM
OPERATOR

ISO NEW ENGLAND INC.

By: 
Name: Richard J. Grossi
Title: Chairman of the Board

By: 
Name: William W. Berry
Title: Chairman of the Board