

**SECOND AMENDED AND RESTATED INTERREGIONAL
COORDINATION AND SEAMS ISSUE RESOLUTION AGREEMENT**

BETWEEN

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

AND

ISO NEW ENGLAND INC.

This Second Amended and Restated Interregional Coordination and Seams Issue Resolution Agreement (“Agreement”) is entered into as of December __, 2004 (the “Effective Date”), by and between the New York Independent System Operator, Inc. (“NYISO”) and ISO New England Inc. (“ISO-NE”) (each a “Party” and together the “Parties”).

RECITALS

A. NYISO is the administrator of markets for electricity and related products, and the Independent System Operator (“ISO”) for the New York Control Area.

B. ISO-NE is the administrator of markets for electricity and related products, and the ISO for the New England Control Area, and has been granted regional transmission organization status, subject to fulfillment of requirements, in an order issued by the Federal Energy Regulatory Commission (“FERC”) on March 24, 2004 in Docket Nos. RT04-2-000 (106 FERC ¶ 61,280 (2004)) (the “RTO-NE Order”).

C. Each of the Parties administers a competitive wholesale electricity market that features congestion management based on Locational Marginal Pricing and includes both day-ahead and real-time markets.

D. The Parties, along with the Independent Market Operator of Ontario (“IMO”), are participants in the Northeast Independent Market Operators System Operation, Planning and Market Development Agreement.

E. The Parties recognize the importance of coordinating with the PJM Interconnection, LLC (“PJM”) on the development of certain market rule and system planning modifications (which are specified in Attachment 1, as amended from time to time).

F. The Parties agree that coordinating the development of market rules in order to increase the compatibility of the markets they administer in order to enable seamless trading of products between the markets will increase economic efficiency and achieve long-term benefits for both regions.

G. The Parties agree that the elimination of multiple transmission charges for exports between regions will enhance opportunities for efficient trading between the regions.

H. The Parties agree that coordinating system planning and the assessment of new interconnections will provide benefits to both regions.

I. The Parties recognize the importance of stakeholder input into decisions regarding the design of the wholesale electricity market and intend to work closely with market participants in their respective regions regarding the matters addressed by this Agreement.

J. The Parties entered into an Interregional Coordination and Seams Issue Resolution Agreement as of July 31, 2003 (the “Original Agreement”); agreed to amend and restate the Original Agreement, in response to the RTO-NE Order (the “Amended Agreement”); and desire to amend and restate the Amended Agreement, in response to an order issued by FERC on November 3, 2004 in Docket Nos. RT04-2-000, et al. (109 FERC ¶ 61,147 (2004)) (the “Settlement Order”).

AGREEMENT

In consideration of the foregoing, and to effect the Parties’ agreement to implement a process to resolve certain critical seams issues between their respective regions, the Parties agree to the procedures set forth below:

1. Designation of Interregional Coordination Officer

Each Party shall designate an Interregional Coordination Officer (“ICO”). The ICOs shall have responsibility to direct the initiatives contained within this Agreement, to identify additional seams and market inefficiency issues and other opportunities for complementary or consistent market improvements (“Seams Issues”) and to develop proposals, including options where appropriate, for resolution of Seams Issues.

1.1 Cooperation with Other Regions

The Parties will work with system operators and market participants in other control areas, including PJM and the IMO, to address issues of general regional concern such as the coordination of interregional planning and other initiatives identified in Attachment 1. Specifically, with respect to PJM, the Parties acknowledge and agree that the participation and agreement of PJM in the resolution of certain seams issues are integral to the development of seamless Northeastern markets.

1.2 Non-Duplication

The Parties agree to coordinate their efforts with other regions with the initiatives agreed upon under this Agreement.

2. Action on Identified Seams Issues

The Parties agree to undertake intermarket coordination efforts to reduce or eliminate the seams described in Attachment 1 hereto (the “Identified Seams Issues”). Attachment 1 establishes specific milestones and timetables for resolving each of the Identified Seams Issues. In addressing all of the Identified Seams Issues set forth on Attachment 1, the Parties agree to involve, as appropriate, all New York and New England market participants, stakeholders, state regulators and Regional State Committees (“Stakeholders”) and to utilize their existing governance structures and their standing committees, including relevant working groups, task forces and subcommittees (“Standing Committees”), and all existing governance processes. The Intermarket Coordination Group described in Section 3.2 below shall review the ISOs’ ongoing efforts with respect to the Identified Seams Issues.

3. Work Plan For the Identification of Additional Seams Issues

3.1 Objectives

The Parties agree to direct their ICOs to proceed under a work plan that includes the following tasks:

- a. Utilize the process outlined in Section 3.2 below to identify Seams Issues in addition to the Identified Seams Issues already included in Attachment 1 (the “Additional Seams Issues”);
- b. Ensure full involvement by Stakeholders in the Section 3.2 process through the utilization of existing governance structures, Standing Committees and the Intermarket Coordination Group;
- c. Jointly prioritize the Additional Seams Issues for resolution, based on the magnitude of likely improvement in reliability or reduction of costs for each issue. The prioritization process shall provide deference to specific FERC directives to either of the ISOs which may impact the implementation of seams projects and shall give due regard to the recommendations of the Independent Market Advisor;
- d. Investigate the Additional Seams Issues consistent with their priority rank, and develop proposals, and options where appropriate in conjunction with the Intermarket Coordination Group, to address each Additional Seams Issue;
- e. Seek approval of the prioritized Additional Seams Issues from each Party through its existing governance and internal approval processes;
- g. Add approved Additional Seams Issues (with milestones and timetables) to Attachment 1 and integrate them into the existing FERC Seams reporting process;
- h. Prepare quarterly reports that the Parties will jointly submit to FERC and state regulatory authorities; and

i. Review progress of current projects and emerging issues identified in the quarterly reports. The emerging issues will be addressed in accordance with the provisions of this Section.

3.2 Process for Identifying Additional Seams Issues; Stakeholder and Third-Party Communications

The Parties agree that each Party will communicate with its Stakeholders and interested third parties about the existence of this Agreement, the nature and prioritization of Seams Issues, and proposals, and options for proposals (if any), to address Seams Issues. The following stakeholder process will be used to identify and resolve Additional Seams Issues:

a. Stakeholders of each Party shall appoint an appropriate number of sector representatives to an Intermarket Coordination Group.

b. Meetings of the Intermarket Coordination Group will be noticed in advance, including publication of the proposed agenda, by the ISOs and all Stakeholders will be invited to participate, subject to advance notification to the ICO.

c. The ICOs will meet on a regular basis with the Intermarket Coordination Group to (i) review the status of ongoing efforts with respect to Identified Seams Issues and (ii) identify any Additional Seams Issues. Any Additional Seams Issues identified by the Intermarket Coordination Group will be evaluated by the ICOs and brought to each Party's appropriate Stakeholder committee that normally addresses such issues.

d. The ICOs will coordinate their respective Stakeholder review processes to assure that the proposals being reviewed by each ISO remain consistent throughout the Stakeholder process. The ICOs will inform appropriate Stakeholder committees of the work of the Intermarket Coordination Group on a regular basis. The ICOs will schedule Stakeholder meetings, as needed, concerning issues of broad interest to Stakeholders.

e. Projects to resolve Additional Seams Issues will be evaluated and prioritized by each Party together with all other market improvement processes.

4. Considerations for Parties' Review of Proposed Additional Seams Issues

The proposals developed by the ICOs with respect to Additional Seams Issues shall be submitted to the Chief Executive Officers ("CEOs") of the Parties. Each CEO shall consider in good faith whether such proposals are desirable and consistent with the needs of each respective ISO and its Stakeholders, including, without limitation, consistency with other market rules or ongoing changes and the impact on resource requirements of each organization.

5. Communications with Boards of Directors

The Parties agree that each Party will report progress towards the resolution of identified initiatives as well as recommendations regarding any Additional Seams Issues identified under this Agreement to their respective Boards of Directors (or designated respective Board Committees) on a periodic basis.

6. No Effect on Individual ISO Governance Processes

In implementing this Agreement, each Party shall follow its then-existing governance process. When the resolution of any seams project which has been agreed upon by the Parties requires a tariff modification, each Party shall develop and file such modifications, at least 60 days in advance of proposed implementation, with FERC utilizing their respective governance and approvals processes. To the extent that the resolution of any seams project does not require a tariff modification, an informational filing shall be made with FERC at least 60 days in advance of proposed implementation. The Parties shall consider whether joint or individual filings may be appropriate.

7. Miscellaneous

7.1 Filing of Agreement with FERC

Upon execution, this Agreement will be included as an attachment to the compliance filing required in the Settlement Order.

7.2 Term and Termination

a. Subject to Section 7.2.b, this Agreement shall expire three (3) years after the Effective Date, provided that the term shall renew at each expiration date for a successive one (1) year term unless a Party gives notice to the other Party, and to FERC, no less than ninety (90) days before the end of a term that the Agreement shall not renew.

b. All proposals adopted by the Parties for resolution of Seams Issues, all requests to FERC for informal dispute resolution of Seams Issues, and all submissions to FERC for formal dispute resolution, shall survive termination or expiration of this Agreement. Agreements or decisions arising from informal or formal dispute resolution, as provided in Section 7.4.c shall survive the termination or expiration of this Agreement, notwithstanding that this Agreement may have terminated or expired prior to the conclusion of the dispute resolution process. Each Party shall have the right to submit any issue under informal dispute resolution at the expiration or termination of this Agreement to FERC for formal dispute resolution or termination of this Agreement.

7.3 Notices

Any notice under this Agreement shall be given in writing and delivered by fax or overnight courier to the following addresses:

If to ISO-NE:

Kathleen A. Carrigan
Senior Vice President, General Counsel and Corporate Secretary
ISO New England Inc.
One Sullivan Rd.
Holyoke, Massachusetts 01040
kcarrigan@iso-ne.com

If to NYISO:

Robert E. Fernandez
General Counsel and Secretary
NYISO
3890 Carman Rd.
Schenectady, New York 12303
rfernandez@nyiso.com

A Party may change its fax number or address for receipt of notice under this Agreement by giving notice of the change to the other Party.

7.4 Alternative and Formal Dispute Resolution

a. If the parties to this Agreement are unable to complete any of the tasks outlined herein, or if either of the ICOs determines that the ICOs lack sufficient direction to proceed with any task, any ICO may refer the matter to the CEOs of the Parties. The CEOs agree to schedule a meeting between the Parties to resolve these issues or to provide direction, as appropriate, on a priority basis.

b. The CEOs will inform their respective Board Chairmen, as well as Stakeholders, prior to taking an action under 7.4.d.

c. In the event that the CEOs do not reach agreement on any issue referred to them by an ICO within ten (10) days, then either Party may refer the matter to a neutral, third-party Dispute Resolution Service, which may include FERC's Dispute Resolution Service, and request a session be convened to initiate non-binding dispute resolution services. Costs assessed by the Dispute Resolution Service for the use of such service shall be borne equally by the Parties.

d. In the event that the Parties fail to achieve resolution of an issue, the Parties agree that either Party may submit the unresolved issue to FERC on behalf of both Parties for formal dispute resolution under applicable FERC rules.

7.5 Amendments to Agreement

No amendment of this Agreement shall be effective unless set forth in writing and executed by the Parties, and filed with FERC, and, if necessary, accepted or approved by FERC. This Agreement supersedes the Amended Agreement as of the Effective Date of this Agreement.

7.6 Relationship of Parties

The parties are not forming a partnership or other legal entity and no party is authorized by this Agreement to act as agent for any other party. Each party shall be responsible for all of its own expenses incurred in connection with this Agreement, including, but not limited to, the costs of travel to meetings, administrative costs and legal or other consulting fees.

7.7 No Third Party Beneficiaries

There are no third party beneficiaries to this Agreement.

7.8 Assignment

This Agreement may not be assigned to third parties, but shall be binding upon any and all successors to the Parties.

EXECUTION

Wherefore, this Agreement is executed by the parties as of the Effective Date.

ISO NEW ENGLAND INC.

By: Gordon van Welie
Title: President and CEO

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

By: William J. Museler
Title: President and CEO

**ATTACHMENT 1
TO
AMENDED AND RESTATED INTERREGIONAL COORDINATION AND SEAMS
RESOLUTION AGREEMENT**

The ISOs are clearly aware of the priority of the seams issues described in this Attachment 1. The ISOs are working diligently on all of the seams issues and actively working with stakeholders on several of the design elements. Given the complex nature of these issues and their inextricable linkage to reliability and market operations, it is imperative that such issues are fully resolved prior to implementation. While the design, review and resolution of the complex operational issues and the associated stakeholder review are difficult to accurately forecast, the ISOs are aware of the need to provide certainty with regard to their resolution. As such, the ISOs are providing a “no later than” implementation date. The ISOs will continue to actively prioritize and work on these issues and seek earlier target implementation dates when possible and desirable.

IDENTIFIED SEAMS ISSUES

1. FACILITATED CHECKOUT (“FCO”)

- This is Open Project P8b in the Northeast ISOs Seams Resolution Report.
- **Description and background:** NYISO, ISO-NE, PJM, IMO, HQ, NB & MISO have been participating in the specification of the FCO communication protocol. Pilot implementation with ISO-NE has been successful and demonstrated ISO-NE and NYISO capability to exchange transaction data in real-time. Both ISO-NE and IMO have completed implementation of the software.
- **Milestones and timetable:**
 - **Implementation Date:** FCO is expected to be fully functional between NYISO, ISO-NE, IMO and HQ no later than June 30, 2005.

2. REGIONAL RESOURCE ADEQUACY

- This is Open Project P15 in the Northeast ISOs Seams Resolution Report.
- **Description and background:** The Regional Resource Adequacy Model (RAM) Working Group (formerly the JCAG Working Group) was set up to develop longer-range UCAP markets in NY, PJM and ISO-NE than currently exist. The RAM Working Group developed initial recommendations in mid-2002. The work plan was reassessed in light of the SMD NOPR and the ISOs/RTOs filed joint comments addressing resource adequacy on January 10, 2003. The comments described a central market-based resource adequacy framework, which is consistent with the goals of the SMD NOPR. NERA was selected to analyze the

proposed central resource adequacy market design, and presented their final report at the February 26 regional RAM meeting. A NYISO status report was filed with FERC on February 27, 2004. The broad range of concerns raised by stakeholder groups in each ISO/RTO make it unlikely that all of the ISO/RTOs will adopt the RAM proposal as it is currently formulated. It is anticipated that this effort may lead, instead, to enhancements in the capacity markets in each region. In enhancing their existing markets, the ISO/RTOs have committed to maintain the ability to trade the same product (UCAP) between regions and to identify and remove any remaining barriers to the trading of capacity between regions. Each region has Resource Adequacy/ICAP working groups looking at this issue. The NYISO has submitted a hybrid proposal to its stakeholders for consideration which incorporates a forward capacity market for procurement of a portion of its future resource requirements. ISO-NE is currently engaged in an evidentiary hearing process regarding certain aspects of its proposed locational capacity market, and PJM has started work on the development and implementation of a centralized locational capacity market design similar in some respects to the NERA proposal.

- **Milestones and timetable:**

- It is expected that the NYISO hybrid proposal will be considered along with RAM and other proposals brought forth by NYISO stakeholders. Although it is unclear what design may finally emerge from this process, a key requirement imposed on the development process is to ensure that any proposal finally accepted is compatible with the New York market.
- The NYISO will continue to coordinate its efforts with PJM and ISO-NE and will bring any resulting proposal back to the RAM Group for discussion by **July 31, 2005**.
- On March 1, 2004, ISO-NE filed a locational capacity market with the Commission. The design of this market was based strongly on the extant design developed by NYISO. In an order issued June 2, 2004, the Commission established hearing procedures and specified that a locational capacity market would be implemented in New England on January 1, 2006.
- The Partial Unit ICAP Sales project (#4 below) will also improve the ability to trade capacity between regions.
- In the status update to be submitted to FERC in April 2005 (See FERC *Order Accepting Compliance Filing and Providing Guidance*, issued on October 7, 2004 in Docket No. ER03-647-005), the ISOs will report on how their respective efforts have been able to identify and remove the remaining barriers to the trading of ICAP between their regions. The ISOs will also report on efforts to eliminate or minimize any new barriers that might be created by new proposals currently under development.

- Following implementation of a locational capacity market in New England, an assessment will be made to identify further enhancements that may be desirable to further facilitate trading of capacity between the regions. A report will be issued by **June 30, 2007**.

3. INTRA-HOUR TRANSACTION SCHEDULING (ITS) (INCLUDING PARTICIPANT DRIVEN AS WELL AS VIRTUAL REGIONAL DISPATCH (VRD) SOLUTIONS)

- This is Open Project P18 in the Northeast ISOs Seams Resolution Report.
- **Description and background:** NYISO and ISO-NE have documented a technical definition of a virtual regional dispatch process and have received potentially viable alternative methodologies from their stakeholders. The ISOs will proceed with further stakeholder meetings to finalize the technical definition and to work towards a joint stakeholder acceptance of the proposal.
- **Milestones and timetable:**
 1. Phase 1 - Development and Testing of an ITS/VRD Pilot Program:
 - The Pilot Program would be a limited test of ITS to verify that the intra-hour transaction schedule changes method can in fact be used to converge prices. Work has begun on definition of the market participant-based alternate methodology for accomplishing the price equilibration at the border.
 - NYISO filed its proposal to implement the Phase 1 ITS/VRD Pilot Program in New York with FERC on September 30, 2004. In a letter order issued on November 22, 2004, FERC accepted the NYISO's filing with an effective date of November 29, 2004.
 - In the Settlement Order (at P 64), FERC directed ISO-NE to file its proposal to implement the Phase 1 ITS/VRD Pilot Program in New England on December 1, 2004. The proposal was filed with FERC on November 12, 2004.
 - **Implementation Date for the Pilot Program: The testing process will be carried out between January 1 and April 30, 2005.**
 2. Phase 2 - Review of Pilot Program and Potential Initial Implementation of ITS
 - Following NYISO, ISO-NE and stakeholder review of the pilot program results by September 30, 2005, and assessment of market participant based proposals for improving the efficiency of the NYISO/ISO-NE interface, further phases of this work will be developed. These efforts may focus on further testing of intra-hour transaction scheduling processes during

shortage conditions prior to implementation of any selected approach(es) to improve the efficiency of the interface.

- **Initial ITS Implementation Date: No later than December 31, 2006 (based on consideration of the results of the pilot program)**

3. Phase 3 - Review of Initial Implementation and Evaluation of Whether Expanding ITS is Warranted.

- During Phase 2 further substantive discussions with PJM and IMO are planned. Subject to successful implementation of ITS between NYISO and ISO-NE, plans for expansion to PJM and IMO could be warranted. This review and decision will be considered by the ISOs with stakeholders by July 31, 2007.

4. PARTIAL UNIT ICAP SALES

- This is Open Project P19 in the Northeast ISOs Seams Resolution Report.
- **Description and background:** ISO-NE's SMD 1.0 does not support the sale of UCAP to external control areas from portions of units. The Commission has directed that this functionality be added. ISO-NE is in the process of preparing a proposal for stakeholder review.
- **Milestones and timetable:**
 - ISO-NE will prepare a proposal for discussion with the Markets Committee ("MC") no later than the **December 2004** MC meeting.
 - A final proposal will be presented to the MC for vote in a **January 2005** meeting, and to the Participants Committee ("PC") for a vote at the **February 2005** PC meeting.
 - **Implementation Date: No later than October 31, 2006. Stakeholder and FERC approval of the ISO-NE proposal could result in an earlier implementation date of June 2005.**

5. ELIMINATION OF RATE PANCAKING

- This is Open Project P20 in the Northeast ISOs Seams Resolution Report.
- **Description and Background:** The elimination of export fees between ISO/RTO regions is an important objective of FERC. The NYISO and ISO-NE have been working with their TOs and state regulators to accomplish this goal. During mid-2003, the NYISO and the New York transmission owners developed principles for the elimination of export charges from the New York Control Area, subject to reciprocity. The New England transmission owners included similar provisions in the RTO-NE filing with FERC on October 31, 2003. On March 24, 2004,

FERC's Order on RTO-NE was conditioned on the elimination of export fees between New York and New England by the end of 2004. In April 2004, an agreement in principle was achieved among ISO-NE, the NYISO, New York and NE state regulators calling for the elimination of export fees between the regions on or before December 2004.

- **Milestones and Timetable:**

- ISO-NE made a compliance filing with FERC on **June 22, 2004** in which it indicated its commitment to eliminating export fees with NY by **December 22, 2004**.
- On June 21, 2004 and September 30, 2004, respectively, NYISO and the New York Transmission Owners (the "New York Filing Parties"), in Docket No. ER04-943-00, and the New England Power Pool ("NEPOOL"), in Docket No. ER05-3-000, submitted proposed tariff revisions to their respective tariffs, pursuant to section 205 of the FPA, in order to reduce to zero the export fees applicable between their respective regions.
- FERC approved the New York Filing Parties' and NEPOOL's respective proposals in the Settlement Order, and ISO-NE and the New England Transmission Owners will file conforming changes to the RTO Tariff to implement the proposal for post-RTO Operations Date purposes.
- **Implementation Date: December 1, 2004 (completed)**

6. **CROSS-BORDER CONTROLLABLE LINE SCHEDULING**

- This is a consolidation of Open Projects P22 and P24 in the Northeast ISOs Seams Resolution Report.
- **Description and background:** NYISO software will be designed or modified to model Controllable Lines across control areas through an external proxy bus, providing market participants with the ability to bid to or from the new proxy bus in the Day-Ahead Market and schedule transactions in real-time. NYISO and ISO-NE operators will have the ability to monitor a Controllable Line and curtail transactions on the line. Deployment of this project will be dependent upon the successful deployment of the NYISO Standard Market Design (SMD2) project.
- **Milestones and timetable:**
 - Complete NYISO stakeholder review in January 2005
 - File NYISO tariff changes with FERC in February 2005
 - **Implementation Date for Cross Sound Cable: No later than June 30, 2005**

- **Implementation Date for 1385 Line:** The scheduled implementation date for the 1385 Line is June 30, 2006. However, the multiple critical projects that ISO-NE and its stakeholders will be coordinating over the next two years could result in a no-later-than date of October 2006.

7. COORDINATION OF INTERREGIONAL PLANNING

- This is Open Project P23 in the Northeast ISOs Seams Resolution Report.
- **Description and background:** In January 2003, a Liaison Task Force was formed including all NPCC members as well as PJM to develop ways to improve the coordination of planning for the Northeast region. As a result, there has been considerable improvement in communication on planning issues. During 2004, ISO-NE, NYISO and PJM solicited stakeholder input on a draft protocol agreement. In general, stakeholders were very supportive of moving ahead with the protocol.
- **Milestones and timetable:**
 - The ISOs developed a draft coordinated planning protocol document, incorporated stakeholder input and finalized the protocol document in December 2004. This document provides the basis for standardizing data and information exchanges, developing a coordinated plan, and initiating a joint stakeholder process. The IMO, Hydro Quebec (Transenergie) and New Brunswick Power, while not parties to the protocol, have agreed to participate on a limited basis in order to ensure better coordination for the benefit of the Northeast region.
 - The initial scope of work, for a Northeast Coordinated System Plan began in Summer 2004. It includes better coordination of information sharing by harmonizing the timing, development and exchange of data bases and modeling assumptions used in planning analysis, addressing cost allocation issues, the establishment of standardized confidentiality agreements and building upon joint planning activities already under way.
 - The intermediate term goal is to develop and issue an initial draft consolidated system plan that can be issued to stakeholders by **March 31, 2005**.
 - A longer-term goal is the implementation of a region-wide planning process which includes an open stakeholder advisory group and the issuance of a region-wide coordinated plan. This region-wide planning process would be supplemental to each ISO or RTO's individual and more detailed transmission planning process.

- **Implementation Date for Region-wide Planning Process: No later than June 30, 2005**