

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

BETWEEN

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

AND

ISO NEW ENGLAND INC.

This Amended and Restated Interregional Coordination and Seams Issue Resolution Agreement (“Agreement”) is entered into as of _____, 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 Independent System Operator (“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).

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”), and desire to amend and restate the Original Agreement, in response to the RTO-NE 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 any 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

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 ~~market participants~~Stakeholders in the Section 3.2 process through the utilization of existing governance structures, Standing Committees and the Intermarket Coordination Group;
- c. Prioritize the Additional Seams Issues for resolution, based on the magnitude of likely improvement in reliability or reduction of costs for each issue;
- d. Investigate the Additional Seams Issues consistent with their priority rank, and develop proposals, and options where appropriate, to address each Additional Seams Issue;
- e. Develop milestones and timetables for proposals approved by the Parties;
- f. Seek approval of the prioritized list of Additional Seams Issues from each Party;
- g. _____ Add approved Additional Seams Issues (with milestones and timetables) to Attachment 1 and integrate them into the existing FERC Seams reporting process; ~~and~~
- 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.-

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

The Parties agree that each Party will communicate with its S-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. The ICO will meet 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 will be evaluated by the ICOs and brought to each Party's appropriate Sstakeholder committee that normally addresses such issues.

c. The ICOs will coordinate their respective Sstakeholder review processes to assure that the proposals being reviewed by each ISO remain consistent throughout the Sstakeholder 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.

d. 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 market participants, 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 with the FERC utilizing their respective governance and approvals processes. 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 RTO-NE 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 no less than ninety (90) days before the end of a term that the Agreement shall not renew.

~~b. Any of the Parties may terminate their participation in this Agreement upon ninety (90) days notice to the other Party.~~

be. 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 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 the 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, after initiation of alternative dispute services described in Section 7.4.c, 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 Original 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**

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 & 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.
- **Milestones and timetable:**
 - IMO is now able to access NYISO transaction data in real-time as well; the IMO is working on implementation of the software, with expected completion in **the third quarter of 2004.**
 - HQ planning to implement FCO by **end of the third quarter of 2004.**
 - FCO is expected to be fully functional between NYISO, ISO-NE, IMO and HQ by the **end of 2004.**

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 same product (UCAP) to enable trade between regions to occur 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. No plans have yet been established as yet to change the markets in any of the ISOs. 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.

- **Milestones and timetable:**

- The NYISO plans to further develop this hybrid proposal with its stakeholders during the **third quarter of 2004** and will coordinate with the PJM and ISO-NE efforts in their respective regions.
- The NYISO will bring any resulting proposal back to the RAM Group for discussion by the **end of 2004**.
- 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. This filing also commits ISO-NE to engage in an regional dialogue (until **December 1, 2005**) with its stakeholders to develop a recommendation for long-term resource adequacy. It is expected that the NYISO hybrid proposal will be considered along with RAM and other proposals brought forth by ISO 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 Partial Unit ICAP Sales project (#4 below) will also improve the ability to trade capacity between regions.

3. **VIRTUAL REGIONAL DISPATCH (VRD)**

- 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 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 Implementation of a VRD Pilot Program in **the fourth quarter of 2004**
 - The Pilot Program would be a limited test of VRD to verify that the VRD method can in fact be used to converge prices. The ISOs will work with

stakeholders to consider and develop the Pilot Program concept and file any rule changes with the Commission needed to support the pilot.

2. Phase 2 - Review of Pilot Program and Potential Initial Implementation of VRD
 - NYISO, ISO-NE and stakeholders will review the results of the pilot program and consider and develop an initial VRD implementation in **mid-2005**. This initial implementation will have the objective of obtaining as many of the efficiency gains of VRD as possible, recognizing that other key projects (RTS in New York and Ancillary Service Markets in New England) limit the resources available to implement VRD. The market advisor has noted that most of the efficiency gains are produced under shortage conditions in one market or the other. If it is found to be feasible for both the market and the electric system operation, initial deployment of VRD may focus on these shortage periods. If such periodic VRD operation is not found to be feasible on a production basis, 2005 efforts may focus on further testing of the VRD processes during such shortage conditions, or other alternatives to improve the use of the interface.
3. Phase 3 - Review of Initial Implementation and Evaluation of Whether Expanding VRD is Warranted.
 - This review and decision will be considered by the ISOs with stakeholders in **early 2006**.

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 considering several options for resolving this issue including potential solutions that could be implemented with a resource adequacy mechanism by December 2004.
- **Milestones and timetable:**
 - ISO-NE will prepare a proposal for discussion with the Markets Committee ("MC") no later than the **August 2004** MC meeting.
 - A final proposal will be presented to the MC for vote at the **September 2004** meeting, and to the Participants Committee ("PC") for a vote at the **October 2004** PC meeting.
 - This will support a filing at the Commission in October for a **December 2004** implementation date.

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 the 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 will make a compliance filing with FERC on **June 22, 2004** to include a plan for the elimination of export fees with NY by **December 22, 2004**.
 - NYISO will file tariff modifications with FERC in **June 2004** for the elimination of export fees on transactions to New England, subject to reciprocity, on the same date that FERC approves equivalent tariff provisions for New England eliminating export fees to New York.

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 stakeholder review in **third quarter of 2004**.
 - Implementation scheduled for **June 2005**.

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. In December 2003 the ISOs achieved agreement on a draft protocol for the coordination of planning in the Northeast region. During the first quarter of 2004, ISO-NE, NYISO and PJM solicited stakeholder input which was generally supportive of moving ahead with the protocol.
- **Milestones and timetable:**
 - The ISOs have developed a draft coordinated planning protocol document, have incorporated stakeholder input and plan to finalize the protocol document by **mid-2004**. [NOTE; UPDATE IF PROTOCOL IS EXECUTED PRIOR TO JUNE 22] This document provides the basis for standardizing data and information exchanges, developing a coordinated plan, and initiating a joint stakeholder process.
 - The initial scope of work, to be implemented by **Fall 2004**, includes better coordination of information sharing by harmonizing the timing, development and exchange of data bases and modeling assumptions used in planning analysis, 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 coordinated system plan by the **end of 2004** which will cover the New York and New England region.
 - A longer-term goal, planned for implementation in **2005**, is the implementation of a region-wide planning process which would include 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.