

## **ISO NEW ENGLAND INC.**

### **CHARTER OF THE AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS**

#### **COMMITTEE TITLE**

This committee (the “Committee”) will be called the Audit and Finance Committee of the Board of Directors of ISO New England Inc. (the “Company”).

#### **MEMBERSHIP**

The Committee will consist of three or more members of the Board of Directors of the Company.

Each member of the Committee:

- Must meet all independence standards imposed under the Company’s charter, By-laws and Code of Conduct, as well as any applicable independence standards adopted by the Board of Directors; and
- Must be financially literate.

In addition, at all times at least one member of the Committee should be an audit committee financial expert within the meaning of Item 401(h) of Securities and Exchange Commission Regulation S-K.

#### **PURPOSE**

The Committee is a standing committee of the Board of Directors of the Company, and has the authorities and responsibilities delegated to it by the Board of Directors.

The Committee will assist the Board’s oversight function and monitoring in the following areas:

- Business planning;
- Financial measurement;
- Oversight of Internal Audit Department activities;
- Oversight of external auditors;
- Determination of finance structure;
- Oversight of the management and investment of the Company’s benefit plan assets; and
- Administration of the Code of Conduct.

## **AUTHORITY AND RESPONSIBILITIES**

### **GENERALLY**

The Committee has the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting or other advisors to advise the Committee in the performance of its duties and to conduct investigations into any matters within the scope of the Committee's responsibilities. The Company will provide appropriate funding, as determined by the Committee, for the payment of all fees and expenses of such advisors.

The Committee will meet periodically with management and the Company's internal and external auditors in separate executive sessions in furtherance of its purposes. The Committee may request that any officer or employee of the Company, or the Company's outside counsel or auditors, attend a meeting of the Committee or meet with any members of, or consultants to, the Committee.

The Committee will make regular reports to the Board. The Committee will review key risks within the scope of its oversight of Company operations and will report to the Board of Directors regarding these key risks no less frequently than annually. The Committee may review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee will review the Committee's own performance annually.

In performing its functions, the Committee will undertake those tasks and responsibilities that, in its judgment, would most effectively contribute to fulfilling and implementing the purposes of the Committee. The following functions are some of the common recurring activities of the Committee in carrying out its purposes.

### **BUSINESS PLANNING**

- Oversee the development of the Company's annual operations and capital budgets and recommend to the Board of Directors the approval of the Company's budgets and related Tariff filings.
- Oversee preparation of the annual business plan and recommend the annual business plan to the Board of Directors for approval.

### **FINANCIAL MEASUREMENT**

- At least quarterly, review actual financial results (versus budgeted).
- Review scope of annual audit of financial statements.
- Review and discuss the Company's annual audited and quarterly unaudited financial statements and related management letter comments with management and the Company's external auditors, as appropriate.

- Review and discuss with the Company's external auditors, as applicable, major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles.
- Review significant control or compliance issues raised by the audited and unaudited financial statements and ensure that management takes appropriate action.
- Recommend the annual audited financial statements to the Board of Directors for approval.
- Ensure that internal controls are developed as needed.
- Discuss the Company's major financial risk exposures with management and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
- Receive reports pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Conduct an annual vendor review.

#### **OVERSIGHT OF INTERNAL AUDIT ACTIVITIES**

- Ensure that the Company maintains an internal audit function and concur with the appointment, replacement or dismissal of the Director of Internal Audit.
- Review and approve the annual audit plan and audit risk assessment methodology.
- Periodically review the status and results of the annual audit plan and the sufficiency of internal audit resources.
- Review significant control or compliance issues raised by the Internal Audit Department and ensure that management takes appropriate action and that appropriate follow-up activity is performed by the Internal Audit Department.
- Ensure that there are no unjustified restrictions or limitations placed on the Internal Audit Department's activity.
- Annually review the Director of Internal Audit's performance and compensation.
- Review the effectiveness of the Internal Audit Department activity and related quality assurance program, including compliance with professional internal auditing standards.
- Approve use of external auditor staff and consulting resources to supplement Internal Audit staff.
- Monitor the results of other third party review activities managed by the Internal Audit Department.
- Discuss with the Company's external auditors the Company's Internal Audit Department and its audit plan, responsibilities, budget and staffing.
- Review the results of the Internal Audit Department's annual audit of corporate performance measurements.

### **OVERSIGHT OF EXTERNAL AUDITORS**

- In its sole authority, appoint and replace the Company's external auditors and approve in advance the fees and terms of all audit and non-audit engagements with the Company's external auditors (the Committee may consult with management but shall not delegate these responsibilities).
- Maintain direct responsibility for the oversight of the work of the Company's external auditors (including resolution of disagreements with management regarding financial reporting).
- Obtain and review a report from the Company's external auditors at least annually regarding (a) the external auditors' internal quality-control procedures, (b) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years, respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) (to assess the external auditors' independence) all relationships between the external auditors and the Company.
- Ensure that the lead audit partner and the audit partner responsible for reviewing the audit are rotated at least every five years, and further consider periodic rotation of the Company's external auditors.
- Establish policies for the Company's hiring of employees or former employees of the Company's external auditors who were engaged on the Company's account in accordance with the requirements of the Sarbanes-Oxley Act of 2002.
- Review any reports of the Company's external auditors required by the Company's governing documents, lenders, other agreements and applicable legal requirements.
- Review and discuss the Company's service organization controls report and related management letter comments with management and the Company's external auditors, as appropriate.

### **DETERMINATION OF FINANCE STRUCTURE**

- Determine appropriate capitalization of the Company.
- Review financing alternatives.
- Review interest rates.
- Determine appropriate tax status and oversee reporting of revenues.

### **OVERSIGHT OF THE MANAGEMENT AND INVESTMENT OF COMPANY'S BENEFIT PLAN ASSETS**

- Approve audit firm for audits of retirement and health & welfare plans.
- Review and discuss 401(k), retirement and health & welfare plan financial statements with management and the Company's external auditors, as appropriate.

- Meet at least annually with the Company's 401(k), retirement and health & welfare plan administrators to discuss the performance of the plans' assets and their appropriate investment.
- Annually review proposed year-end discount and earnings rate assumptions for retirement and health & welfare plans.

#### **ADMINISTRATION OF CODE OF CONDUCT**

- Administer the Company's Code of Conduct and any non-affiliation provisions in the Company's By-laws, including, without limitation, determining conflicts of interest thereunder.
- Establish procedures for the receipt, retention and treatment of complaints from Company employees on accounting, internal control and auditing matters, as well as for confidential, anonymous submissions by Company employees of concerns regarding questionable accounting or auditing matters.