NEW YORK INDEPENDENT SYSTEM OPERATOR
10 Krey Boulevard ♦ Rensselaer, NY 12144

By Electronic Delivery

April 11, 2012

Hon. Jaclyn A. Brilling
Secretary to the Commission
New York State Public Service Commission
Agency Building 3
Albany, NY 12223-1350

Subject: Petition of the New York Independent System Operator, Inc. Pursuant to Section 69 of the New York Public Service Law

Dear Ms. Brilling:

Attached for filing is a Petition of the New York Independent System Operator, Inc. ("NYISO") requesting Authority to Incur Indebtedness for a Term in Excess of Twelve Months.

Should you have any questions, please contact me by phone at (518) 356-6220 or by email at cpatka@nyiso.com.

Very truly yours,

/s/ Carl F. Patka
Carl F. Patka
Assistant General Counsel

BEFORE THE
NEW YORK STATE PUBLIC SERVICE COMMISSION

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In the Matter of the Petition of The New York Independent System Operator, Inc. Under Public Service Law Section 69 for Authority to Incur Indebtedness for a Term in Excess of Twelve Months	**Case No. 12-E-______**

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PETITION OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
FOR AUTHORITY TO INCUR INDEBTEDNESS FOR
A TERM IN EXCESS OF TWELVE MONTHS

DATED: APRIL 11, 2012

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PETITION OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
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Pursuant to Section 69 of the New York Public Service Law ("NYPSL") and applicable parts of Title 16 of the New York Code of Rules and Regulations ("NYCRR"), the New York Independent System Operator, Inc. (the "NYISO") submits this Petition to request authorization from the Public Service Commission of the State of New York ("NYPSC" or "Commission") to incur indebtedness for a term in excess of twelve months.

As described in detail below, the NYISO respectfully submits that the Commission should authorize the new credit facility because it will enable the NYISO to refund and replace its existing construction loan used to finance the NYISO's ongoing control center project at significant savings to the NYISO and ratepayers. Among other things, the new facility carries a lower interest rate, is unsecured, and the lead lender has made a contemporaneous commitment to provide a fixed interest rate swap arrangement.

I. Background

The NYISO is a not-for-profit corporation, tax exempt under section 501(c)(3) of the Internal Revenue Code and the New York State Tax Law, that: (i) operates and maintains the reliability of the bulk power system; (ii) administers the wholesale electricity markets; and (iii) conducts short-term and long-term planning for the bulk power system within the New York Control Area. The NYPSC has determined that the NYISO is an "electric corporation" under the NYPSL[1] and, therefore, may not incur indebtedness payable at periods exceeding twelve months without prior authorization from the NYPSC.[2]

The NYPSC has previously authorized eleven NYISO requests to incur indebtedness with a term exceeding twelve months:

- The first authorization was by Order issued September 9, 1999, in Case No. 99-E-1176, whereby the Commission authorized a $12,000,000 revolving line of credit ("Revolver") for working capital purposes. On September 7, 2000, the Commission authorized an increase in the Revolver to $50,000,000.

- The second authorization was by Order issued October 20, 1999, also in Case No. 99-E-1176, whereby the Commission authorized a $54,000,000 term loan agreement ("Term Loan") for start-up costs.

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[1] NYPSL § 2(12-13). Although many of the functions of the NYISO are regulated by the FERC, the NYPSC determined that the NYISO is an "electric corporation" in an Order issued in Case No. 00-E-1380 (August 14, 2000).

[2] NYPSL § 69.

- The third authorization was by Order issued October 25, 2001, in Case No. 01-E-1068, whereby the Commission authorized a three-year term note ("3-Year Term Note") with a credit line up to a maximum of $20,000,000 to purchase computer hardware.

- The fourth authorization was by Order issued February 10, 2003, in Case No. 02-E-1565, whereby the Commission authorized a five-year term note ("5-Year Term Note") with a credit line up to a maximum of $59,300,000 to purchase computer equipment and software upgrades.

- The fifth authorization was by Order issued March 8, 2004, in Case No. 03-E-1770, whereby the Commission authorized a $100,000,000 revolving line of credit with three separate four-year term loan conversion options ("2004-2006 Budget Facility") to provide funding for strategic initiatives related to the management of the New York power grid for the years 2004, 2005 and 2006.

- The sixth authorization was by Order issued May 10, 2005, in Case 05-E-0270, whereby the Commission authorized a total of $25,000,000 in secured financing ("Mortgage and Renovations Loan") to provide funding for the acquisition of certain real property, and for the renovation of the office building thereon.

- The seventh authorization was by Order issued July 21, 2005, in Case No. 05-E-0503, whereby the Commission authorized a $50,000,000 revolving line of credit ("Replacement Revolver") to replace the Revolver, which was to expire in October, 2005.

- The eighth authorization was by Order issued January 19, 2007, in Case No. 06-E-1254, whereby the Commission authorized a $80,000,000 revolving loan facility (“2007-2010 Budget Facility”) to provide funding for strategic initiatives related to the management of the New York power grid for the years 2007, 2008, 2009 and 2010.

- The ninth authorization was by Order issued July 19, 2010, in Case No. 10-E-0160, whereby the Commission authorized a $50,000,000 revolving line of credit (“2010 Revolver”) to replace the Replacement Revolver, which was to expire in July, 2010.

- The tenth authorization was by Order issued July 19, 2010, also in Case No. 10-E-0160, whereby the Commission authorized a $75,000,000 revolving loan facility (“2011-2013 Budget Facility”) to provide funding for strategic initiatives related to the management of the New York power grid for the years 2011, 2012 and 2013.

- The eleventh authorization was by Order issued April 19, 2011, in Case No. 10-E-0640, whereby the Commission authorized a $45,000,000 construction loan facility (“Construction Loan”) to finance the Control Center Project (as defined below).

By this Petition, the NYISO requests authorization from the NYPSC to enter into a credit facility (“Replacement Construction Facility”) in the maximum principal amount of $45,000,000 to refund and replace the Construction Loan.

For the reasons set forth in this Petition and the supporting Attachments, the NYISO submits that the Replacement Construction Facility required to refund the Construction Loan is consistent with the proper purposes of the NYISO and is in the public interest.

II. Justification for Refinancing

The Construction Loan was authorized by the Commission on April 19, 2011 and entered into on July 8, 2011 to finance: (i) construction of an addition to serve as the new primary power control center and related improvements on real property leased by the NYISO commonly known as 10 Krey Boulevard, Rensselaer, New York 12144 ("Krey Property"); and (ii) construction of a new data center, a newly designated alternate control center and other upgrades on real property owned by the NYISO commonly known as 3890 Carman Road, Schenectady, New York 12303 ("Carman Property") (collectively, the "Control Center Project").

Because of the projected time to complete the Control Center Project, it was necessary to begin construction and secure financing as soon as possible and, at the time, the Construction Loan offered the best terms available to finance the Control Center Project. Construction is well underway and on schedule, with work at the Carman Property substantially complete and work at the Krey Property having begun in the fall of 2011. Construction at the Krey Property is expected to be completed before the end of 2013. The NYISO exhausted other funds set aside for the Control Center Project and initiated monthly advances under the Construction Loan in November 2011.

As the Commission is aware, the Construction Loan is secured by a first lien mortgage on the Carman Property and carries an interest rate equal to a one, three or six month LIBOR[3] plus a margin of 325 basis points. Interest-only payments are due until July 21, 2014, at which time all

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[3] London Interbank Offering Rate for the corresponding deposits of U.S. Dollars quoted by major banks in London.

outstanding amounts will convert to a permanent loan with a term of 17 years. The Construction Loan can be prepaid at any time without penalty upon 30 days notice to the agent and the lenders under the Construction Loan.

At the time the NYISO required financing for the Control Center Project, the Construction Loan offered the best terms available to the NYISO for a 20-year construction credit facility. In 2009 and 2010 the NYISO had discussed the possibility of KeyBank National Association ("KeyBank") providing the original financing for the Control Center Project. At that time, KeyBank informed the NYISO that it was unable to offer financing on terms and at an interest rate comparable to the Construction Loan. However, in connection with its ongoing evaluation of financing opportunities, the NYISO and KeyBank re-opened the possibility of KeyBank making available a construction credit facility and KeyBank has offered a loan on substantially the same terms as the Construction Loan but at a better interest rate and on an unsecured basis. KeyBank agreed that it was willing to simultaneously offer an interest rate swap arrangement that the NYISO expects will be at a competitive rate. NYISO management understands that KeyBank is willing to undertake this commitment now in part due to its historic relationship with the NYISO (KeyBank has been a lender to the NYISO since the NYISO's inception in 1999) and because of an increasing desire on the part of KeyBank to further cement this long-term relationship.

The NYISO submits that the significantly lower cost of borrowing offered through the Replacement Construction Facility justifies refunding and replacing the Construction Loan.

On March 20, 2012, the NYISO Board of Directors unanimously approved the Replacement Construction Facility, subject to authorization from the Commission.

III. The Replacement Construction Facility

The principal terms and conditions of the Replacement Construction Facility are set forth in the Commitment Letter attached to and made part of this Petition as Attachment I. The terms described therein are the terms for which the NYISO seeks authorization from the Commission to effect the Replacement Construction Facility. The NYISO will recover the funds needed to pay the principal and interest of the Replacement Construction Facility through Rate Schedule 1 of its Open Access Transmission Tariff and Rate Schedule 1 of its Market Administration and Control Area Services Tariff.

The NYISO seeks authorization under Section 69 of the New York Public Service Law to incur indebtedness for a term in excess of twelve months by executing the Replacement Construction Facility in the aggregate maximum principal amount of $45,000,000 with a term of up to 19 years. The Administrative Agent for the Replacement Construction Facility is KeyBank. KeyBank will also be a lender under the Replacement Construction Facility together with RBS Citizens, N.A. (“Citizens Bank”) (together, the “Lenders”).

At closing, the Lenders will advance an amount equal to the amount necessary to refund all amounts outstanding under the Construction Loan. The NYISO expects that as of July 31, 2012 such amount will be approximately $13,000,000. Subsequent advances under the Replacement Construction Facility will be available for a period of 24 months from closing (the “Construction Period”), unless the NYISO elects to convert amounts outstanding to a term loan at an earlier date. It is a condition to conversion of the loan that the Control Center Project be complete. The NYISO anticipates completing the Control Center Project before the end of 2013, but will be entitled to delay conversion until the full 24-month period has elapsed. Once converted to a term loan, outstanding amounts under the Replacement Construction Facility will, similar to the Construction Loan, mature and become due and payable 17 years from the date of conversion, giving the Replacement Construction Facility a maximum aggregate term of 19 years.

The Replacement Construction Facility will have an interest rate equal to a one, two or three month LIBOR plus a margin of up to 225 basis points. Like the Construction Loan, interest only will be payable during the Construction Period with equal payments of principal and interest due during the remainder of the term.

The Replacement Construction Facility will be unsecured. Following prepayment of the Construction Loan, all security interests held by the lenders thereunder will, in due course, be released and discharged.

The Replacement Construction Facility may be prepaid without penalty upon notice to the Lenders after the fifth anniversary of the closing of the loan. Partial or full repayment of the principal of amounts outstanding under the Replacement Construction Facility will be subject to a prepayment penalty equal to 1% of the amount prepaid during the first five years of the term.

The commercial terms and conditions set forth in the attached Commitment Letter represent the terms that the NYISO and KeyBank have agreed to and are representative of those available in the market for comparable loans. Citizens Bank has made a separate commitment to KeyBank for its portion of the amount being committed under the Replacement Construction Facility. Under the terms of the Commitment Letter, KeyBank has committed $30,000,000 and Citizens Bank has committed the balance of $15,000,000. While the NYISO has not yet executed a definitive loan agreement with the Lenders, the NYISO anticipates closing on the

Replacement Construction Facility as soon as possible following Commission approval of this Petition, and would prefer closing be completed no later than July 31, 2012. The NYISO expects that the material terms and conditions of the definitive loan agreement will be the same as or consistent with those set forth in the Commitment Letter. From a cost perspective, the fees associated with the Replacement Construction Facility are generally consistent with other financings undertaken by the NYISO.

The Replacement Construction Facility will significantly reduce the NYISO's cost of borrowing compared to the Construction Loan. Based on the one-month LIBOR rate as of April 2, 2012, the annual interest rate for the Replacement Construction Facility would be 2.491%. Considering only the lower interest rate spread under the Replacement Construction Facility, the NYISO will realize aggregate savings of approximately $4,600,000 over the life of the loan as compared to the Construction Loan, which savings justify the Lenders' fees of $225,000. These savings will benefit electricity consumers in the State of New York through the resulting reduction in funds recovered through Rate Schedule 1.

In addition to these easily quantifiable cost savings, the terms of the Replacement Construction Facility are advantageous to the NYISO in other ways including:

- Unlike the Construction Loan, the Replacement Construction Facility is unsecured. Upon repayment of amounts outstanding under the Construction Loan, Berkshire Bank will release its mortgage against the Carman Property.

- The Commitment Letter contains a specific commitment by KeyBank to provide a fixed interest rate swap arrangement, which the NYISO expects will be at a competitive rate.

- The covenants required under the Replacement Construction Facility are similar to those in the NYISO's existing unsecured financings, enabling the NYISO to maintain a similar level of reporting and monitoring as is required by the NYISO's existing credit agreements.

- The conditions to each advance under the Replacement Construction Facility are expected to be less onerous than what is required under the Construction Loan, reducing internal NYISO administrative costs and streamlining the construction process.

- Similar to the Construction Loan, the terms of the Replacement Construction Facility require that the NYISO maintain a certain minimum level of deposits with the Lenders. Beneficial to the NYISO is the fact that a significant portion of its deposits are already held with KeyBank and, regardless of any deposit requirements under the Replacement Construction Facility, the NYISO intends to maintain such deposits with KeyBank.

- The NYISO has not previously worked with Citizens Bank. It is beneficial to the NYISO to forge and maintain strong relationships with large financial institutions such as Citizens Bank in order to have a selection of reliable financing and banking providers to transact business with from time to time.

As with the Construction Loan, the NYISO has arranged for the payments under the Replacement Construction Facility to consist of interest only for the first two years of the loan. Estimated amounts to be charged under Rate Schedule 1 over the next 24 months under the Replacement Construction Facility would be $140,000 for 2012, $900,000 for 2013, and

$3,000,000 for 2014, representing less than 0.1%, 1%, and 2%, of the NYISO's targeted Rate Schedule 1 budget for each respective calendar year. These amounts would, in turn, be allocated among the NYISO's Market Participants according to Rate Schedule 1. Approximately 67% of these amounts are borne by load serving entities including the several public utilities subject to the Commission's retail rate jurisdiction, with the remainder to be paid by other stakeholders. The table attached hereto as Attachment VII further describes the cost of the Replacement Construction Facility to electricity consumers in the State of New York.

Although it has several differing provisions that will be beneficial to the NYISO, the NYISO submits that the Replacement Construction Facility is generally similar to the Construction Loan including with respect to principal amount, term and repayment provisions. What is significantly more favorable is that the lower interest rate of the Replacement Construction Facility will reduce the NYISO's cost of borrowing.

IV. Required Information

The information required to support a petition for authorization to incur indebtedness pursuant to Section 69 of the NYPSL is specified in the Commission's regulations, including Part 37 of Title 16. In compliance with those regulations, the NYISO states as follows:

Pursuant to 16 NYCRR, § 37.1

A. Financial Condition of the NYISO

As a not-for-profit corporation, the NYISO has not issued any capital stock or equity interests of any kind and, therefore, has not declared any dividends. The NYISO has not previously issued any bonds. Pursuant to Commission authorization granted in Case No. 05-E-

0270, the NYISO executed a 20-year commercial mortgage on July 8, 2005, to fund the purchase of the Krey Property. HSBC Bank USA, National Association is the mortgagee. Pursuant to Commission authorization granted in Case No. 10-E-0640, the NYISO granted a mortgage in favor of Berkshire Bank, as administrative agent for the lenders, on July 8, 2011, to secure the NYISO's obligations under the Construction Loan.

As discussed above, the Commission has previously authorized eleven credit facilities for the NYISO pursuant to Section 69 of the NYPSL: (i) the $50,000,000 Revolver authorized in Case No. 99-E-1176, (ii) the $54,000,000 Term Loan authorized in Case No. 99-E-1176, (iii) the $20,000,000 3-Year Term Note authorized in Case No. 01-E-1068, (iv) the $59,300,000 5-Year Term Note authorized in Case No. 02-E-1565, (v) the $100,000,000 2004-2006 Budget Facility authorized in Case No. 03-E-1770, (vi) the $25,000,000 Mortgage and Renovations Loan authorized in Case No. 05-E-0270, (vii) the $50,000,000 Replacement Revolver authorized in Case No. 05-E-503, (viii) the $80,000,000 2007-2010 Budget Facility authorized in Case No. 06-E-1245, (ix) the $50,000,000 2010 Revolver authorized in Case No. 10-E-0160, (x) the $75,000,000 2011-2013 Budget Facility authorized in Case No. 10-E-0160, and (xi) the $45,000,000 Construction Loan authorized in Case No. 10-E-0640.

There are no amounts currently outstanding under the 2010 Revolver. The aggregate balance currently outstanding under the 2007-2010 Budget Facility (all of which borrowings have been converted into term loans) is $20,709,524. There is currently $19,260,790 outstanding under the Mortgage and Renovations Loan. The aggregate balance currently outstanding under the 2011-2013 Budget Facility is $29,722,222. The aggregate balance currently outstanding under the Construction Loan is $6,491,102.

The NYISO has no contingent assets or liabilities. Included with this Petition, as Attachment II hereto, is a table containing the amounts of interest accrued at each applicable rate of interest on the outstanding indebtedness of the NYISO for the most recent fiscal year ended December 31, 2011. The latest unaudited financial statements through December 31, 2011 are included as Attachment III hereto. Also included, as Attachment IV hereto, is a copy of the Annual Report of the NYISO for the year ended December 31, 2010, which includes detailed annual financial statements for the fiscal years ending December 31, 2009, and December 31, 2010. The NYISO's audited annual financial statements for the fiscal year ended December 31, 2011 should be finalized shortly. The NYISO will forward such statements to the Commission as soon as they are available. *See* 16 NYCRR, §§ 37.1(a) and 18.1.

B. <u>Book Cost of the NYISO's Utility Property</u>

The value of the NYISO's property and equipment as of December 31, 2011, was $253,106,622. Such value represents the "original cost" of such property and equipment as defined in 16 NYCRR § 31.1(f). *See* 16 NYCRR, § 37.1(b).

C. <u>No Amounts for a Franchise</u>

The book value reported for the NYISO's property and equipment includes no amount for a franchise, consent, or any other right to operate as a public utility. *See* 16 NYCRR, § 37.1(c).

D. <u>No Issuance of Stock</u>

As a New York State not-for-profit corporation, Type B, the NYISO has not issued any stock or equity interests of any kind and does not propose in this Petition to do so now. *See* 16 NYCRR, § 37.1(d).

E. Amount of Proposed Indebtedness

As described above in Section III of this Petition, the NYISO proposes to execute the Replacement Construction Facility for proceeds up to the aggregate principal amount of $45,000,000. Advances under the Replacement Construction Facility will be available for a period of 24 months from closing, unless the NYISO elects to convert amounts outstanding to a term loan at an earlier date. Once converted to a term loan, outstanding amounts under the Replacement Construction Facility will mature and become due and payable 17 years from the date of conversion. *See* 16 NYCRR, § 37.1(e).

F. Purpose of the Replacement Construction Facility

As described above in Section II and Section III of this Petition, the purpose of the Replacement Construction Facility is to refund and replace the Construction Loan. *See* 16 NYCRR, § 37.1(f).

G. Other Funds Available For Stated Purpose

As described above in Section IV of this Petition, the 2010 Revolver is intended solely as a cash flow management tool, to provide working capital to balance monthly receipts and remittances, and to provide liquidity to the NYISO administered markets and therefore is not an available source of refunding for the Construction Loan. The Term Loan authorized in Case No. 99-E-1176, the 3-Year Term Note authorized in Case No. 01-E-1068, the 5-Year Term Note authorized in Case No. 02-E-1565, and the 2004-2006 Budget Facility authorized in Case No. 03-E-1770 have all been paid off and terminated. The Mortgage and Renovations Loan is an unavailable resource because the draw period expired in 2006. The 2007-2010 Budget Facility is an unavailable resource because the draw period expired in January 2011. The 2011-2013 Budget Facility is an unavailable resource because it is intended only to finance strategic initiatives budgeted for the years 2011, 2012, and 2013, including computer equipment and software upgrades. Finally, the NYISO intends to use the proceeds of the Replacement Construction Facility to refund and replace the Construction Loan. *See* 16 NYCRR, § 37.1(g).

H. **<u>Finalized Credit Agreement</u>**

The commercial terms and conditions set forth in the attached Commitment Letter represent the terms that the NYISO and KeyBank have agreed to and are representative of those currently available in the commercial loan market. The NYISO believes the terms of the Replacement Construction Facility are reasonable and competitive. While the NYISO has not yet executed a definitive credit agreement with the Lenders, it anticipates closing the Replacement Construction Facility as soon as possible following Commission approval of this Petition, and would prefer closing be completed no later than July 31, 2012. The NYISO expects that the material terms and conditions of the final credit agreement will be the same as or consistent with those set forth in the Commitment Letter, and requests authorization for the Replacement Construction Facility on the basis of those described terms and conditions. *See* 16 NYCRR, § 37.1(h).

I. **<u>Estimated Costs and Expenses of the Replacement Construction Facility</u>**

In connection with the Replacement Construction Facility, the NYISO will pay to the Lenders a fee in an aggregate amount equal to $225,000, payable only upon closing. The NYISO is also responsible for the payment of the reasonable and documented third-party costs and expenses of KeyBank as Administrative Agent incurred in connection with the Replacement Construction Facility. The NYISO will also pay to KeyBank as Administrative Agent an administrative fee of $500 per advance under the Replacement Construction Facility. The NYISO believes that such fees and expenses are reasonable. *See* 16 NYCRR, § 37.1(i).

J. <u>Mortgage or Other Security Agreement</u>

The Replacement Construction Facility does not involve a mortgage or grant of other security. The mortgage granted pursuant to the terms of the Construction Loan will, in due course, be released and discharged by Berkshire Bank in connection with the refunding of the Construction Loan using a portion of the proceeds of the Replacement Construction Facility *See* 16 NYCRR, § 37.1(j).

K. <u>No Planned Merger or Consolidation</u>

The NYISO has no plans to merge or consolidate with another organization. *See* 16 NYCRR, § 37.1(k).

L. <u>Stockholders Consent to Replacement Construction Facility</u>

The NYISO has no stockholders, but has obtained the consent of its Board of Directors. *See* 16 NYCRR, § 37.1(l).

M. <u>No Other Required Approvals</u>

Based on the terms and conditions of the Replacement Construction Facility, no authorization or approval is required from any other public authority. *See* 16 NYCRR § 37.1(m). The NYISO is regulated by the Federal Energy Regulatory Commission, but that federal agency need not approve a financing authorized under Section 69 of the NYPSL. *See* 16 NYCRR, § 37.1; *and see* 16 U.S.C. § 824(f).

N. <u>No Capitalization of Any Franchise</u>

The NYISO is not proposing to capitalize any franchise in connection with the Replacement Construction Facility. *See* 16 NYCRR, § 37.1(n).

O. <u>Affidavit of Principal Accounting Officer</u>

The affidavit of Mary McGarvey, Vice President and Chief Financial Officer of the NYISO and its principal accounting officer, is attached as Attachment V hereto, attesting that, among other things, the NYISO is in compliance with all applicable accounting standards. *See* 16 NYCRR, § 37.1(o).

Pursuant to 16 NYCRR, § 37.5

P. <u>Description of Obligations to be Refunded</u>

The proceeds of the Replacement Construction Facility will be used to repay in full all outstanding amounts under the Construction Loan. *See* 16 NYCRR, § 37.5(a).

Q. <u>Proposed Disposition of Unamortized Costs</u>

The NYISO estimates that as of July 31, 2012 there will be approximately $50,000 of costs associated with the Construction Loan that would be amortized over the remaining life of that loan. As described in this Petition, the Construction Loan will be repaid in full using proceeds from the Replacement Construction Facility. The NYISO intends to expense such unamortized costs at the time the Construction Loan is repaid. *See* 16 NYCRR, § 37.5(b).

R. <u>Unpaid Interest</u>

Any accrued but unpaid interest under the Construction Loan will be repaid with the proceeds of the Replacement Construction Facility. The NYISO expects that no more than one month's interest under the Construction Facility will be accrued but unpaid at the time of closing of the Replacement Construction Facility. *See* 16 NYCRR, § 37.5(c).

V. The Proposed Financing Is In the Public Interest

The Replacement Construction Facility to refund and replace the Construction Loan is consistent with the proper purposes of the NYISO and is in the public interest. The NYISO submits that the terms of the Replacement Construction Facility are reasonable and competitive and generally similar to the terms of the Construction Loan. As discussed in this Petition, refunding and replacing the Construction Loan with the Replacement Construction Facility will benefit the NYISO because the new facility carries a lower interest rate, is unsecured, and the lead lender has made a contemporaneous commitment to provide a fixed interest rate swap arrangement. In turn, reducing the NYISO's financing costs paid for in Rate Schedule 1 will benefit electricity consumers in the State of New York.

VI. Supporting Attachments

In support of this Petition, the NYISO submits the following Attachments:

Attachment	Description
I.	Commitment Letter
II.	Accrued Interest on Outstanding Indebtedness
III.	Most Recent Unaudited Financial Statements
IV.	Most Recent Annual Report including Most Recent Audited Financial Statements
V.	Affidavit: 16 NYCRR Section 37.1(o)
VI.	Certificate of Incorporation
VII.	Table of Costs to Ratepayers

WHEREFORE, for the reasons set forth herein, the NYISO respectfully requests that the Commission issue an Order by July 31, 2012 authorizing the NYISO to enter into the Replacement Construction Facility and take such other actions in connection therewith as described herein; and grant such other and further relief to which the NYISO may be entitled.

Respectfully submitted,

THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

By: ______________________

Robert E. Fernandez
General Counsel

Carl F. Patka
Assistant General Counsel

10 Krey Boulevard
Rensselaer, New York 12144
(518) 356-7504

Dated: April 11, 2012

Attachment I.

Commitment Letter

William B. Palmer
Senior Vice President
Commercial Banking Division
Phone: 518-257-8586
Fax: 518-257-8587
E-Mail: william_b_palmer@keybank.com

KeyBank

March 13, 2012

Mary K. McGarvey
Chief Financial Officer
The New York Independent System Operator, Inc.
10 Krey Blvd.
Rensselaer, NY 12144

Re: Loan Commitment-Infrastructure Master Plan Project

Dear Ms. McGarvey:

KeyBank National Association (in its capacity as lender, "KeyBank" and in its capacity as Administrative Agent and Arranger ("Agent")) is pleased to offer this financing commitment for an up to $45,000,000 loan facility ("Commitment") and a related interest rate hedging option, each subject to the terms and conditions contained in this letter. Under the Commitment, KeyBank is committing $30,000,000 and KeyBank can confirm that it has received a written commitment from RBS Citizens, N.A. for $15,000,000. Among other conditions, the Commitment is subject to agreement on final documentation and failure to reach agreement shall not be considered a breach of this Commitment by KeyBank, Agent or Borrower.

The terms and conditions of the Commitment are as follows:

Borrower:	The New York Independent System Operator, Inc. ("Borrower").
Agent and Lead Arranger:	KeyBank National Association as sole and exclusive administrative agent for a syndicate comprising KeyBank and RBS Citizens, N.A. ("Citizens") arranged by Agent as sole and exclusive lead arranger with KeyBank and Citizens being referred to herein collectively as the "Lenders" and individually as a "Lender".
Facility/Loan:	An unsecured term loan with a total term of up to nineteen (19) years in an aggregate principal amount of up to $45,000,000 (the "Loan"). The Loan will be advanced during the period from the Closing Date (as

defined below) until the date which is 24 months from the Closing Date ("Construction Period") and outstanding advances during this period are referred to as the "Construction Loan". During the Construction Period the Construction Loan will be interest only. On the Conversion Date (as defined below) the Construction Loan will convert to a seventeen (17) year fully amortizing term loan ("Permanent Loan"). An initial Loan advance would be made to repay existing debt incurred to finance the Borrower's ongoing control center upgrades and improvements at the Borrower's East Greenbush and Guilderland properties (the "Project"). Subsequent Loan advances would be made subject to certain conditions relating to the progress of the Project.

Conversion:

Conversion from the Construction Loan to the Permanent Loan shall occur upon expiration of the Construction Period ("Conversion Date") if, prior to the Conversion Date, Borrower has provided evidence satisfactory to the Agent that (i) an unconditional Certificate of Occupancy has been issued for all improvements comprising the Project, and (ii) Borrower has satisfactorily performed in all material respects all of its obligations under the Loan documentation respecting construction of the Project. The Agent shall have no obligation to convert the Construction Loan to the Permanent Loan if there is an actual or potential default or event of default under the Loan documentation.

Purpose/Project:

Fund up to an aggregate principal amount of $45,000,000 to (i) repay existing debt incurred to finance the Project, and (ii) finance additional Project completion costs.

Amount:

An aggregate principal amount of up to $45,000,000 of which up to $30,000,000 will be provided by KeyBank and up to $15,000,000 will be provided by Citizens.

Interest Rate:	An interest rate of One, Two or Three Month LIBOR plus an effective credit spread not to exceed 225 basis points. "LIBOR Rate" means the rate per annum calculated by KeyBank in good faith, which KeyBank determines with reference to the rate per annum at which deposits in United States dollars are offered by prime banks in the London interbank eurodollar market two LIBOR Business Days prior to the day on which such rate is calculated by KeyBank, in an amount comparable to the amount of the advance and with a maturity equal to the applicable LIBOR interest period. "LIBOR Business Day" means a day on which (a) banks are not required or authorized to close in Cleveland, Ohio, and (b) dealings are carried on in the London interbank eurodollar market. LIBOR interest period procedures shall be determined in a manner consistent with the Borrower's existing credit agreement governing financing of the Project.
Interest Rate Hedge:	KeyBank is pleased to offer Borrower an option of locking in an effective fixed cost of funds on the Loan through an interest rate swap, cap, or other such interest rate protection product ("Interest Rate Protection Product") at prevailing market rates. The term of such Interest Rate Protection Product shall not exceed the term of the Loan. If Borrower purchases the Interest Rate Protection Product from KeyBank, Borrower shall enter into KeyBank's customary form agreement for such purposes and any indebtedness or other obligations of Borrower arising under such agreement shall contain customary cross default provisions with other loans of the Borrower.
Fees:	Upfront Fee: Fifty basis points (50 bps) of the total Loan payable at closing. Fee to be split pro-rata with Citizens. Administration Fee: $500 per Advance.

Pre-Payment:

Partial or full prepayment of principal of the Loan shall be subject to payment of a pre-payment premium equal to one percent (1%) of the amount prepaid. This fee shall apply from closing date of the Loan through the fifth anniversary thereof. Normal LIBOR breakage charges shall also apply at all times on terms consistent with the Borrower's existing credit agreement governing financing of the Project.

Maturity:

Maximum 19 years. The Loan will mature on the last day of the Construction Period unless it converts to the Permanent Loan, in which case the Loan will mature and be due and payable on the seventeenth (17^{th}) anniversary of the Conversion Date.

Collateral:

Unsecured

Conditions Precedent:

<u>Syndication</u>: Borrower acknowledges that KeyBank will hold a maximum $30,000,000 portion of this Loan. All Loan documentation will need to be reasonably acceptable to both KeyBank and any other Lender.

<u>Representations of Borrower</u>: Borrower hereby represents, warrants and covenants that (a) all information, other than Projections (defined below), which has been or is hereafter made available to Agent or the Lenders by Borrower or any of Borrower's authorized representatives (or on their behalf) in connection with the transactions contemplated hereby (the "Information") is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, taken as a whole, not materially misleading in light of the circumstances under which such statements are made, and (b) all financial projections concerning the Borrower that have been or are hereafter made available to Agent or the Lenders by Borrower or any of Borrower's authorized representatives (the "Projections") have been or will be prepared in good faith based upon assumptions Borrower believes to be reasonable at the time prepared (it being understood that Projections by their nature are subject to uncertainties outside of Borrower's control and that actual results may differ).

Borrower agrees to furnish Agent with such Information and Projections as Agent may reasonably request, consistent with the requirements and limitations of Borrower's governing tariffs, and to supplement the Information and the Projections from time to time until the closing date of the Loan ("Closing Date") so that the representation, warranty and covenant in the preceding sentence is correct on the Closing Date. In issuing this Commitment Letter and in arranging and syndicating the Loan, Agent is, and will be, using and relying on the Information and the Projections (subject to the qualifications set forth above) without independent verification thereof, and Borrower hereby authorizes Agent to make such Information and Projections available to Citizens.

Project Information: Borrower also agrees to provide to the Lenders all plans and specifications, surveys, site plans, environmental reports, soil test reports, budgets, lists of contractors, architect and construction management agreements, municipal approvals, utility letters and such other documentation relating to the Project in the possession of the Borrower and reasonably requested by the Lenders. Receipt of all such information relating to the Project is strictly subject to the Lenders' execution and delivery of a non-disclosure agreement with Borrower consistent with the form of non-disclosure agreement executed in connection with Borrower's existing credit agreement governing the financing of the Project. The Agent may provide such information relating to the Project to one or more of its consultants subject to their execution and delivery of a non-disclosure agreement in substantially the same form.

Confidentiality: The Agent agrees to treat all Information and Projections delivered or made available during the due diligence process as confidential. Disclosure will be limited to any affiliates, employees, officers, attorneys and other advisors of Agent or a Lender or potential Lender who are or are expected to become engaged in evaluating, approving, structuring or administrating the Loan or rendering legal advice in connection therewith; provided that nothing herein shall prevent Agent from disclosing such Information and

Projections: (a) upon the order or request of any court or administrative or regulatory agency or authority; (b) to the extent that such Information or Projections have been publicly disclosed other than as the result of a disclosure by a Lender or its affiliates or representatives; or (c) otherwise as required by law.

Approvals: Borrower shall have received all necessary regulatory, governmental and corporate approvals for the Project and the Loan prior to closing.

Project Review: Prior to closing of the Loan, and subject to the execution and delivery of a non-disclosure agreement as discussed above, the Agent intends to provide information regarding the Project to a consulting engineer, acceptable to both Agent and Borrower, for their review and assessment. This process will provide reasonable assurance that there are sufficient funds available to complete the Project as designed and will assist in creating an appropriate advance schedule. It is the Agent's intent to utilize, if possible, the existing consulting engineer for the Project.

Conditions to Advance: Advances during the Construction Period shall be subject to certain conditions and procedures to be determined prior to closing of the Loan between the Borrower and the Lenders. Borrower acknowledges that such conditions are necessary so that the Lenders can confirm that funds advanced under the Construction Loan are being applied as per the use of proceeds covenant and to provide assurance that the Construction Loan proceeds will be adequate to complete the Project. Such conditions may include use of AIA requisition forms for advances and periodic inspections of the Project and Project documentation by the Agent's consulting engineer.

Insurance: Borrower shall at all times maintain sufficient liability and hazard/risk insurance on the facilities and shall name the Lenders as lender's loss payee and additional insured.

Covenants/Default: Loan documents will contain appropriate covenants and conditions, using existing loan documents to which

KeyBank is a party as a template to the extent appropriate. Financial covenants and ratios will not be used. The Loan documents will include customary affirmative and negative covenants and default provisions, including, but not limited to:

No material adverse change in either the Borrower's OATT or Services Tariffs at any time.

No litigation, judgment, corporate action, corporate structure and/or ownership or regulatory proceeding that could have a materially adverse effect upon the Borrower and its ability to meet its operating and or debt service obligations, credit facilities or loan documents.

No additional debt not covered by Tariffs without prior notice to the Agent and the Lenders and no pledging of collateral or lien encumbrances without prior consent of the Lenders.

Maintain Financial Assurance Policy as required in existing loan documents.

Financial Information:	Provide Borrower prepared unaudited financial statements quarterly within forty-five (45) days of quarter end; and audited financial statements annually within one hundred twenty (120) days of year end.
Other Reporting:	Borrower shall provide other such information as provided in existing loan documents along with other information that the Agent may reasonably request from time to time.
Due Diligence:	Borrower understands that the Commitment is subject to the completion of confirmatory business and legal due diligence by the Lenders.
Other Terms and Conditions:	Borrower acknowledges that the Commitment is subject to negotiation, execution and delivery of final documentation for the Loan consistent with the terms of this letter and otherwise satisfactory to the Lenders and Borrower in their reasonable discretion. The favorable interest rate provided herein is based on the Borrower maintaining its primary operating and clearing

deposit/overnight investment accounts with KeyBank and Borrower maintaining an agreed upon account relationship with Citizens. In the event this business is moved or substantively reduced due to circumstances within the reasonable control of the Borrower, KeyBank will reserve the right to increase the interest rate charged (by increasing the LIBOR spread) on the Loan by a maximum amount to be determined in KeyBank's sole discretion but not in excess of 20 basis points. In the event the Borrower indicates the need to move said business, Lenders agree that they will negotiate in good faith with Borrower to determine if a lower increase, or no increase, on their portion of the Loan than that described above can be accommodated based on substitute business or other conditions.

Indemnification:

Borrower agrees to indemnify and hold harmless Agent, each Lender and each of their affiliates and their respective officers, directors, employees, agents, advisors and other representatives (each, an "Indemnified Party") from and against (and will reimburse each Indemnified Party as the same are incurred for) any and all actual claims, damages, losses, liabilities and expenses (including, without limitation, the reasonable fees, disbursements and other charges of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith) (a) any matters contemplated by this letter or (b) the Loan or any use made or proposed to be made with the proceeds thereof, except to the extent such claim, damage, loss, liability or expense is found in a final, nonappealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or proceeding to which the indemnity in this paragraph applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by you, your equity holders or creditors or an Indemnified Party, whether or not an Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The parties also agree that neither any Indemnified Party nor the Borrower (including its officers, directors, employees, agents, advisors and other representatives) shall have any liability (whether direct or indirect, in contract or tort or otherwise) arising out of, related to or in connection with any aspect of the transactions contemplated hereby, except to the extent of direct, as opposed to special, indirect, consequential or punitive, damages determined in a final, nonappealable judgment by a court of competent jurisdiction. It is further agreed that Agent and the Lenders shall only have liability to you (as opposed to any other person), and that KeyBank and Citizens shall each be liable solely in respect of its own commitment for the Loan on a several, and not joint, basis with any other Lender, and that such liability shall only arise to the extent damages have been caused by a breach of Lenders' obligations hereunder to negotiate in good faith definitive documentation for the Loan on the terms set forth herein, as determined in a final, nonappealable judgment by a court of competent jurisdiction.

This letter and the contents hereof are confidential and, except for disclosure hereof on a confidential basis to your accountants, attorneys and other professional advisors retained by you in connection with the Loan or as otherwise required by law, may not be disclosed in whole or in part to any person or entity without Agent's prior written consent; provided, however, it is understood and agreed that you may disclose this letter after your acceptance of this letter, in filings with any applicable regulatory authorities. KeyBank hereby notifies you that pursuant to the requirements of the USA PATRIOT Act, Title III of Pub. L. 107-56 (the "Act"), KeyBank is required to obtain, verify and record information that identifies Borrower, which information includes the Borrower's name and address and other information that will allow KeyBank to identify Borrower in accordance with the Act.

In connection with all aspects of each transaction contemplated by this letter, you acknowledge and agree that (a) the Loan, if consummated, and any related arranging or other services described in this letter is an arm's-length commercial transaction between Borrower, on the one hand, and Agent and the Lenders on the other hand, and you are capable of evaluating and understanding, and understand and will accept, the terms, risks and conditions of the transactions contemplated by this letter; (b) in connection with the process leading to such transaction, Agent and the Lenders are and have been acting solely as a principal and are not the financial advisor, agent or fiduciary, for you or any of your creditors or employees or any other party; (c) Agent and the Lenders have not assumed and will not assume an advisory, agency or fiduciary responsibility in your favor with respect to any of the transactions contemplated hereby or the process leading thereto and Agent and the Lenders have no obligation to you with respect to the transactions contemplated hereby except those obligations expressly set forth in this letter; and (d) Agent and the Lenders have not provided any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby and you have consulted your own legal, accounting, regulatory and tax advisors to the extent you have deemed appropriate.

The provisions of the immediately preceding paragraph and all provisions related to confidentiality shall remain in full force and effect regardless of whether any definitive documentation for the Loan shall be executed and delivered, and notwithstanding the termination of this letter. Notwithstanding anything contained herein to the contrary, your obligations and liabilities under this letter, other than your obligation of confidentiality, to the extent superseded by the applicable provisions of the loan documentation pertaining to the Loan shall automatically terminate at the time of the closing of and initial borrowing under the Loan. This letter may be executed in counterparts which, taken together, shall constitute an original. Delivery of an executed counterpart of this letter or by telecopier or facsimile shall be effective as delivery of a manually executed counterpart thereof.

This Commitment will expire on March 31, 2012 unless accepted by the Borrower or extended in writing by KeyBank.

Due to the need for various regulatory approvals, it is anticipated that the Loan closing would take place on or about August 31, 2012. If accepted by the Borrower, this letter will expire on September 30, 2012, unless such date is extended in writing by KeyBank and Borrower. Also, the commitments and undertakings of the Lenders and the Borrower shall terminate upon a determination by the New York State Public Service Commission rejecting the Borrower's petition for authority to enter into the Loan, which the Borrower, in its reasonable judgment, elects not to appeal.

By executing this letter, Borrower agrees to reimburse Agent from time to time on demand for all reasonable and documented third-party out-of-pocket fees and expenses incurred in connection with this letter, the preparation of the definitive Loan documentation and the other transactions contemplated hereby whether or not the Loan is closed or this letter is terminated or expires, including, but not limited to, (a) the reasonable fees and disbursements of Phillips Lytle LLP, as counsel to KeyBank and the Agent; and (b) reasonable and documented due diligence expenses incurred in connection with the Loan and the syndication thereof; provided, however, that the aggregate amount of all such expenses (excluding any expenses for environmental reports on the Project Property) shall not exceed $35,000 unless approved by the Borrower, such approval not to be unreasonably withheld.

As further consideration for the time and resources that Agent will devote to the Loan, you agree that, until the earlier of (i) the expiration or termination of this letter, or (ii) the closing of the Loan, you will not solicit, initiate, entertain or permit, or enter into any discussions in respect of, any offering, placement or arrangement of any competing credit facility for the Borrower to finance the Project.

This letter embodies the entire agreement and understanding among the Lenders, the Agent and the Borrower and supersedes any previous letter and all prior agreements and understandings relating to the specific matters hereof.

Please signify The New York Independent System Operator, Inc.'s acceptance of this commitment by signing the enclosed duplicate original of this letter and returning it to the undersigned no later than 5:00 p.m. on March 31, 2012.

We look forward to working with you.

[Signature Page Follows]

KeyBank National Association

William B Palmer

By: ________________________________

William B. Palmer
Senior Vice President

Agreed and Accepted as of March 22, 2012:

The New York Independent System Operator, Inc

By: Mary K. McGarvey

Mary K. McGarvey
Vice President & Chief Financial Officer

Attachment II.

Accrued Interest on Outstanding Indebtedness

NYISO
STATEMENT OF FINANCIAL CONDITION
ACCRUED INTEREST ON INDEBTEDNESS

	At December 31, 2010:								*At December 31, 2011:*				
Facility	Interest Rate	Outstanding Principal		Accrued Interest			Interest Rate	Outstanding Principal		Accrued Interest			
Revolver	n/a	$	-	$	-		n/a	$	-	$	-		
2008-2010 Budget Facility	0.66% - 5.69%	$	40,766,668	$	145,935		0.92% - 5.76%	$	26,171,428	$	83,020		
2011 Budget Facility	n/a	$	-	$	-		2.04% - 3.28%	$	25,000,000	$	40,234		
Mortgage and Renovations Loan	5.79% - 5.96%	$	20,402,678	$	103,021		5.79% - 5.96%	$	19,553,945	$	98,740		
2011 Infrastructure Loan	n/a	$	-	$	-		3.52%	$	3,240,232	$	1,922		
Totals		**$**	**61,169,346**	**$**	**248,956**			**$**	**73,965,605**	**$**	**223,916**		

Attachment III.

Most Recent Unaudited Financial Statements

NEW YORK INDEPENDENT SYSTEM OPERATOR

STATEMENT OF FINANCIAL POSITION

As of December 31, 2011 and 2010

UNAUDITED

		12/31/11		12/31/10
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	$	41,060,857	$	47,665,177
Restricted Cash		349,255,168		391,876,355
Accounts Receivable, net		5,060,630		17,568,728
Prepaid Expenses		5,371,658		6,212,066
Other Assets - current portion		40,257		426,640
Total Current Assets:		400,788,570		463,748,966
Long-Term Assets:				
Regulatory Assets - noncurrent portion		15,581,749		11,214,653
Property and Equipment, net		79,701,455		65,474,278
Other Noncurrent Assets		8,838,152		7,201,685
TOTAL ASSETS:	$	504,909,926	$	547,639,582
LIABILITIES AND NET ASSETS:				
Current Liabilities:				
Accounts Payable and Accrued Expenses	$	95,512,918	$	33,585,951
Market Participant Security Deposits		267,412,535		316,858,130
Market Participant prepayments		1,298,539		60,756,846
Long-Term Debt - current portion		25,116,275		19,743,972
Working Capital Reserve		33,025,562		46,491,807
Deferred Revenue - current portion		3,373,015		2,565,555
Regulatory Liabilities - current portion		2,579,060		4,825,418
Other Current Liabilities		567,790		668,224
Total Current Liabilities:		428,885,694		485,495,903
Long-Term Liabilities:				
Pension and Postretirement Benefit Liabilities		9,182,387		5,981,154
Regulatory Liabilities - noncurrent portion		6,235,818		5,069,954
Other Noncurrent Liabilities		11,756,697		9,667,197
Long-Term Debt		48,849,330		41,425,374
TOTAL LIABILITIES:	$	504,909,926	$	547,639,582
TOTAL NET ASSETS:		-		0
TOTAL LIABILITIES AND NET ASSETS:	$	504,909,926	$	547,639,582

NEW YORK INDEPENDENT SYSTEM OPERATOR

YTD STATEMENT OF ACTIVITIES

FOR THE PERIODS ENDING DECEMBER 31, 2011 AND 2010

UNAUDITED

	For the period ended 12/31/2011	For the period ended 12/31/2010
REVENUES:		
Rate Schedule 1 tariff charge	$ 147,799,883	$ 142,885,022
Grant revenue	3,861,203	2,554,777
Interconnection studies revenue	2,144,776	3,026,064
Fees and services	858,688	859,571
Interest income	7,652	26,830
TOTAL REVENUES	$ 154,672,202	$ 149,352,264
OPERATING EXPENSES:		
Compensation and related benefits	$ 63,852,206	$ 58,871,226
Professional fees and consultants	24,614,700	26,962,191
Depreciation and Amortization	18,911,245	17,103,275
Maintenance, software licenses and facility costs	18,451,821	19,268,508
Federal Energy Regulatory Commission fees	11,291,541	12,020,191
Telecommunication expenses	4,001,117	3,587,445
Administrative and other expenses	3,221,646	3,654,657
Interest expense	2,953,357	3,092,557
Insurance expense	2,720,834	2,806,660
Change in fair value of interest rate swaps and caps	2,383,299	89,054
Training, travel, and meeting expenses	1,611,569	1,609,729
Grant expenses - New York Transmission Owners	570,633	-
Northeast Power Coordinating Council fees	88,234	286,771
TOTAL OPERATING EXPENSES	154,672,202	149,352,264
Change in unrestricted net assets	$ -	$ -
Unrestricted net assets, beginning of year	-	-
Unrestricted net assets, end of year	$ -	$ -

NEW YORK INDEPENDENT SYSTEM OPERATOR

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDING December 31, 2011 and 2010

UNAUDITED

	12/31/2011	12/31/2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ -	$ -
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,911,245	17,103,275
(Gain)/loss on disposition of assets	-	-
Change in operating assets and liabilities:		
Accounts receivable and prepaid expenses	13,348,506	(6,800,559)
Restricted cash	42,621,187	(15,267,032)
Accounts payable and accrued expenses	62,531,914	10,632,571
Market participant prepayments and security deposits	(108,903,902)	11,053,791
Working capital reserve	(13,466,245)	(51,837)
Other assets	(696,459)	4,457,283
Other liabilities	(3,457)	2,828,360
Net cash provided by (used in) operating activities	$ 14,342,789	$ 23,955,852
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(33,743,369)	(26,083,111)
Proceeds on disposition of assets		-
Net cash provided by (used in) investing activities	$ (33,743,369)	$ (26,083,111)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from revolving credit facilities	8,500,000	16,000,000
Net proceeds from 2011 budget facility	25,000,000	-
Net proceeds from 2010 budget facility	7,000,000	23,000,000
Net proceeds from 2011 Infrastructure Loan	3,240,232	-
Repayment of revolving credit facilities	(8,500,000)	(16,000,000)
Repayment of 2010 budget facility	(9,428,571)	-
Repayment of 2009 budget facility	(6,600,000)	(6,100,000)
Repayment of 2008 budget facility	(5,566,667)	(5,566,666)
Repayment of 2007 budget facility	-	(5,000,000)
Repayment of 2006 budget facility	-	(3,876,000)
Repayment of Mortgage & renovation loans	(848,734)	(799,915)
Net cash provided by (used in) financing activities	$ 12,796,260	$ 1,657,419
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	$ (6,604,320)	$ (469,840)
Cash and Cash Equivalents, beginning of period	$ 47,665,177	$ 48,135,017
Cash and Cash Equivalents, end of period	$ 41,060,857	$ 47,665,177

Attachment IV.

Most Recent Annual Report including Most Recent Audited Financial Statements

2010 Annual Report

New York Independent System Operator

RELIABILITY

RESPONSIBILITY

SUSTAINABILITY

NEW YORK INDEPENDENT SYSTEM OPERATOR

NYISO Mission Statement

The mission of the New York Independent System Operator, in collaboration with its stakeholders, is to serve the public interest and provide benefit to consumers by:

- *Maintaining and enhancing regional reliability*
- *Operating open, fair and competitive wholesale electricity markets*
- *Planning the power system for the future*
- *Providing factual information to policy makers, stakeholders and investors in the power system*

Table of Contents

Letter from the Board Chair and President & CEO

2010 was another good year for the NYISO and our customers. We kept the power flowing through one of the hottest months on record, while continuing to deliver value for the people of New York.

Our operators met the challenge of the summer of 2010 when heat waves made July a record-setting month for electricity use. Power system reliability is vital to the 19 million people and thousands of businesses and organizations we serve; but reliability is no accident. It is the result of careful resource planning, top-notch operator training and constant vigilance every hour of every day, year after year.

The NYISO's planning process helps lay the groundwork for reliability by performing a variety of power system assessments, including an annual analysis of future reliability needs. The *2010 Reliability Needs Assessment* found a positive outlook for New York's electric system through 2020, assuming a few key variables remained in check.

In addition to being the defining commitment of the NYISO, the state's power system reliability is also subject to the scrutiny of several regulatory entities that establish many of our reliability metrics and procedures. We underwent a rigorous audit in 2010, and came through with flying colors. The comprehensive audit found that the NYISO meets national and regional reliability standards and compliance requirements.

While still below pre-recession levels, statewide electric energy use increased 3.0 percent from 2009. The value of transactions in the NYISO's wholesale electricity markets also increased in 2010, totaling $6.9 billion compared to $5.6 billion in 2009.

The NYISO's competitive wholesale markets continue to deliver environmental and economic benefits for New York. Since 2000, markets have encouraged the development of demand-side programs that reduce peak demand and provide nearly 2,500 megawatts of new alternatives to traditional generation and transmission resources. More than 8,600 megawatts of cleaner, more efficient generation have been built by public and private suppliers. In addition, significant new interstate transmission capability has been added. These new resources have been predominantly sited in high-use regions of the state where

2,500 megawatts of new alternatives

to traditional generation and transmission resources they are most needed. Encouraged by the price signals provided by the NYISO's market design, much of the added capacity is in the form of emission-free wind power and more efficient natural gas combined cycle units. Also spurred by competitive markets, plant operators have improved their units' efficiency, adding to savings and environmental benefits. Working in tandem with air quality regulations, power markets have helped to make the emissions rates of New York State's electricity generation among the lowest in the U.S.

We continue to support New York State's effort to cultivate clean energy resources. A study we completed in 2010 found that New York's wind generation could be increased more than five-fold, providing economic and environmental benefits, and paving the way to achieve the State's goal of having 30 percent of the state's electricity supplied by renewable resources by 2015. Complementary energy storage technologies are being developed and we have implemented innovative changes in market design to integrate the new technologies. In 2010, developers of energy storage systems, responding to NYISO market innovations, took pioneering steps with advanced battery and flywheel systems in New York State.

As part of the continuing evolution of the NYISO's market design, various software improvements were deployed in 2010 to increase the market's timeliness, accuracy, and transparency. Some of these improvements involved procedures to foster broader regional markets, capacity market enhancements, and upgraded demand response information systems. We also made progress in our efforts to deploy smart grid technologies on New York's power grid.

The NYISO's roles and responsibilities are also constantly evolving and so, in 2010, did its mission, with an added focus on consumer awareness. The focus of our mission, which includes reliability, markets, and planning, was sharpened to explicitly reference our "benefit to consumers." In service of that enhanced focus on consumers, we created a dedicated consumer interest liaison position and took steps to create a Consumer Advisory Council. Both will facilitate the exchange of information between the NYISO and electricity consumers.

As part of our commitment to serve as an authoritative source of energy information, our 2010 Annual Symposium looked at "Planning the Sustainable Grid of the Future." Regulators, legislators, energy industry officials, and members of academia shared diverse perspectives on the increasingly broad and complex energy landscape, and the evolving energy challenges facing our nation.

In 2010, we expanded our regional markets and interregional planning efforts to lay the groundwork for exchanging information, optimizing resources, increasing efficiencies and achieving savings. The Federal Energy Regulatory Commission gave conditional approval to the Broader Regional Markets initiatives we developed in collaboration with our neighboring grid operators, giving a boost to our plans for regional market efficiencies that are expected to provide millions of dollars in annual savings throughout the region.

In addition to increasing our consumer outreach, we collaborate with an ever-expanding population of market participants, neighboring grid operators, regulators, policymakers and other stakeholders. Our unique shared governance system has drawn praise for its effectiveness. With continued, vigorous collaboration, we will increase our success in maintaining and building reliability, bolstering open and competitive markets, and planning for reliable, responsible, and sustainable resources to serve the Empire State.

Karen Antion, Board Chair

Stephen G. Whitley, President & CEO


Photo courtesy of New York Power Authority

2010 in Review

RELIABILITY

Operating a reliable electric grid is at the heart of what we do. It affects the lives and livelihoods of everyone in New York State – and we fulfill that responsibility with a dedication to excellence. This was demonstrated yet again in 2010, when New York's electric system successfully met the highest monthly electric demand on record. In July 2010, New Yorkers consumed 17,312 gigawatt-hours of electricity; beating the previous monthly usage record set in August 2005 and soaring 19 percent higher than power usage in July 2009. New York came close to setting another record, for peak demand, on July 6, when the system recorded an hourly average peak load of 33,452 megawatts, the third highest peak on record.

We were reminded that the key to reliably meeting summer demand is preparation. We meet reliability standards requiring that sufficient generating resources are available, and rigorous operator training to make sure our operators keep the power flowing.

July 2010

17,312 gigawatt-hours

highest monthly demand on record

The NYISO received high marks as the result of a comprehensive audit in 2010 conducted by the Northeast Power Coordinating Council (NPCC). The audit, which reviewed national and regional reliability requirements found us to be compliant with all pertinent North American Electric Reliability Corporation (NERC) reliability standards and requirements.

Commenting on the NYISO's compliance culture, the audit said, "During all contact, the NYISO staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability and security. For those that participated in the audit, it was clear that all were committed to both compliance and the improved reliability and security that a strong compliance program leads to."

POSITIVE OUTLOOK THROUGH 2020

The NYISO's reliability responsibilities are performed in tandem with its planning processes to forecast future demand and evaluate the adequacy of the resources needed to meet it. Central to these efforts is the Comprehensive System Planning Process, which examines New York's bulk power system over the next ten years. Planning studies are conducted in concert with the NYISO's stakeholder process, which provides input from regulators and the market participants who produce, supply, use, transmit, and trade electricity in New York's wholesale electricity markets.

Our *2010 Reliability Needs Assessment* (RNA) reported that electric power resources (generation, transmission and demand response programs) are expected to meet the state's electric reliability needs through 2020, assuming energy efficiency programs and planned resource additions proceed as anticipated and no significant facilities are retired from service. With the finding of no reliability needs, no requests for reliability solutions were solicited. However, the NYISO continues to monitor all industry developments and risk scenarios – including the pace of economic growth and the economic impact of proposed environmental regulations on existing facilities – that have the future potential to impact reliability.

In January 2010, we issued a first-of-its kind economic analysis of transmission congestion on New York's bulk power system; serving as an invitation to developers of transmission, generation and demand response projects to propose solutions in the three most congested corridors.

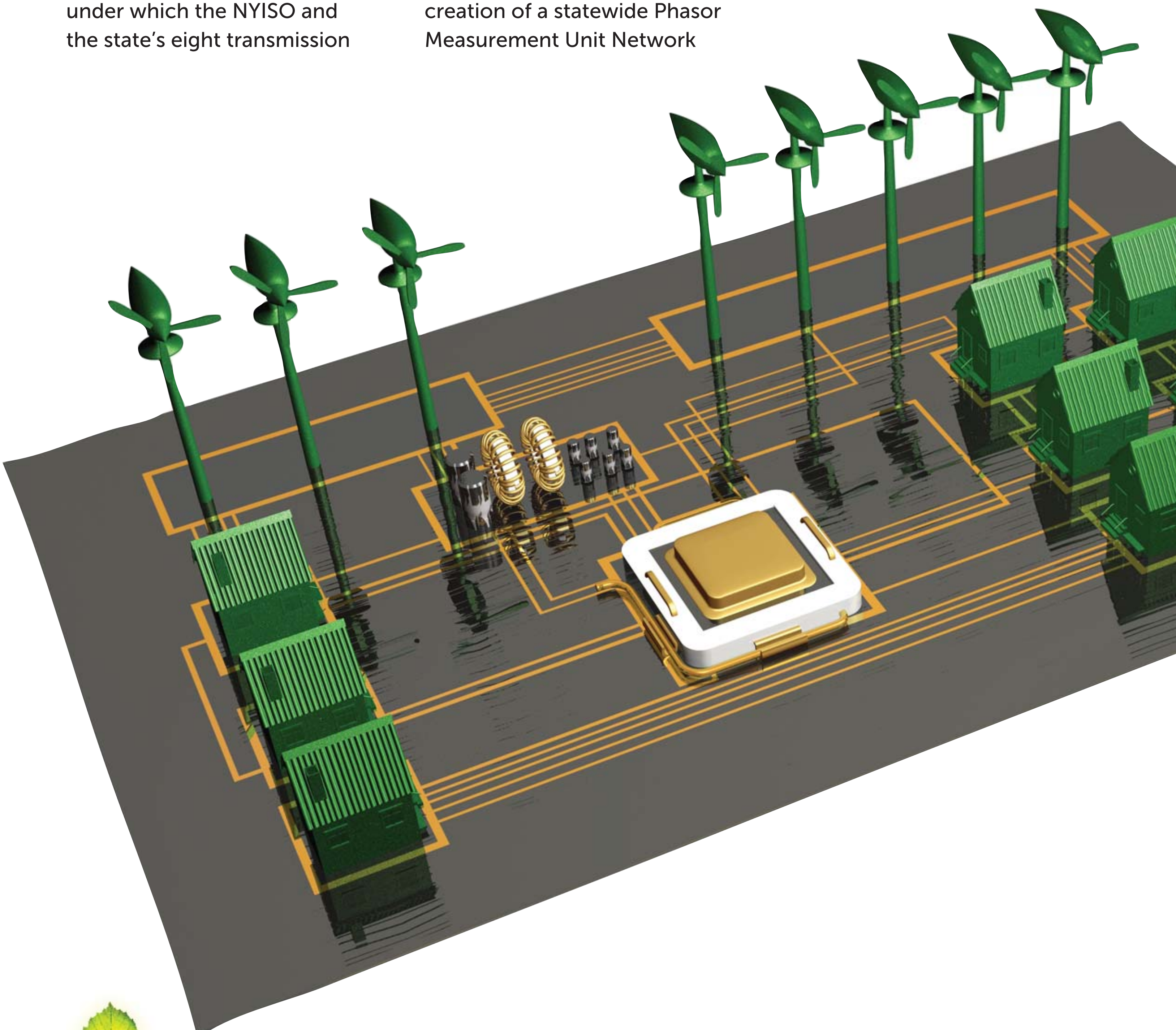
As a complement to the NYISO's planning process, the owners of the interconnected electricity transmission facilities in New York initiated a joint study of the reliability of the bulk power system to help address future electric needs, support the growth of renewable energy sources, and protect the reliability of the power system. Called the New York State Transmission and Reliability Study (STARS), the project is evaluating the lifecycle of New York's transmission assets – with much transmission built decades ago – and identifying potential economically beneficial transmission projects that would reliably support the state's energy needs. STARS will provide potential investment costs and quantify benefits that may be realized from identified transmission projects for various scenarios over a 20-year horizon.

ADVANCED TECHNOLOGY AND SMART GRID

We have been working to make the grid smarter since the NYISO's inception, with technological innovation as one of our core strategic objectives. We have deployed communications and data management advances that have optimized the dispatch of power on the bulk system

Photo courtesy of New York Power Authority in ways that would have been inconceivable a generation ago. Our pioneering efforts include advanced technologies to enable demand response, integrate wind power, and incorporate energy storage.

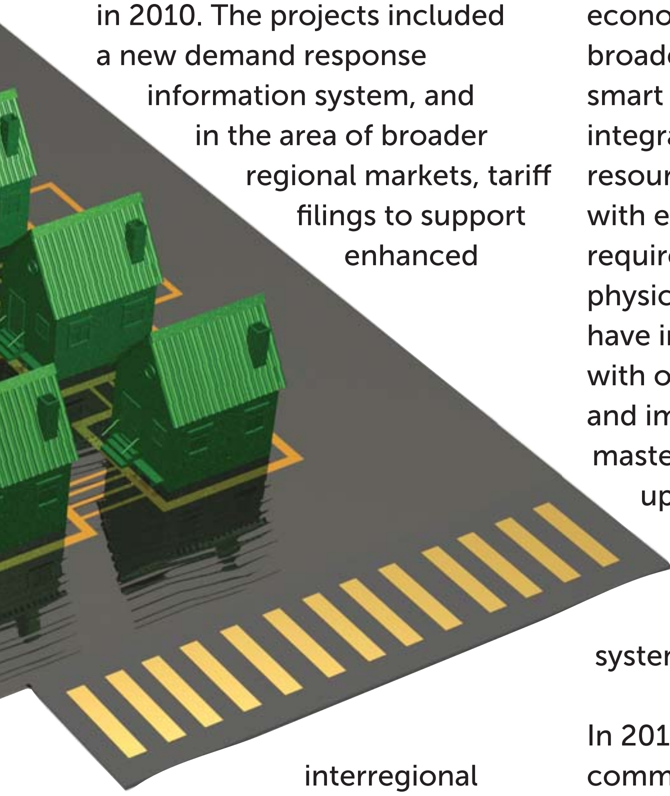
In 2010, we completed an agreement with the U.S. Department of Energy (DOE), under which the NYISO and the state's eight transmission owners will receive $37 million from the DOE to deploy smart grid technologies on New York's power grid. The federal funds, provided under the Smart Grid Investment Grant (SGIG) program, will support a $75 million smart grid project to enhance the reliability and efficiency of the state's power grid. The project features the creation of a statewide Phasor Measurement Unit Network to obtain faster and more in-depth system monitoring data, and the installation of new capacitor banks that can be deployed as needed in key locations throughout the state. These investments will provide the foundation for further development of smart grid infrastructure in New York State.



Smart Grid Investment Grant

$37 million

federal funding to deploy smart grid technologies on New York's power grid



We deployed many software improvements to enhance markets, reliability, and the transparency of our operations in 2010. The projects included a new demand response information system, and in the area of broader regional markets, tariff filings to support enhanced interregional transaction coordination. We filed our first fully electronic tariff with the FERC in June, becoming the first ISO/RTO to have its electronic filing accepted under FERC's new eTariff system.

INFRASTRUCTURE MASTER PLAN

Given our expanding responsibilities in areas such as economic and resource planning, broader regional markets, smart grid implementation, the integration of variable, renewable resources and compliance with evolving reliability requirements, the NYISO's physical infrastructure needs have increased. We have worked with our stakeholders to devise and implement an infrastructure master plan. Providing the most up-to-date facilities and system infrastructure is an important component of maintaining power system and market reliability.

In 2010, the NYISO commissioned studies that indicate significant opportunities for efficiency gains through modernization and consolidation, including development of a new Data Center, which could yield up to $200,000 in annual power use efficiencies.

A study of the 40-year-old Power Control Center found that while it accommodates existing responsibilities, a new center must be built to address the NYISO's expanded responsibilities, and recommended converting the current facility into a sustainable back-up control center. In late 2010, we submitted a petition for approval of long-term financing of the infrastructure plans to the New York State Public Service Commission.

RESPONSIBILITY

STRATEGIC PLANNING

To develop, implement and assess our success in fulfilling the NYISO's mission, we conduct comprehensive, integrated corporate planning. The process of developing the NYISO five-year Strategic Plan, annual Business Plan, annual Corporate Goals and Objectives and yearly individual performance plans build upon and reinforce one another. The long-range vision of the Strategic Plan sets overall objectives, the implementation of which is detailed in the specific projects contained in the annual Business Plan, and in the metrics established by the annual goals and objectives. These elements inform the individual performance plans of each NYISO employee.

LEADERSHIP TEAM

We are committed to excellence and continued improvement of our ability to respond to near-term and long-range challenges. That effort includes enhancement of our management structure. In 2010, we named Rick Gonzales to the new position of Senior Vice President and Chief Operating Officer (COO) -- second in command to the President and CEO -- and responsible for system operations, system planning and information technology. Rick has been with the NYISO since its inception, and most recently served as Vice President of Operations. Our management restructuring also included the promotion of two team members to key leadership positions. Rich Dewey was named Senior Vice President and Chief Information Officer, and Rana Mukerji was named Senior Vice President of Market Structures.

We prepared for the transition of Board leadership scheduled to take place in April 2011.

At the Annual Meeting of the Board of Directors in April 2010, Karen Antion was re-elected by the Board to continue her role as Chair for a year. She has served on the NYISO Board since its inception and has served as Board Chair since April 2006. Robert A. Hiney was elected by the Board of Directors to serve as Vice Chair until he assumes the responsibility of chairing the Board at the completion of Karen Antion's term as Board Chair in 2011. Mr. Hiney has been a member of the NYISO Board since April 2006.

The Board also decided in 2010 to return to a more traditional governance structure. When the Board appointed a new President and CEO in July 2008, the duties of the Board Chair were expanded to focus on strategic and public policy matters. In the role as working chair, Karen Antion was

instrumental in guiding the NYISO's success as it capped a decade of accomplishments with one of our best years ever in 2009. The working chair position, which was intended as transitional, has been retired.

In 2010, the Board also retained former FERC commissioner Suedeen Kelly to serve as a strategic energy policy advisor, providing guidance on issues of strategic importance to the NYISO and New York's energy future.

REGULATION AND OVERSIGHT

Committed to transparency in all its forms, the NYISO is regulated by the Federal Energy Regulatory Commission (FERC) and the New York State Public Service Commission (PSC). We are also subject to the rigorous oversight of the North American Electric Reliability Corporation (NERC), the Northeast Power Coordinating Council (NPCC), and the New York State Reliability Council (NYSRC).

The NYISO has a number of controls in place to make sure that we are doing the best job possible. For nine consecutive years, we have received an unqualified SAS (Statement on Auditing Standards) 70 Type 2 audit opinion from an independent accounting firm.

The audits scrutinize the controls related to the NYISO's settlement processes and systems for bidding, accounting, billing and settlements of energy, regulation, capacity, transmission, reserves and related market transactions. "The NYISO's record of consistently obtaining unqualified audit opinions highlights our commitment to excellence in the operation of the bulk electricity grid and administration of the wholesale electricity markets in New York State," NYISO President & CEO Stephen Whitley commented in 2010.

COMPETITIVE, COMPREHENSIVE AND EFFICIENT MARKETS

Our wholesale electricity markets were found to be competitive, comprehensive and efficient in the *2010 State of the Market Report: New York ISO Electricity Markets* by Potomac Economics, which serves as the NYISO's external Market Monitoring Unit.

9 Consecutive Years

unqualified SAS (Statement on Auditing Standards) 70 Type 2 audit opinions from an independent accounting firm

"The energy, capacity, operating reserves, and regulation markets performed competitively in 2010," the report said. The market monitor's assessment highlighted some of the unique attributes of our markets that contribute to efficient operations. These include systems that optimize generation dispatch and a mechanism that allows demand-response resources to set energy prices when they are needed.

The report also noted that on-going market efficiency improvements are underway. These improvements include the reduction of "uplift" charges, and the implementation of the Broader Regional Market initiatives.

More than 4,000 Customers

registered to participate in demand response programs

The average cost of wholesale electricity in New York was $59 per megawatt-hour (MWh) in 2010. While that represents an increase over 2009's historic low ($49/MWh), it is considerably below 2008 when costs averaged $95/MWh. The market monitor's report found that higher fuel costs and higher load levels, due to increased economic activity and hotter weather, were responsible for increases in energy prices in 2010.

Uplift charges decreased 21 percent from $287 million in 2009 to $228 million in 2010, according to the market monitor's report. Contributing to the decline was a reduction in supplemental generator resource commitments for reliability in New York City, and operational enhancements that we have implemented. Uplift is a broad category of charges applied to all market participants for costs incurred in reliable operation of the grid. They are not set through a competitive mechanism.

The report found that congestion-exacerbating Lake Erie loop flows in New York fell by 65 percent from 2009 to 2010. In addition, the NYISO is developing market enhancements that will help improve the efficiency of flows among neighboring control areas. "The Broader Regional Market Initiatives developed by the NYISO and other RTOs around Lake Erie will improve the efficiency with which these flows are managed," the report states.

ENCOURAGING INNOVATION AND OPTIMIZING RESOURCES

Competitive wholesale electricity markets have fostered reliability, yielded environmental benefits, and provided significant additional power resources in New York State. Investments have targeted high-demand areas -- New York City, Long Island and the Hudson Valley -- where they are needed the most. Such investment in high-demand areas has saved an estimated $500 million from avoided costs of transmission congestion and power line construction.

Innovative programs enlisting consumers to reduce their power during times of peak demand have added nearly 2,500 megawatts of demand response resources. More than 4,000 customers have registered to participate in these programs, which help the NYISO manage system peaks with demand-side alternatives to traditional power supply resources.

Since 2000, New York has added more than 8,600 megawatts of new, more efficient generation capacity – built by public power and private developers – with 80 percent sited in the high-demand regions of southeastern New York. In addition, nearly 1,300 megawatts of new transmission capability has been added to bring more power from out of state, all of it serving southeastern New York.

ENHANCED CONSUMER FOCUS

As part of the continuing evolution of the NYISO, we took several steps in 2010 to sharpen our focus on the ways wholesale electricity markets affect end-use consumers. We moved to strengthen our outreach to ultimate consumers to increase our understanding and awareness of their interests, as well as promote their understanding of what the NYISO does and how it affects them. We revised the NYISO mission statement in 2010 to specifically reference providing benefit to consumers and we moved to enhance attention to consumer concerns through the appointment of a consumer interest liaison. This role serves as a key point of contact for consumer interests and is responsible for developing and programs to promote mutual understanding of how developments in our competitive wholesale markets provide value to end-use consumers. The consumer liaison acts as the primary spokesperson with state and local government consumer agencies and coordinates the NYISO's expanding consumer-related initiatives.

In 2010, we also set the stage for creation of a Consumer Advisory Council in 2011. The council is intended to provide a forum for the exchange of information with electricity consumers, with a focus on information sharing, outreach and education. The council will study the current activities being undertaken by the NYISO, become familiar with the NYISO's strategic plan, learn about anticipated developments in the electric industry and provide the NYISO Board of Directors with recommendations as to how we can best serve New York's electricity consumers.

AUTHORITATIVE INFORMATION

The NYISO has long been considered a model ISO; with a market design second to none and the successful operation of a highly complex power system. Since our founding, more than 1,200 visitors representing hundreds of companies and governments from 65 nations around the world have toured our power control center and received briefings on our grid operations, wholesale electricity markets, and system planning. In 2010, representatives of electric utilities, grid operators, and energy officials from Brazil, China, Ghana, Japan, Norway, South Korea, and Ukraine were among those visiting the NYISO.

As an authoritative source of information on key energy issues, we continue to actively provide objective data and unbiased analysis. In 2010, these efforts were facilitated by a redesigned website providing easier access to a wide array of information on grid operations, market conditions, and the proceedings of the shared governance process. NYISO personnel provided over 50 presentations and briefings to state, regional, national and international energy industry conferences, regulatory proceedings and other governmental forums.

We hosted our own annual symposium on evolving energy issues, *Planning the Sustainable Grid of the Future*, featuring expert panelists and over 300 attendees from government, industry and the academic community. *(A summary of the symposium proceedings is provided later in this report.)*

SUSTAINABILITY

Competition in wholesale electricity markets has helped to stimulate investments in cleaner generation, increased the use of renewable resources – such as wind and solar power – and encouraged improvement in the overall efficiency of power plants. The system-wide heat rate of New York's fossil-fueled power plants has improved over the past decade. A lower heat rate means that less fuel is burned – and fewer emissions are created – to produce the same amount of electricity. Power plant availability has also improved, adding megawatts to the system without additional capital costs or environmental impacts.

Significant positive environmental impacts have resulted from market forces complementing the goals of air quality regulations to reduce emissions. In New York State, the rate of power plant emissions of Sulfur Dioxide (SO_2), Nitrogen Oxides (NOx), and Carbon Dioxide (CO_2) has sharply declined since 1999. The SO_2 rates have seen the most dramatic decline, dropping more than 80 percent. NOx rates dropped more than 60 percent and CO_2 rates dropped by 25 percent. The emission rates of New York State's electricity generation – measured in tons per megawatt-hour – rank among the lowest in the continental United States. New York's CO_2 emissions rate ranks 10th lowest; its NOx and SO_2 emissions rates rank 12th lowest.

Through our advanced market design and efficient grid operations, the NYISO has helped New York State take the lead in the integration of cleaner and greener power resources.

To reliably address the growth of wind generation, the NYISO has implemented pioneering measures such as a centralized wind forecasting initiative. The NYISO is also the first grid operator in the nation to institute a wind dispatch system based on the offers of individual generators.

In 2010, we completed a multi-year study, which found that wind generation could be increased by over five times the amount currently operating in New York. The report looked at expanding New York wind generating capacity from

Since 1999

80 percent

SO_2 emission rate reduction

1,275 megawatts to as much as 8,000 megawatts by 2018. In 2010, more than 7,000 megawatts of proposed wind projects had been submitted to the NYISO for potential interconnection to the electric grid.

The study found that any operational requirements associated with integrating wind energy could be addressed in furthering New York State's goal of having 30 percent of the state's electricity supplied by renewable resources by 2015.

"30X15" goal

30 percent

of New York State's electricity supplied by renewable resources by 2015

The growth of wind power has led to significant additional research into complementary energy storage technologies, and the NYISO has implemented pioneering changes in market design to help accommodate them. The NYISO is the first grid operator in the nation to implement federally approved energy storage market rules to encourage their development.

Various companies are developing grid-scale energy storage facilities in the state based on flywheel and battery technology. Beacon Power built a 20-megawatt flywheel energy storage facility in Stephentown. The flywheel system is a series of rotating mechanical devices that use electricity from the grid to store kinetic energy and then discharge electric energy to the power system to provide system regulation instantaneously balancing load and supply. AES Energy Storage completed the first phase of a planned three-phase 20-megawatt battery storage system. The facility, which entered commercial operation in January 2011, uses advanced lithium-ion batteries that convert electricity into chemical energy for storage and later release back to the power system.

ENVIRONMENTAL/ENERGY BALANCE

We are especially cognizant of the close interrelationship of energy and environmental concerns. In 2004, we created an Environmental Advisory Council to provide guidance on the environmental consequences of NYISO practices and operations. We remain the only ISO/RTO with an advisory body focused exclusively on environmental matters.

The studies we conduct as part of our Comprehensive System Planning Process address environmental considerations. Among the risk scenarios examined by recent reliability assessments is the potential cumulative impact of emerging state and

federal environmental regulations affecting power plant air emissions and water withdrawals and discharges.

The NYISO and its stakeholders will continue to work with state and federal energy and environmental policymakers to make sure they are aware of all the options and impacts, and to keep environmental concerns foremost in mind while sustaining the reliable supply of electricity.

BROADER REGIONAL MARKETS

In 2010, we made significant progress with our Broader Regional Markets initiatives to improve coordination among regional grid operators, resolve seams issues, and reduce costs to consumers. At the beginning of the year, we proposed a series of initiatives to the FERC, encompassing the grid operators serving the Mid-Atlantic, Midwest, and New England regions of the U.S., as well as the Canadian Provinces of Ontario and Quebec. Proposed new procedures would allow grid operators to use lower-cost resources from neighboring systems to address congestion. Also under the proposals, schedulers of inter-area transactions would be charged for the cost of congestion based on the physical flow of power, unlike the current settlement determination that is based only on the contract path. In addition, transaction scheduling timing would be coordinated to allow market participants to more quickly adjust to market-to-market pricing patterns.

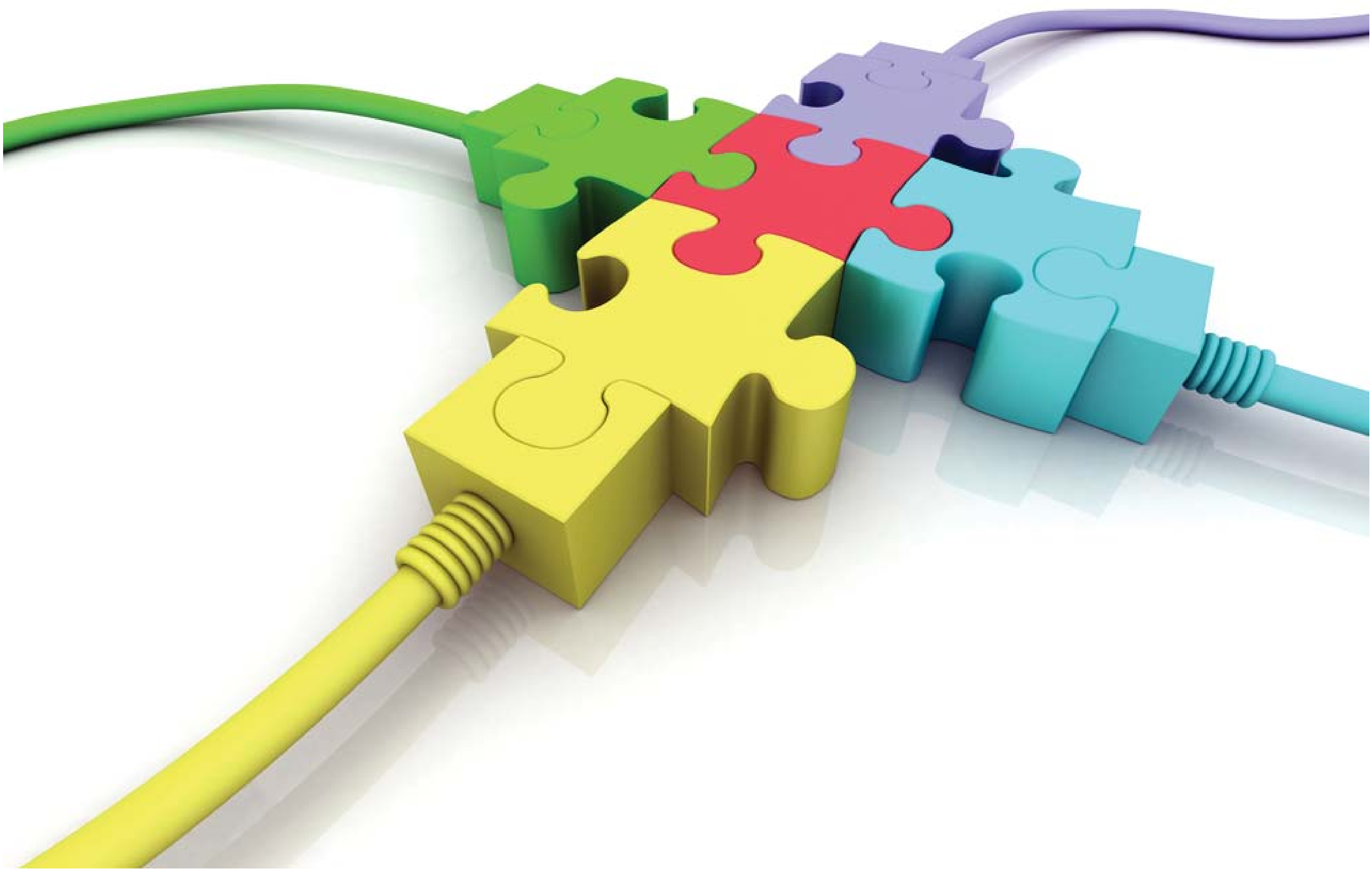
In July 2010, FERC approved these initiatives, which included modeling and mechanisms for interregional transaction coordination, market-to-market coordination and alleviating transmission congestion. In its approval order, FERC noted, "… these planned regional initiatives will be designed to reduce uplift costs and lower total system operating costs …" The FERC order further stated, "We commend the NYISO and the entities with whom it has collaborated in developing the recommendations and proposals. We agree that these planned regional initiatives, taken as a whole, appear to represent a constructive, workable solution for minimizing the occurrence of the Lake Erie region loop flow."

Loop flows had exacerbated congestion in New York in 2008. The NYISO, in addition to curtailing the transactions that contributed to the problem, initiated enhanced modeling and analysis processes. Unscheduled flows moderated and "uplift costs" were reduced.

A September 2010 analysis by Potomac Economics of the impact of broader regional markets initiatives estimated annual regional savings of estimated annual regional savings of

$362 million a year

from broader regional markets initiatives



approximately $362 million a year, with the estimated savings associated with New York at $193 million a year.

EXPANDED INTERREGIONAL PLANNING

Our efforts to plan the future of the grid, and meet the power needs of New York's consumers, extend beyond our state's borders. We are a leader in the Eastern Interconnection Planning Collaborative (EIPC), with NYISO President and CEO Stephen Whitley chairing the EIPC Executive Committee. The EIPC is a pioneering, grassroots effort being developed and led by 26 planning authorities from the US and Canada to conduct transmission analyses at the interconnection level. Working with federal funding awarded by the Department of Energy, the EIPC is focused on the roll-up, integration, and analysis of existing regionally developed plans.

In 2010, the EIPC announced the formation of a 29-member stakeholder steering committee to provide strategic input into the interconnection-wide transmission analysis and planning efforts. The stakeholder committee structure was developed through a series of discussions among consumers, environmentalists, electricity suppliers, transmission providers, energy service companies, public power entities, renewable energy interests, demand response providers, and representatives of state, provincial and federal governments.

On regional and nationwide levels, we also participate in other grid groups who exchange information and engage in collaborative planning. One of these is the ISO/RTO Council (IRC), comprised of ten Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs) in North America. These organizations serve two-thirds of electricity consumers in the US and more than half of Canada's population. The IRC works collaboratively to develop effective processes, tools and methods for improving competitive markets across North America. The goal is to balance reliability considerations with market practices, resulting in efficient, robust markets that provide competitive and reliable service to electricity users.

"CONTINUING VALUE TO CONSUMERS ..."

In another project involving both interregional planning and broader regional markets, the NYISO and the six other ISO/RTOs regulated by the FERC devoted extensive time and effort in 2010 jointly compiling a comprehensive metrics report for the regulatory agency. It was compiled as part of the FERC's efforts to develop standardized measures to track the performance of grid operations and power markets. The *2010 ISO/RTO Metrics Report* was submitted to the FERC in December and provided extensive data, including 50 separate metrics providing information on electric system reliability, wholesale electricity market benefits and organizational effectiveness. The metrics initiative is also helping the NYISO sustain and enhance transparency, identify strengths and gaps in order to address challenges, and maintain and bolster collaborative efforts with stakeholders, regulators and policymakers.

Commenting on the report, FERC Chairman Jon Wellinghoff said, "The total body of this information validates not only the transparency and efficiency of these organized wholesale electric markets, but their continuing value to consumers."

As outlined in this report, New York and the nation face many complex energy and economic challenges and choices that are best overcome by united, collaborative efforts. In the future, the NYISO will continue to serve the public interest and provide benefits to consumers by fulfilling – with excellence – our core mission and growing responsibilities on behalf of the people of New York.

PSC Chairman Garry Brown in discussion with (from left to right) Gordon van Welie, President and CEO, ISO New England; Terry Boston, President and CEO, PJM; Stephen Whitley, President and CEO, NYISO; and Kevin Burke, President and CEO, Con Edison

Planning the Sustainable Grid of the Future

2010 Symposium

Energy policy makers, regulators and industry leaders from New York and around the country met at the NYISO's annual symposium in April for discussions on a range of topics related to the future of energy. The event featured a keynote address by FERC Commissioner Marc Spitzer, as well as three panel discussions.

NYISO President & CEO Stephen Whitley delivers Opening Remarks.

NYISO President and CEO Stephen Whitley opened the conference with remarks about building a sustainable economic recovery. He noted that a variety of factors would affect the nature of the recovery, including state and federal policies promoting energy efficiency, new technologies, increased use of renewable energy, and expanded environmental regulation of power production.

Creating a smarter grid, he said, involves a new vision of the interaction between the power system and the consumer. "Customers will be empowered with access to detailed pricing information, while system operators such as the NYISO will have more and better tools to manage an increasingly sophisticated bulk electricity system."

"Technology and teamwork will be vital to the effort," Whitley noted as he stressed the need to remove barriers to trade and improve the flow of power between regional power markets. The use of variable energy resources, such as wind power, and storage would be enhanced by increased collaboration and cooperation among grid operators, he said.

BROADER REGIONAL MARKETS

New York State Public Service Commission Chairman Garry Brown moderated a panel that focused on the value of enhanced regional power markets as well as the benefits and challenges associated with improving

PSC Chairman Garry Brown (left) moderates panel on Broader Regional Markets. Also pictured are Gordon van Welie (center), ISO-NE President & CEO, and Terry Boston (right), PJM President & CEO regional market efficiency. Panelists included Gordon van Welie, President and CEO, ISO New England; Terry Boston, President and CEO, PJM Interconnection; Stephen Whitley, President and CEO, NYISO; Kevin Burke, President and CEO, Con Edison; and Assemblyman Kevin Cahill, Chair, NYS Assembly Energy Committee.

The panel discussed the need for the interests of end-use consumers to be considered in planning broader regional markets. They encouraged a dialog with customers in terms of the smart grid, the role of grid operators, and the benefits of broader regional markets, noting that broader regional markets will help resolve "seams" issues between grid control areas and optimize the value of variable energy resources.

KEYNOTE ADDRESS BY FERC COMMISSIONER MARC SPITZER

FERC Commissioner Marc Spitzer delivers keynote address.

Commissioner Spitzer stressed that a three-pronged approach of market-based solutions, infrastructure improvements and consistent application of the rule of law is the most effective way to enhance and sustain a reliable grid. He said that successes in New York State are due to collaborative efforts between utilities, regulators, policymakers and the NYISO. He said that while there continue to be challenges in adopting new federal energy and climate change policies, it is important to reflect on the progress being made at the state level, including the successes of the NYISO. "New Yorkers should be proud of their commitment to energy markets, reliability and the rule of law," Spitzer said.

CARBON CONTROLS

The second panel, The Carbon Constrained Economy, was moderated by Paul DeCotis, Vice President of Power Markets, Long Island Power Authority (LIPA). The panel discussed the technology, challenges, and benefits associated with greenhouse gas reduction initiatives. Panelists included Arshad Mansoor, Vice President of Power Delivery and Utilization, Electric Power Research Institute (EPRI); Gavin Donohue, President and CEO, Independent Power Producers of New York (IPPNY); Senator George Maziarz, Chair, NYS Senate Energy Committee; Frank Murray, President and CEO, New York State Energy Research and Development Authority; Marilyn Brown, Professor, School of Public Policy, Georgia Institute of Technology, and member of the National Academies of Science Board on Energy and Environmental Systems; and Odin Knudsen, Managing Director of Carbon Strategy and Business Development, JP Morgan.

The panelists discussed which of the various measures -- cap and trade, a carbon tax, and/or increased energy efficiency -- would be the best way to achieve carbon reduction.

LIPA VP Paul DeCotis moderates panel on Carbon Controls.

TRANSMISSION PLANNING

The final panel was moderated by Maureen Harris, Commissioner, NYS Public Service Commission. It focused on the need for a collaborative planning process for broader regional planning. Panel participants included Tom Congdon, NYS Deputy Secretary for Energy; David Whiteley, Executive Director, Eastern Interconnection Planning Collaborative (EIPC); Patricia Hoffman, Principal Deputy Assistant Secretary, U.S. Department of Energy; William Hogan, Professor, John F. Kennedy School of Government, Harvard University, and Research Director, Harvard Energy Policy Group; and Mary Ellen Paravalos, Vice President, Transmission and Commercial Services, National Grid.

Panelists expressed agreement that expanded interregional planning means sharing information about emerging energy needs and working together to develop solutions. The enhancement of interregional planning will provide a wider horizon for improvements in reliability.

NYISO Board of Directors

Karen Antion, Board Chair
President of Karen Antion Consulting, LLC and former Senior IT Executive at Oracle Corporation and the Port Authority of New York and New Jersey

Michael B. Bemis
Former President of Exelon Power and President of Energy Delivery for the Exelon Corporation

Ave M. Bie
Partner in the law firm of Quarles & Brady and former Chair of the Wisconsin Public Service Commission

Alfred F. Boschulte
President of AFB Consulting, specializing in strategic planning and operating margin improvements for telecommunications firms

Robert A. Hiney, Board Vice Chair
Former Executive Vice President for Power Generation of the New York Power Authority (NYPA)

Erland E. Kailbourne
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President and CEO of Energy Market Solutions, Inc. and former President and CEO of DPL Inc., a regional energy and utility company

Thomas F. Ryan, Jr.
Former President and COO of the American Stock Exchange

Richard E. Schuler
Professor Emeritus of Economics and Civil/Environmental Engineering at Cornell University and former New York State Public Service Commissioner and Deputy Chairman

Stephen G. Whitley
President and CEO – New York Independent System Operator

NYISO Leadership Team Corporate Officers

Stephen G. Whitley
President and CEO

Rick Gonzales
Senior Vice President and Chief Operating Officer

Richard Dewey
Senior Vice President and Chief Information Officer

Rana Mukerji
Senior Vice President, Market Structures

Wayne M. Bailey
Vice President, Enterprise Services and Chief Compliance Officer

Henry Chao
Vice President, System and Resource Planning

Diane L. Egan
Board Secretary and Corporate Secretary

Robert E. Fernandez
General Counsel

Mary McGarvey
Vice President and Chief Financial Officer

Thomas J. Rumsey
Vice President, External Affairs

Shared Governance Leadership

Under a unique shared governance system, the NYSIO is governed jointly by an independent Board of Directors, working with market participants – transmission owners, generation owners, other suppliers, end-use consumers, public power and environmental parties.

The NYISO has three standing stakeholder committees: the Management Committee, the Business Issues Committee, and the Operating Committee. Each of these committees oversees its own set of subject-matter specific working groups and subcommittees. These committees provide stakeholders with the opportunity to participate in a forum where issues regarding the administration of the markets, the operation of the New York's bulk power system, and future system planning are discussed, debated, and voted on. In 2010, the NYISO conducted 250 meetings, involving monthly sessions of the major committees and frequent meetings of sub-committees, task forces, and working groups.

The NYISO's governing documents establish specific responsibilities for the stakeholder committees. The committees perform such responsibilities in accordance with each committee's by-laws and in coordination with work performed by NYISO management and staff. Stakeholders perform an array of duties in the shared governance process, including:

- *preparing the NYISO's annual budget,*
- *reviewing and recommending candidates for Board vacancies,*
- *developing and adopting technical guidelines for operation of the bulk power system,*
- *developing and adopting enhancements in market design, and*
- *developing and reviewing system planning reports.*

Notably, NYISO stakeholders share responsibility with the NYISO Board in developing and approving proposed changes to the NYISO's governing documents, including its federally-approved tariffs. The Management Committee must endorse any proposed change sought by the Board to the NYISO's governing documents that will be filed for FERC review under Section 205 of the Federal Power Act.

A FERC order in 2008 cited the collaborative results of the NYISO's shared governance system, stating, "The Commission commends NYISO and the stakeholders for working together to resolve many issues…"

By maintaining an open, collaborative process, the various elements of NYISO's mission and expanding roles are understood by all who participate. This interdependent system and commitment to consensus building is an invaluable asset as the NYISO moves forward to meet future challenges.

2010 Committee Chairs and Co-Chairs

Management Committee

Glen McCartney - *Chair*
(Constellation)

Stu Nachmias - *Vice Chair*
(Con Ed)

Business Issues Committee

Glenn Haake - *Chair*
(Dynegy)

Bart Franey - *Vice Chair*
(National Grid)

Operating Committee

John Marczewski - *Chair*
(East Coast Power)

Brad Kranz - *Vice Chair*
(NRG)

MARKET PARTICIPANTS

330 Investment Management LLC
3M Company
AB Energy NY, Pty.Ltd.
Absolute Energy Inc.
Accent Energy Midwest II, LLC
Accent Energy Midwest, LLC
Ace Energy Company, Inc.
AES Eastern Energy, L.P.
Affordable Power, L.P
AG Energy, L.P.
Agway Energy Services LLC
Aleph One Inc.
Amber Power, LLC
Ambit New York, LLC
American Utility Consultants
Amerinco, LLC
Amherst Utility Cooperative
Arctos Capital LLC
Astoria Energy II, LLC
Astoria Energy LLC
Astoria Generating Company, L.P.
Athens Generating Company
Atlantic Energy Services, Inc.
August Power, LLC
Automated Energy, Inc.
Axon Energy
Bank of America NA
Barclay's Bank PLC
BBPC, LLC, d/b/a Great Eastern Energy
BG Energy Merchants, LLC
BJ Energy LLC
Black Oak Energy, LLC
Blue Rock Energy, Inc.
BluePoint Energy
BNP Paribas Energy Trading GP
Boralex Hydro Operations, Inc.
Boralex New York LP
BP Energy Company
Brookfield Energy Marketing, LP
Brookfield Renewable Energy Marketing
US LLC
Brown's Energy Services
Bruce Power Inc.
Buy Energy Direct, LLC
Calpine Energy Service L.P.
Cambridge Valley Enterprises LLC
Canandaiuga Power Partners, LLC
Canastota Wind Power, LLC
Cargill Power Markets, LLC
Carr Street Generating Station
Castleton Power, LLC
Catskill Mts.Energy Corp.
CBA Endeavors, LLC
CBK Group, Ltd.
CECONY-LSE
Centaurus Energy Master Fund
Central Hudson Gas & Electric
Central Vermont Public Service Corp.
Centre Lane Trading Ltd
CHI Power Marketing, Inc.
Chief Energy Corporation
Citadel Energy Investments Ltd.
Citadel Energy Strategies LLC
Citigroup Energy Inc.
Citizens Choice Energy, LLC
City of Niagara Falls
City Power Marketing, LLC
Clearview Electric, Inc.
Columbia Utilities Power, LLC
Commerce Energy, Inc.
Conoco Phillips Company
Conservation Services Group
Consolidated Edison Company of NY, Inc.
Consolidated Edison Energy, Inc.
Consolidated Edison Solutions, Inc.
Consolidated Hydro New York
Constellation Energy Commodities
Constellation NewEnergy 1123-DADRP
Constellation NewEnergy, Inc.
Core Equities, Inc.
County Energy Services, LLC
County of Erie
County of Niagara
Covanta Niagara, LP
CP Energy Marketing (US) Inc. f/k/aEP-
COR Energy Marketing (US) Inc.
Credit Suisse (USA) Inc.
Credit Suisse Energy, LLC
Crucible Specialty Metals
Cummings Inc.
Cutone & Company Consultants, LLC
DART Premiums
David Sholk, LLC
Day Automation Systems, Inc.
DB Energy Trading LLC
DC Energy New England, LLC
DC Energy New York, LLC
DC Energy, LLC
Delaware County Electric Cooperative, Inc.
Demand Response Partners, Inc.
Direct Energy Marketing, Inc.
Direct Energy Services LLC
Discount Energy LLC
Dominion Retail, Inc.
drop 18 Energy
DTE Energy Trading Inc.
Dynamic PL, LLC
Dynamis ETF, LLC
Dynegy Marketing and Trade, LLC (DMT)
Dynegy Power Marketing, Inc.
Eagle Creek Hydro Power, LLC
Eagle Creek RE Management, LLC
Eagle Power, LLC
East Coast Power LLC
EDF Industrial Power Services (NY), LLC
EDF Trading North America, LLC
Edison Mission Mktng & Trading
E-Energy, Inc.
eKapitol NY, LLC
Emera Energy Services Inc.

Emera Energy Services Subsidiary No. 1, LLC
Emera Energy U.S. Subsidiary No. 2, Inc.
Emera Energy US Sub. No. 1
Empire Generating Company LLC
Empire Natural Gas Corp.
Empire Power Systems LLC
Endure Energy, LLC
Energetix, Inc.
Energy Connect, Inc.
Energy Conservation & Supply, Inc.
Energy Cooperative of America, Inc d/b/a Energy Cooperative of New York
Energy Curtailment Specialists, Inc.
Energy Enterprises Inc.
Energy Investment Systems, Inc.
Energy Plus Holdings LLC
Energy Services Providers, Inc. dba US Gas & Electric
Energy Solutions Group LLC
Energy Spectrum, Inc.
EnerNOC, Inc.
Enerwise Global Technologies, Inc.
Engage Networks, Inc.
Enhanced Energy Services
Entergy Nuclear Fitzpatrick, LLC
Entergy Nuclear IP-2 LLC
Entergy Nuclear IP-3 LLC
Entergy Nuclear Power Marketing, LLC
Entergy Solutions, LLC
Erie Blvd. Hydropower LP
Exelon Generation Company, LLC
FC Energy Services Company, LLC
First Commodities Ltd.
FirstLight Power Resources Management, LLC
Flat Rock Windpower II LLC
Flat Rock Windpower LLC
Fluent Energy Corporation
Franklin Power LLC
Freeport Electric
Frontier Utiliites Inc. (NY)
Future Energy, LLC
Galt Power, Inc.
Gateway Energy Services Corporation
GDF Suez Energy Resources, NA, Inc.
GEM Capital Management, LLC
Gemsys LLC
General Electric Plastics
Glacial Energy New York, Inc.
Glens Falls Lehigh Cement
GNL Trading, LLC
Good Energy, LP
Gotham Energy Marketing, LP
Grant Energy, Inc.
Green Mountain Energy Company
Gridway Energy Corp
Griffith Energy, Inc
Grunwald Fund
Hampshire Paper Co., Inc.
Hardscrabble Wind Power LLC
Hess Corporation
Horizon Power, Inc.
Horizon Wind Energy
HQ Energy Services US
HSBC Bank USA
Hudson Energy Services, LLC
Hudson Valley Trading Group, Inc.
Iberdrola Renewables, Inc
IDT Energy, Inc.
Indeck-Corinth, L.P.
Indeck-Energy Svs of Silver Springs
Indeck-Olean, L.P.
Indeck-Oswego, L.P.
Indeck-Yerkes, L.P.
Innovative Energy Systems, Inc.
Innoventive Power, LLC
Integrys Energy Services of New York, Inc.
Integrys Energy Services, Inc.
International Paper
International Renewables Group, LLC
ISO Trader, LLC
J Aron and Company
Jamestown Board of Public Utilities
JDME, LLC
JP Morgan Ventures Energy Corp.
Jump Power, LLC
Just Energy New York Corp
Kaleida Health
Kansas Energy LLC
Keyspan Ravenswood Inc.
Keystone Energy Partners, LP
KeyTex Energy LLC
Koch Supply & Trading, LP
KW Control Systems, Inc.
Laissez Faire Enterprises, LLC
Lavand and lodge, LLC
Lexington Power & Light LLC
Liberty Power Holdings LLC
Lighthouse Energy Trading Co., Inc.
Linde Energy Services, Inc.
Linden VFT LLC
Lockport Energy Associates
Long Island Power Authority
Louis Dreyfus Energy Services L.P.
Lynx Technologies, Inc.
Lyonsdale Biomass, LLC
Macquarie Energy LLC
Madison Windpower, LLC
MAG Energy Solutions Inc.
Major Energy Electric Service, LLC
Manitou Energy, LLC
Massena Electric Department
Mercuria Energy America, Inc
Merrill Lynch Commodities, Inc.
MG Industries
Mirabito Gas & Electric
Mirant Energy Trading LLC
ML Partnership, LLC
MM Albany Energy LLC
Model City Energy, LLC

MARKET PARTICIPANTS

Modern Innovative Energy LLC
Monroe County
Morgan Stanley Capital Group Inc.
Morgan Stanley Management Services II, Inc.
MPower Energy LLC
MxEnergy Electric, Inc.
Nationwide Energy, LLC
New York Industrial Energy Buyers, LLC
New York Municipal Power Agency
New York Power Authority
New York State Electric & Gas Corp.
NextEra Energy Power Marketing, LLC
NextEra Energy Services Massachusetts, LLC
NextEra Energy Services New York, LLC
Niagara Frontier Transportation Authority
Niagara Generation, LLC
Niagara Mohawk Power Corp.
Niagara University
Niagara Wind Power LLC
Nine Mile Point Nuclear Station LLC
Nissequogue Cogen Partners
NMPC_DADRP
Noble Altona Windpark, LLC
Noble Americas Gas & Power Corp
Noble Bliss Windpark, LLC
Noble Chateaugay Windpark, LLC
Noble Clinton Windpark I, LLC
Noble Ellenburg Windpark, LLC
Noble Wethersfield Windpark LLC
NOCO Electric LLC
North America Power Partners LLC
Northbrook New York, LLC
Northeast Utilities Services Company
Northern States Power Company
NorthPoint Energy Solutions Inc.
NRG Power Marketing LLC
NuEnerGen, LLC
NYSEG Solutions, Inc.
Oasis Power, LLC d/b/a Oasis Energy
Occidental Chemical Corp.
Occidental Power Services Inc.
Ocean Power LLC
Olin Chlor - Alkali Products
Ontario Power Generation Energy Trading, Inc.
Ontario Power Generation, Inc.
OPD Energy LLC
Orange & Rockland Utilities, Inc.
ORU - LSE
Pacific Summit Energy LLC
Pepco Energy Services
Petra Technical Consultant Group, LLC
Pine Bush Energy Trading, LLC
Pirin Solutions, Inc.
Plant-E Corp
Plymouth Rock Energy, LLC
Potential Energy Consulting
Power Bidding Strategies, LLC
Power City Partners, L.P.
Power G Inc
Powerex
PP&L EnergyPlus Co.
Praxair, Inc.
Premier Energy Services, LLC
Project Orange Associates
PSEG Energy Resource & Trade, LLC
Public Energy Solutions, LLC
Public Power & Utility of NY, Inc.
Pure Energy, Inc.
R.E. Ginna Nuclear Power Plant, LLC
Rainbow Energy Mkt. Corp.
RBC Energy Services LP
RedGreen288, LLC
Reliable Power Management, Inc.
Rensselaer Cogeneration LLC
Riverbay Corporation
Robison Energy, LLC
Rochester Gas & Electric Corp.
Royal Bank of Canada
RTP Controls, Inc
S.J. Energy Partners, Inc.
Sanctorum Energy Inc.
Saracen Energy East LP
Saracen Energy Power Trading LP
Saracen Power LP
Saranac Power Partners, LP
Schools & Municipal Energy Co- Op
Select Energy, Inc.
Selkirk Cogen Partners, L.P.
Sempra Energy Solutions - DRP
Sempra Energy Solutions LLC
Sempra Energy Trading LLC
Seneca Energy II, LLC
Seneca Power Partners, L.P.
SESCO Enterprises LLC
Seven Bells LLP
Sheldon Energy LLC
Shell Energy North America (US), LP
SIG Energy LLLP
Site Controls, LLC
Sithe Independence Power Partners L.P.
Smart One Energy, LLC
Sol Energy, LLC
Solios Power LLC
South Jersey Energy Company
Spark Energy L.P.
Spartan Electricity Futures, Inc
Specialized Energy Services, Inc.
SREC Generating Company, Inc
Standard Binghamton LLC
Starion Energy NY, Inc
StatArb Investment LLC
State of New York
State University of New York
State University of NY at Buffalo
Stealth Energy Company
Stephentown Regulation Services, LLC.
Sterling Power Partners, L.P.
Strategic Energy LLC

Stuyvesant Energy LLC dba Hess Small Business Services
Suez Energy Marketing NA, Inc.
Sumer Capital Partners LP
SUNY Potsdam
Swiftwater Energy Trading, LLC
Tallgrass Energy Partners, LLC
Tarachand Enterprises, Inc.
TC Ravenswood, LLC
Telemagine Inc.
Texas Retail Energy, LLC
The Dayton Power and Light Company
Time Warner Inc.
Tops Market, Inc.
TransAlta Energy Marketing (US) Inc.
TransCanada Power Marketing, Ltd.
Trigen Syracuse Energy Corp.
Triton Power Company
Twin Cities Energy, LLC
Twin Cities Power, LLC
U.S. Energy Partners, LLC
UGI Energy Services Inc.
University of Rochester
VC Marketing, Inc.
Velocity American Energy Master I, L.P.
Verisae, Inc.
Viasyn, Inc.
Village of Hilton
Village of Rockville Centre
Viridian Energy NY, LLC
Viridity Energy, Inc.
Virtual Energy LLC
Vitol Inc
Watchtower Bible and Tract Society of New York
West Oaks Enegy NY/NE, LP
Western New York Wind Corp.
Wheelabrator Westchester
Whiteside Energy Fund LP
Windy Bay Power, LLC

FINANCIAL STATEMENTS 2010

I certify that:

1. I have reviewed this report of the NYISO for the year ended December 31, 2010;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the NYISO as of, and for, the periods presented in this report;
4. The NYISO's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for NYISO and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the NYISO is made known to us by others within the NYISO, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the NYISO's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the NYISO's internal control over financial reporting that occurred during the NYISO's most recent fiscal quarter (the NYISO's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the NYISO's internal control over financial reporting; and
5. The NYISO's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the NYISO's auditors and the audit committee of NYISO's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the NYISO's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the NYISO's internal control over financial reporting.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. The reporting process is designed to ensure that information required to be disclosed by the NYISO is recorded, processed, summarized and reported within the appropriate time periods. Based on that evaluation, we have concluded that the NYISO disclosure controls and procedures are functioning effectively to provide reasonable assurance that the NYISO can meet its disclosure obligations.

Management's Report of Internal Control over Financial Reporting

We have evaluated any change in our internal control over financial reporting that occurred during the fourth quarter of 2010, and have concluded that there was no change during the fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Date: March 17, 2011

St D Whitley

Mary McGarvey

Stephen G. Whitley
President & Chief Executive Officer

Mary McGarvey
Vice President & Chief Financial Officer

KPMG LLP
515 Broadway
Albany, NY 12207

INDEPENDENT AUDITORS' REPORT

The Board of Directors
New York Independent System Operator, Inc.:

We have audited the accompanying statements of position of the New York Independent System Operator, Inc. (NYISO or the Company) as of December 31, 2010 and 2009, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NYISO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 17, 2011

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

Assets		2010	2009
Current assets:			
Cash and cash equivalents	$	58,873,571	53,582,089
Restricted cash		380,667,961	371,162,251
Accounts receivable – net (note 2)		17,568,728	12,799,522
Prepaid expenses		6,212,066	4,180,713
Regulatory assets – current portion (note 3)		—	5,469,179
Other current assets		426,640	580,800
Total current assets		463,748,966	447,774,554
Noncurrent assets:			
Regulatory assets (note 3)		11,214,653	10,555,399
Property and equipment – net (note 4)		65,474,278	57,174,512
Other noncurrent assets (note 7)		2,896,739	6,870,581
Total noncurrent assets		79,585,670	74,600,492
Total	$	543,334,636	522,375,046
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$	33,585,951	23,633,450
Market participant security deposits		316,858,130	341,578,621
Market participant prepayments		60,756,846	24,982,564
Working capital reserve (note 10)		46,491,807	46,543,644
Long-term debt – current portion (note 6)		19,743,972	21,342,581
Regulatory liabilities – current portion (note 12)		4,825,418	1,074,704
Deferred revenue (note 11)		2,565,555	3,243,681
Other current liabilities (note 8)		668,224	3,996,295
Total current liabilities		485,495,903	466,395,540
Noncurrent liabilities:			
Accrued pension liability (note 8)		2,937,267	4,084,576
Accrued postretirement liability (note 8)		3,043,887	5,900,528
Regulatory liabilities (note 12)		5,069,954	3,905,605
Other noncurrent liabilities (notes 7 and 8)		5,362,251	3,919,451
Long-term debt (note 6)		41,425,374	38,169,346
Total noncurrent liabilities		57,838,733	55,979,506
Commitments and contingencies (note 13)			
Total liabilities		543,334,636	522,375,046
Unrestricted net assets		—	—
Total liabilities and net assets	$	543,334,636	522,375,046

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

		2010	2009
Revenues:			
Rate Schedule 1 tariff charge	$	142,885,022	135,410,542
Interconnection studies revenue		3,026,064	2,928,825
Grant revenue (notes 1e, 14 and 15)		2,554,777	—
Fees and services		859,571	883,788
Interest income		26,830	49,863
Total revenues		149,352,264	139,273,018
Operating expenses:			
Compensation and related benefits (note 8)		58,871,226	57,429,618
Professional fees and consultants		26,962,191	26,742,719
Maintenance, software licenses and facility costs		19,268,508	17,993,618
Depreciation and amortization		17,103,275	16,712,438
Federal Energy Regulatory Commission Fees		12,020,191	9,980,421
Telecommunication expenses		3,587,445	3,531,688
Administrative and other expenses		3,654,657	3,148,969
Interest expense		3,092,557	3,131,547
Insurance expense		2,806,660	2,801,008
Training, travel, and meeting expenses		1,609,729	1,256,716
Northeast Power Coordinating Council fees		286,771	251,976
Change in fair value of interest rate swaps and caps		89,054	(3,707,700)
Total operating expenses		149,352,264	139,273,018
Change in unrestricted net assets		—	—
Unrestricted net assets, beginning of year		—	—
Unrestricted net assets, end of year	$	—	—

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

		2010	2009
Cash flows from operating activities:			
Change in unrestricted net assets	$	—	—
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:			
Depreciation and amortization		17,103,275	16,712,438
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable and prepaid expenses		(6,800,559)	5,277,669
Increase in restricted cash		(9,505,710)	(85,685,385)
Decrease (increase) in regulatory assets		4,809,925	(4,419,687)
Decrease in other assets		4,128,002	6,312,455
Increase in accounts payable and accrued expenses		9,952,501	3,013,317
Increase in market participant prepayments		35,774,282	9,743,823
(Decrease) increase in market participant security deposits		(24,720,491)	77,850,195
Decrease in working capital reserve		(51,837)	(2,397,549)
Increase (decrease) in regulatory liabilities		4,915,063	(8,158,779)
Decrease in deferred revenue and other liabilities		(6,567,347)	(6,192,811)
Net cash provided by operating activities		29,037,104	12,055,686
Cash flows from investing activities:			
Acquisition of property and equipment (including capitalized interest)		(25,403,041)	(13,606,721)
Net cash used in investing activities		(25,403,041)	(13,606,721)
Cash flows from financing activities:			
Proceeds from 2007 – 2010 budget facility loan		23,000,000	18,300,000
Repayment of mortgage and renovations loan		(799,915)	(753,903)
Repayment of 2004 – 2006 budget facility loan		(3,876,000)	(8,376,000)
Repayment of 2007 – 2010 budget facility loan		(16,666,666)	(10,566,667)
Net cash provided by (used in) financing activities		1,657,419	(1,396,570)
Net increase (decrease) in cash and cash equivalents		5,291,482	(2,947,605)
Cash and cash equivalents – beginning of year		53,582,089	56,529,694
Cash and cash equivalents – end of year	$	58,873,571	53,582,089
Supplemental disclosure of cash flow:			
Information – cash paid during the year for interest net of capitalized interest	$	2,985,859	2,948,240
Noncash investing activities:			
Property and equipment additions which were accrued but not paid	$	4,140,689	4,820,759
Property and equipment additions previously accrued which were paid		4,820,759	531,936

See accompanying notes to financial statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

a. Business Description

The New York Independent System Operator, Inc. (NYISO) was formed in April 1997 and commenced operations on December 1, 1999. NYISO is incorporated in the state of New York as a not-for-profit organization. NYISO assumed the responsibilities of its predecessor, the New York Power Pool (NYPP), which had coordinated the reliability of New York State's electric power grid for more than 30 years. Formed as a result of Federal Energy Regulatory Commission (FERC) policies, NYISO monitors a network of 10,877 miles of high-voltage transmission lines and serves approximately 425 market participants.

NYISO's mission, in collaboration with its stakeholders, is to serve the public interest and provide benefit to consumers by maintaining and enhancing regional reliability, operating open, fair and competitive wholesale electricity markets, planning the power system for the future, and providing factual information to policy makers, stakeholders and investors in the power system. NYISO facilitates fair and open competition in the wholesale power market and creates an electricity commodity market in which power is purchased and sold on the basis of competitive bidding. NYISO utilizes a bid process for electricity and transmission usage, which enables New York State's utilities and other market participants to offer electricity at competitive prices, rather than regulated rates. Billing invoices are issued to each market participant by NYISO each month to settle transactions occurring in the previous month.

NYISO is governed by an independent board of directors, as well as a committee structure consisting of market participant representatives. In addition to FERC oversight, NYISO is also subject to regulation in certain aspects by the New York State Department of Public Service.

b. Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

c. Regulation

NYISO's financial statements are prepared in accordance with generally accepted accounting principles for rate-regulated entities, FASB ASC Topic 980, *Regulated Operations*. As such, regulators may permit specific incurred costs, typically treated as expenses by unregulated entities, to be deferred and expensed in future periods when it is probable that such costs will be recovered in customer rates. Incurred costs are deferred as regulatory assets when NYISO concludes that it is probable future revenues will be provided to permit recovery of the previously incurred cost. A regulatory liability is recorded when amounts that have been recorded by NYISO are likely to be refunded to customers through the rate-setting process.

d. Revenue Recognition

Monthly settlements of market participants' energy transactions are not reflected in NYISO's Statements of Activities since they do not represent revenues or expenses of NYISO, as NYISO merely acts as an intermediary in the settlement process. In this role, NYISO receives and disburses funds to/from market participants in the month following the month transactions occurred.

NYISO's two FERC-approved tariffs, the Open Access Transmission Tariff (OATT) and the Market Administration and Control Area Services Tariff (Services Tariff), allow recovery of NYISO's capital requirements and operating expenses through a surcharge assessed to market participants. The revenue from this surcharge, Rate Schedule 1, is earned when energy is scheduled and dispatched. Market participants are then billed for such charges in the subsequent month.

NYISO's Rate Schedule 1 includes a timing mechanism that effectively meets the requirements of an alternative revenue program set forth in ASC Topic 980, *Regulated Operations*, Subtopic 602, *Revenue Recognition*. Accordingly, revenue is recognized for net financing obligations and capital costs incurred during the reporting period based on the revenue requirement formula in the tariffs. NYISO has recorded an Other Noncurrent Liability of ($4,304,947) and an Other Noncurrent Asset of $2,337,415, respectively, in the accompanying 2010 and 2009 Statements of Financial Position in connection with this rate-making recovery mechanism.

Revenues recorded as interconnection studies revenues arise from billing and collection services in the interconnection service agreement process performed by NYISO. These revenues are offset by the corresponding interconnection expenses, recorded in operating expenses, which were incurred in performing such studies. Effective January 1, 2010, a portion of the deposit related to feasibility studies are nonrefundable and recorded as revenue when received.

e. Government Grants

NYISO recognizes government grants when there is reasonable assurance that NYISO will comply with the conditions attached to the grant arrangement and the grant will be received. Government grants are recognized in the Statements of Activities in the period in which NYISO recognizes the related costs for which the government grant is intended to compensate.

f. Cash and Cash Equivalents

NYISO considers short-term marketable securities with original maturities of three months or less to be cash equivalents. The cash equivalents at December 31, 2010 and 2009 were held in money market accounts invested primarily in short-term U.S. government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve, amounts due to market participants for overcollections on the voltage market, amounts collected for Transmission Congestion Contract (TCC) auctions, amounts for funding employee benefit plans, and for general operating purposes. In accordance with certain loan agreements, NYISO is required to maintain compensating balances.

g. Restricted Cash

Restricted cash consists primarily of market participant security deposits held in escrow accounts, amounts prepaid by market participants in advance of settlements billing dates, and amounts deposited for interconnection studies. Security deposits are invested at the market participant's choice in money market funds or short-or intermediate-term bond funds. NYISO presents changes in restricted cash in the operating activities section of the statements of cash flows instead of in the investing activities section. NYISO has determined that this classification is more suitable to the nature of the Company's operations.

h. Other Assets

Other assets consist primarily of timing differences on certain rate-making recoveries, the fair value of interest rate cap and swap agreements, noncurrent prepaid expenses, and miscellaneous receivables.

i. Property and Equipment

Property and equipment are recorded at cost. NYISO capitalizes property and equipment additions in excess of $5,000 with a useful life greater than one year. Depreciation is computed on the straight-line method over the assets' estimated useful lives of three to five years, except for building and building improvements, which are depreciated on a straight-line basis over 20 years. When assets are retired or otherwise disposed of, the cost and related depreciation are removed, and any resulting gain or loss is reflected in expense for the period. Repairs and maintenance costs are charged to expense when incurred.

In accordance with ASC topic 350, *Intangibles – Goodwill and Other*, Subtopic 40, *Internal Use Software*, labor, overhead, interest, consulting, and related costs incurred to acquire and develop computer software for internal use are capitalized and amortized using the straight-line method over three years. Costs incurred prior to the determination of feasibility of developed software and following the in-service date of developed software are expensed.

Long-lived assets are recorded at cost, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is not aware of any events or changes in circumstances that would necessitate a review of any long-lived assets as of the years ended December 31, 2010 and 2009.

j. Working Capital Reserve

In order to maintain the liquidity and stability of NYISO's markets, NYISO has accumulated a working capital fund through amounts charged to market participants under Rate Schedule 1. Any additional working capital needs would be billed to market participants in future Rate Schedule 1 charges. Market participants are entitled to interest on their principal contributions to the working capital reserve. Each market participant is allocated interest based on the respective ratio share of each market participant's principal contributions to the total working capital fund. Accumulated interest on the working capital fund is distributed annually to market participants.

k. Market Participant Prepayments

Amounts received from certain market participants who do not provide an alternate form of financial assurance and must prepay their obligations to NYISO in advance of settlements billing dates are recorded as market participant prepayments.

l. Deferred Revenue

Advance payments from developers for interconnection studies are reflected as deferred revenue. Fees for participation in NYISO's governance process are billed to market participants in advance of the year for which they apply and are amortized over the related governance period. All such unamortized amounts are also included in deferred revenue.

m. Income Taxes

NYISO is not subject to income taxes because it is operating as a corporation described in Section 501(c)(3) of the Internal Revenue Code, exempt under Section 501(a) of the Internal Revenue Code. NYISO is also exempt from paying New York State income tax or sales tax.

n. Fair Value of Financial Instruments

NYISO adopted the provisions of ASC Topic 820 (SFAS No. 157) to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The adoption of these provisions did not have any effect on NYISO's financial statements.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that NYISO has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of NYISO's interest rate swaps and caps are determined using pricing models developed based on the LIBOR swap rate and other observable market data (Level 2 inputs).

The following table presents the carrying amounts and estimated fair values of NYISO's financial instruments at December 31, 2010 and 2009:

		2010		2009	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:					
Interest rate caps/swaps	$	46,099	46,099	291	291
Financial liabilities:					
Interest rate swaps	$	4,168,817	4,168,817	3,919,451	3,919,451

Interest rate caps are included in Other Noncurrent Assets and the interest rate swaps are included in Noncurrent Liabilities.

o. *Concentration of Credit Risk*

Financial instruments that subject NYISO to credit risk consist primarily of market settlement billings and Rate Schedule 1 revenue due from market participants. As provided in the OATT and Services Tariff, NYISO reviews the creditworthiness of market participants, who are required to either maintain certain financial statement criteria and/or approved credit ratings, to post specified financial security in an amount sufficient to cover their outstanding liability to NYISO, or to prepay their obligations in advance of settlement billing dates.

NYISO's tariffs establish specific periods for the adjustment of settlement invoices as originally billed and for challenges to amounts billed for a particular service month. Settlement invoices can be adjusted for up to four months after the date of original issuance, and these invoices can be challenged for an additional one month after the issuance of all settlement adjustment invoices. Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed. After all true-up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service month. If NYISO agrees with the provisions of the challenge, a final invoice is issued for that service month. As a result, NYISO is exposed to credit risk until all settlement adjustment and final invoices for each service month are finalized and liquidated. As of December 31, 2010, the adjustments and true-ups of all settlement invoices through March 2010 were completed. However, Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from remaining market participants in future billings.

p. *Derivative Financial Instruments*

NYISO records derivative financial instruments in accordance with ASC Topic 815, *Derivatives and Hedging*. ASC Topic 815 requires that all derivative financial instruments be recognized as either assets or liabilities, measured at fair value. The accounting for changes in fair value of derivatives (i.e., gains and losses) depends on the intended use of the derivative and the corresponding designation. The fair values of NYISO's derivative instruments are quoted by external sources. The changes in the fair value of these derivatives are recorded as change in fair value of interest rate swaps and caps. Due to NYISO's regulated rates, the offset to the changes in fair value of these derivatives is recorded as either Other Current Assets or Other Noncurrent Assets. See additional details in note 7.

q. *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, regulatory assets, the valuation of derivatives, compensation, and liabilities for employee benefit obligations.

2. Accounts Receivable

NYISO's accounts receivable at December 31, 2010 and 2009, consisted of the following:

		2010	2009
Billed:			
Past due settlement invoices	$	1,063,604	1,081,672
Miscellaneous billed receivables		450,766	289,097
Grants billed receivables		43,924	—
Reserve for doubtful accounts – past due settlement invoices		(1,058,204)	(1,072,539)
		500,090	298,230
Unbilled:			
Operating expenses for December		13,805,658	11,928,715
Grants unbilled receivables		2,428,163	—
Miscellaneous unbilled receivables		808,608	546,368
Bad debt losses recoverable from market participants		25,903	25,903
Replenishments of working capital reserve		306	306
		17,068,638	12,501,292
Total	$	17,568,728	12,799,522

Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from market participants and provides guidance on the provisions of such recoveries. NYlSO's reserve for doubtful accounts at December 31, 2010 and 2009, results primarily from past due settlement invoices related to a subsidiary of Enron Corporation. As of December 31, 2010 and 2009, NYISO recorded unbilled receivables of $25,903 to reflect amounts yet to be recovered from remaining market participants in connection with other bad debt losses.

NYISO recovers its operating expenses via Rate Schedule 1 in the month following the month of service. Therefore, the unbilled operating expenses for December are billed and recovered in January of the subsequent year.

Unbilled replenishments of working capital reserve relate to amounts recoverable from market participants via future Rate Schedule 1 charges to recover amounts temporarily utilized by NYISO out of the working capital reserve.

3. Regulatory Assets

At December 31, 2010 and 2009, regulatory assets were comprised of the following:

		2010	2009
Deferred pension plan asset	$	7,951,665	8,127,363
Voltage support service (reactive power) market		—	5,469,179
Funding for deferred charges		3,262,988	2,428,036
Total		11,214,653	16,024,578
Less current portion		—	(5,469,179)
Long-term portion	$	11,214,653	10,555,399

In order to maintain acceptable transmission voltages on the New York State transmission system, certain market participants within the New York Control Area produce or absorb voltage support service (reactive power). Payments to market participants supplying voltage support service and recoveries from other market participants are assessed via Rate Schedule 2 of the OATT and Services Tariff. Differences between the timing of recoveries and payments for voltage support service that result in under collections are reflected as regulatory assets. At December 31, 2010 and 2009, respectively, NYISO recognized a regulatory liability of $2,951,407, and a regulatory asset of $5,469,179, related to such timing differences.

ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined pension benefit or postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2010 and 2009, the amounts were $7,951,665 and $8,127,363, for the NYISO defined benefit pension plan.

4. Property and Equipment

As of December 31, 2010 and 2009, property and equipment consisted of the following:

		2010	2009
Software developed for internal use	$	109,145,427	99,917,173
Computer hardware and software		67,906,249	59,343,272
Building, building improvements, and leasehold improvements		34,521,326	32,642,392
Work in progress		8,680,524	4,358,910
Machinery and equipment		4,356,445	4,221,036
Furniture and fixtures		3,150,467	2,846,672
Land and land improvements		2,091,376	2,091,376
		229,851,814	205,420,831
Accumulated depreciation and amortization		(164,377,536)	(148,246,319)
Property and equipment – net	$	65,474,278	57,174,512

Property and equipment includes interest of $81,437 and $80,730 capitalized during 2010 and 2009, respectively. Depreciation and amortization expense for the years ended December 31, 2010 and 2009 was $17,103,275 and $16,712,438, respectively.

5. Short-Term Debt

On July 21, 2005, NYISO entered into a $50.0 million Revolving Credit Facility that expired on July 21, 2010 and was replaced on July 21, 2010, with a new $50.0 million Revolving Credit Facility that expires on December 31, 2013. The proceeds from these Revolving Credit Facilities are to be used for working capital purposes. Interest on borrowings under the Revolving Credit Facilities is based on NYISO's option of varying rates of interest tied to either the prime rate or the London Interbank Offered Rate (LIBOR). At December 31, 2010 and 2009, respectively, there were no amounts outstanding on the Revolving Credit Facilities.

6. Long-Term Debt

On March 17, 2004, NYISO entered into an unsecured $100.0 million line of credit facility (2004 – 2006 Budget Facility), the proceeds of which could be drawn until December 2006 to fund the development of significant projects during 2004 through 2006, with principal repayments made over four years. Interest on borrowings under this facility is due monthly and is based on NYISO's option of varying rates of interest tied to either LIBOR plus 60 basis points for borrowings during the draw period not yet converted to term loans, LIBOR plus 100 basis points for borrowings converted to term loans, or the prime rate. On April 8, 2005, this facility was refinanced to lower the LIBOR interest rate spread to 52.5 basis points for borrowings during the draw period and 80 basis points for borrowings converted to term loans. NYISO entered into interest rate cap agreements on $82.0 million of this debt, which caps the maximum interest rate at 4.60% for borrowings during the draw periods not yet converted to term loans (4.525% after April 8, 2005, refinancing) and 5.00% for borrowings converted to term loans (4.80% after April 8, 2005, refinancing). See additional information in note 7.

At December 31, 2005, $18.0 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in February 2006 with monthly principal and interest payments payable from March 2006 through December 2009. As of December 31, 2009, these borrowings were fully repaid. During 2006, an additional $15.5 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in March 2007 with monthly principal and interest payments payable through December 2010. As of December 31, 2010, these borrowings were fully repaid. At December 31 2009, the interest rate on these borrowings was 1.04%.

On January 22, 2007, NYISO entered into an unsecured $80.0 million line of credit facility (2007 – 2010 Budget Facility), the proceeds of which may be drawn until January 2011 to fund capital purchases and the development of significant projects during 2007 – 2010. NYISO must convert each year's annual borrowings to term loans, with principal and interest payments payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to LIBOR plus 40 basis points for borrowings during the draw periods, LIBOR plus 65 basis points for borrowings converted to term loans, or the prime rate. Interest payments on borrowings are due monthly.

On January 23, 2007, NYISO entered into four interest rate swap agreements to fix interest payments on $60.0 million of the $80.0 million available on this line of credit facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions. See additional information in note 7.

During 2007, $15.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2008 with monthly principal and interest payments payable from January 2008 through December 2010. At December 31, 2010 these borrowings were fully repaid. At December 31 2009, the interest rate on these borrowings was fixed at 5.726%. During 2008, an additional $16.7 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2009 with monthly principal and interest payments payable from January 2009 through December 2011. At December 31, 2010, the interest rate on $5 million of these borrowings was fixed at 5.642% and the remaining $0.6 million was at 0.907%. At December 31, 2009, the interest rate on $10.0 million of these borrowings was fixed at 5.642% and the remaining $1.1 million was at 0.885%. During 2009, an additional $18.3 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2010 with monthly principal and interest payments payable from February 2010 through December 2012. At December 31, 2010, the interest rate on $10.0 million was fixed at 5.696% and the remaining $2.2 million was at 0.907%. At December 31, 2009, the interest rate on $15 million of these borrowings was fixed at 5.446% and the remaining $3.3 million was at 0.635%. During 2010, an additional $23.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2011 with monthly principal and interest payments payable from February 2011 through December 2013. At December 31, 2010, the interest rate on $15.0 million of these borrowings was fixed at 5.515% and the remaining $8.0 million was at 0.66%.

On July 21, 2010, NYISO entered into an unsecured $75.0 million line of credit facility (2011 – 2013 Budget Facility), the proceeds of which may be drawn between January 1, 2011 thru December 31, 2013 to fund capital purchases and the development of significant projects during 2011 – 2013. NYISO must convert each year's annual borrowings to term loans, with principal and interest payments payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to LIBOR plus 175 basis points for borrowings, or the prime rate. Interest payments on borrowings are due monthly.

On July 23, 2010, NYISO entered into three interest rate swap agreements to fix interest payments on $60.0 million of the $75.0 million available on this line of credit facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 3.28% to 4.7725%. See additional information in note 7.

On July 8, 2005, NYISO entered into two financing agreements to purchase and renovate a 140,000-square foot office building. The first agreement is a $14.7 million mortgage to finance the building purchase (Mortgage), and the second agreement represents a $10.0 million line of credit for renovations during an 18-month period, beginning in July 2005 (Renovations Loan). The Mortgage has principal and interest payments payable over 20 years, beginning September 2005. Principal and interest payments on borrowings made during the Renovations Loan draw period are payable over 20 years, beginning in January 2007. During 2005, $14.7 million was borrowed on the Mortgage, and during 2006, $10.0 million was drawn on the Renovations Loan. Both agreements are secured by liens on the building and subsequent capitalized renovations. Interest on borrowings under both facilities is due monthly and is based on varying rates of interest tied to LIBOR plus 100 basis points. On February 15, 2005, NYISO entered into an interest rate swap agreement on the Mortgage, which fixed the interest rate on this loan at 5.79%. On February 15, 2005, NYISO also entered into an interest rate swap agreement on the Renovations Loan, which fixed the interest rate on these borrowings at 5.96%, beginning on January 1, 2007.

At December 31, 2010, the following amounts were outstanding on NYISO's long-term debt:

		2007 – 2010 Budget facility loan	Mortgage	Renovations	Total
Outstanding balance	$	40,766,668	11,543,420	8,859,258	61,169,346
Less current portion		(18,895,238)	(512,025)	(336,709)	(19,743,972)
Long-term portion	$	21,871,430	11,031,395	8,522,549	41,425,374

At December 31, 2009, the following amounts were outstanding on NYISO's long-term debt:

		2004 – 2006 Budget facility loan	2007 – 2010 Budget facility loan	Mortgage	Renovations	Total
Outstanding balance	$	3,876,000	34,433,334	12,026,321	9,176,272	59,511,927
Less current portion		(3,876,000)	(16,666,667)	(482,901)	(317,013)	(21,342,581)
Long-term portion	$	—	17,766,667	11,543,420	8,859,259	38,169,346

At December 31, 2010, scheduled maturities of NYISO's long-term debt were as follows:

		2007 – 2010 Budget facility loan	Mortgage	Renovations	Total
2011	$	18,895,238	512,025	336,709	19,743,972
2012		13,985,716	541,065	356,162	14,882,943
2013		7,885,714	575,536	379,757	8,841,007
2014		—	610,246	403,352	1,013,598
2015		—	647,050	428,412	1,075,462
Thereafter		—	8,657,498	6,954,866	15,612,364
Total	$	40,766,668	11,543,420	8,859,258	61,169,346

7. Derivatives and Hedging Activities

The fair values of NYISO's derivative instruments, which are free-standing agreements, are quoted by external sources. The changes in the fair value of these derivatives are recorded in the Statement of Activities as a change in fair value of interest rate swaps and caps. In March 2004, NYISO entered into interest rate cap agreements with a commercial bank to cap interest payments at 4.60% for draws and 5.00% for term loans (4.525% and 4.80% after refinancing on April 8, 2005) on its 2004 – 2006 Budget Facility. The notional amount of the debt on the date of the cap agreements was $82,000,000. Under the cap agreements, NYISO pays a variable interest rate tied to LIBOR on the draws and term loans of the 2004 – 2006 Budget Facility from March 2005 through December 2010; however, this variable interest rate cannot exceed 4.525% for draws or 4.80% for term loans. This agreement expired in December 2010. As of December 31, 2010 and 2009, the fair value of the interest rate cap was $0 and $291, respectively, and was recorded in Other Current Assets. For the years ended December 31, 2010 and 2009, NYISO recorded interest income of $114,213 and $198,466, respectively, related to this derivative instrument.

In February 2005, NYISO entered into two interest rate swap agreements with a commercial bank to fix interest rate payments on the financing of a new office building purchase. The notional amount of debt on the swap agreement for the Mortgage was $14,708,750, and NYISO pays a fixed interest rate of 5.79% on the outstanding principal amount of this financing on payments from August 2005 through August 2025. The notional amount of debt on the swap agreement for the Renovations Loan was $10,000,000, and NYISO pays a fixed interest rate of 5.96% on payments from January 2007 through January 2027. As of December 31, 2010 and 2009, the fair value of these interest rate swap agreements was ($1,429,380) and ($924,922) for the Mortgage, respectively, and ($1,226,662) and ($818,738), respectively, for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2010 and 2009, NYISO recorded interest expense of $912,382 and interest income of $2,700,382, respectively, related to these two swap agreements.

In January 2007, NYISO entered into four interest rate swap agreements with a commercial bank to fix interest rate payments on the 2007 – 2010 Budget Facility. The notional amount of debt on the swap agreements was $60,000,000. NYISO pays fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions from March 2007 through December 2013. As of December 31, 2010 and 2009, the fair value of these interest rate swap agreements was ($1,512,775) and ($2,175,791), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2010 and 2009, NYISO recorded interest income of $663,016 and $808,853, respectively, related to these four swap agreements.

In July 2010, NYISO entered into three interest rate swap agreements with a commercial bank to fix interest rate payments on the 2011 – 2013 Budget Facility. The notional amount of debt on the swap agreements was $60,000,000. NYISO pays fixed interest rates ranging between 3.280% to 4.7725% through December 2016. As of December 31, 2010 the fair value of these interest rate swap agreements was $46,099, recorded in Other Noncurrent Assets. For the year ended December 31, 2010, NYISO recorded interest income of $46,099, related to these four swap agreements. Gains and losses on market values are recorded in the Statements of Activities as change in fair value of interest rate swaps and caps.

		Notional amount at inception	Notional amount at December 31, 2010	Fair value at December 31, 2009	Fair value at December 31, 2010	2010 Gain (loss) on market value
Loan:						
2004 – 2006 Budget Facility	$	82,000,000	—	291	—	(291)
2007 – 2010 Budget Facility		60,000,000	30,000,000	(2,175,791)	(1,512,775)	663,016
2011 – 2013 Budget Facility		60,000,000	—	—	46,099	46,099
Mortgage		14,708,750	11,543,420	(924,922)	(1,429,380)	(504,458)
Renovations		10,000,000	8,859,258	(818,738)	(1,226,662)	(407,924)

NYISO is exposed to credit loss in the event of nonperformance by the commercial banks under the interest rate cap and swap agreements. However, NYISO does not anticipate nonperformance by the commercial banks.

8. Employee Benefit Plans

a. *Pension and Postretirement Plans*

NYISO has a defined benefit qualified pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by NYPP member companies. Employees become vested in pension benefits after three years of credited service. NYISO expects to contribute $1.6 million to the qualified pension plan in 2011. Effective December 1, 2009, NYISO adopted changes to its pension plan to end the accrual of future benefits for most employees, effective December 1, 2009. Certain grandfathered employees will continue to accrue benefits until attaining age 55. NYISO replaced the defined benefit accruals with equivalent contributions to employee 401(k) plan accounts after December 1, 2009.

NYISO sponsors a defined benefit postretirement plan to provide medical and life insurance benefits for eligible retirees and their dependents. Substantially all employees who retire from NYISO become eligible for these benefits provided they have been credited with at least ten years of NYISO service (5 years of NYISO service for those employees hired before January 1, 2005). The benefits are contributory based upon years of service, with NYISO paying up to 50% of costs for retired employees and up to 25% for their dependents (subject to specified dollar limits). Medical coverage becomes secondary upon Medicare eligibility and life insurance coverage is reduced upon reaching age 65.

For payment of benefits under the plan, as noted above, the NYISO established a Voluntary Employee Benefit Association (VEBA) trust in January 2010. The assets held in the VEBA trust reduce the accumulated postretirement benefit obligation as reported on the NYISO's statements of financial position. The VEBA trust held assets of $4,048,651 as of December 31, 2010. As noted in the table below, current obligations are assumed to be paid out of the trust assets, with the remaining unfunded obligation to be reflected as a noncurrent liability.

The schedules that follow show the benefit obligations, the plan assets, and the funded status as of December 31, 2010 and 2009, and the change in benefit obligations for NYISO's qualified pension and postretirement plans for the years ended December 31, 2010 and 2009.

		Pension plan		Postretirement plan	
		2010	2009	2010	2009
Change in benefit obligation:					
Benefit obligation – beginning of year	$	26,078,728	23,144,321	6,134,698	5,809,707
Service cost		306,668	1,953,821	531,682	485,532
Interest cost		1,414,440	1,301,037	351,867	321,037
Actuarial (gain) loss		1,100,931	882,665	133,316	(412,275)
Participant contributions		—	—	110,592	110,966
Benefits paid		(600,601)	(1,203,116)	(169,617)	(180,269)
Benefit obligation – end of year		28,300,166	26,078,728	7,092,538	6,134,698
Change in plan assets:					
Fair value of plan assets – beginning of year		21,994,152	16,637,656	—	—
Actual return on plan assets		2,783,665	3,652,088	406,283	—
Employer contributions		1,338,600	3,035,294	3,733,024	69,303
Participant contributions		—	—	110,592	110,966
Benefits paid		(600,601)	(1,203,116)	(169,617)	(180,269)
Expenses paid		(152,917)	(127,770)	(31,631)	—
Fair value of plan assets – end of year		25,362,899	21,994,152	4,048,651	—
Funded status	$	(2,937,267)	(4,084,576)	(3,043,887)	(6,134,698)

Amounts recognized in the 2010 and 2009 statements of financial position consist of:

		Pension plan		Postretirement plan	
		2010	2009	2010	2009
Benefit obligation	$	(2,937,267)	(4,084,576)	(3,043,887)	(6,134,698)
Regulatory asset or (liability)		7,951,665	8,127,363	(218,227)	(25,489)
Projected benefit obligation	$	(28,300,166)	(26,078,728)	(7,092,538)	(6,134,698)
Fair value of assets		25,362,899	21,994,152	4,048,651	—
Unfunded projected benefit obligation	$	(2,937,267)	(4,084,576)	(3,043,887)	(6,134,698)

The unfunded projected benefit obligation for the postretirement plan at December 31, 2010 and 2009 is recorded as $0 and $234,170, respectively, in Other Current Liabilities and $3,043,887 and $5,900,528, respectively, in accrued postretirement liability.

Amounts recognized in the statements of activities consist of:

		Pension plan		Postretirement plan	
		2010	2009	2010	2009
The components of net periodic pension and postretirement cost are as follows:					
Service cost	$	306,668	1,953,821	531,682	485,532
Interest cost		1,414,440	1,301,037	351,867	321,037
Expected return on plan assets		(1,739,610)	(1,594,489)	—	—
Amortization of unrecognized prior service cost		51,424	51,424	—	—
Amortization of unrecognized loss		334,067	301,384	(48,598)	(19,866)
Total	$	366,989	2,013,177	834,951	786,703

NYISO uses a December 31 measurement date for its pension and postretirement benefit plans. NYISO's accumulated benefit obligation for the defined benefit pension plan is $27,644,552 and $25,110,241 at December 31, 2010 and 2009, respectively.

The following table as of December 31, 2010 and 2009, shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension plan		**Postretirement plan**	
	2010	**2009**	**2010**	**2009**
Benefit obligations:				
Discount rate	5.20%	5.70%	5.50%	5.95%
Rate of compensation increases	3.00	4.00	3.00	4.00
Net cost or credit:				
Discount rate	5.70%	5.75%	5.95%	5.75%
Rate of compensation increases	4.00	4.00	4.00	4.00
Expected return on plan assets	7.75	7.75	N/A	N/A

NYISO's expected rate of return on plan assets reflects anticipated returns on the qualified pension plan's current and future assets. To determine this rate, NYISO considers historical returns for equity and debt securities, as well as current capital market conditions and projected future conditions. NYISO selected an assumed rate of 7.75%, which is lower than the rate otherwise determined solely on historical returns.

The targeted allocation and actual investment mix of the pension plan's assets are as follows:

Category	**Target allocation**	**December 31 2010**	**December 31 2009**
Fixed income	40%	38%	39%
Large cap equities	22	23	23
International and emerging equities	22	22	22
Mid cap equities	10	11	10
Small cap equities	6	6	6
Total	100%	100%	100%

The targeted allocation and actual investment mix of the VEBA Trust (postretirement) plan's assets are as follows:

Category	Target allocation	December 31 2010
Domestic equities	50%	53%
International and emerging equities	15	15
Fixed income	35	32
Total	100%	100%

The actual rate of return for the pension plan's assets as of December 31, 2010 and 2009 were:

Category	Annual returns December 31 2010	2009
Small cap equities	31.9%	40.7%
Mid cap equities	23.3	39.3
Large cap equities	15.3	26.1
Fixed income	8.1	9.4
International and emerging equities	5.0	19.7
Cash equivalents	0.1	0.1
Total portfolio weighted average	12.5%	21.3%

The actual rate of return for the VEBA Trust (postretirement) plan's assets as of December 31, 2010 was:

Category	Annual returns December 31, 2010
Equity	15.7%
International and emerging equities	12.8
Fixed income	4.3
Cash equivalents	0.2
Total portfolio weighted average	9.9%

NYISO's retirement plan assets are reported at fair value and are categorized using the fair value hierarchy discussed in note 1 (n) Fair Value of Financial Instruments.

NYISO's pension plan assets were considered to have Level 2 inputs with a fair value of $25,362,899 and $21,994,152 as of December 31, 2010 and 2009, respectively. NYISO funded a VEBA Trust for its postretirement plan during the year ended December 31, 2010. The VEBA Trust assets were considered to have Level 1 inputs with a fair value of $4,048,651 and $0 as of December 31, 2010 and 2009, respectively.

Pursuant to resolutions adopted by NYISO's Board of Directors, NYISO's Retirement Board has been granted the authority to control and manage the operation and administration of NYISO's qualified pension plan, including responsibility for the investment of plan assets and the ability to appoint investment managers. The Retirement Board currently consists of NYISO's Chief Financial Officer, Vice President of Enterprise Services, General Counsel, and Controller. The Retirement Board provides reports to the Commerce and Compensation Committee of the Board of Directors on at least an annual basis.

The long-term investment objective for NYISO's qualified pension plan is to maximize the total return on plan assets while limiting risk, reflected in volatility of returns, to prudent levels. To that end, NYISO's Retirement Board has appointed and regularly meets with an investment advisor to review asset performance, compliance with target asset allocation guidelines, and appropriate levels of asset diversification. NYISO's investment advisor operates under written guidelines provided by NYISO, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, and communication and reporting requirements.

The assumed health care cost trend rates for the postretirement plan are 8.5% for 2010 decreasing to 5.0% in 2018, and 9% for 2009 decreasing to 4.75% in 2019. A one-percentage point change in the assumed health care cost trend rate would change the 2010 postretirement benefit obligation as follows:

		1% increase	**1% decrease**
Effect on postretirement benefit obligation	$	465,600	(417,800)
Effect on total of service and interest cost components		72,300	(63,500)

The following benefit payments, which reflect expected future service, are expected to be paid:

		Pension plan	**Postretirement plan**
2011	$	2,003,231	270,506
2012		1,962,267	306,901
2013		2,061,831	341,368
2014		2,125,402	398,381
2015		2,375,919	447,078
2016 – 2020		10,418,390	3,090,033

b. 401(k)Plan

NYISO has a 401(k) Retirement and Savings Plan open to all nontemporary employees. This plan provides for employee contributions up to specified limits. NYISO matches 100% of the first 3% of employee contributions, and 50% of the next 2% of employee contributions. Beginning December 1, 2009, NYISO also contributes funds to employee 401(k) plan accounts equivalent to defined benefit accruals formerly earned in the qualified pension plan.

Employees are immediately vested in NYISO's matching contributions and become vested in other employer contributions after three years of credited service. The total NYISO contributions to the 401(k) plan were $3,650,614 and $1,993,192 for 2010 and 2009, respectively.

c. Long-Term Incentive Plan

NYISO's Long-Term Incentive Plan provides certain members of senior management with deferred compensation benefits. Benefits are based upon the achievement of three-year performance goals established by the Board of Directors, with participants becoming fully vested and distributions payable for these deferred amounts after the completion of the audited financial statements for the third year. Beginning with the long-term incentive cycle starting January 1, 2010, benefits will be paid in installments over three years following the completion of the three year cycle. Accrued Long-Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2010 and 2009, were $1,193,434 and $0, respectively. The short-term portion of such liability, included in other current liabilities, at December 31, 2010 and 2009, was $0 and $2,484,980, respectively.

9. Lease and Other Commitments

Operating Leases

During 2008, NYISO entered into obligations under two operating lease agreements for the use of computer hardware. Expenses related to these leases totaled $3,194,640 and $2,991,277 in 2010 and 2009, respectively. The NYISO's remaining obligation with respect to these leases for 2011 is $2,928,420.

Other Commitments

On July 8, 2005, NYISO purchased an office building to relocate NYISO's alternate control center and to consolidate employees located in leased facilities. In connection with the purchase, management entered into a Payment in Lieu of Taxes (PILOT) Agreement with the Rensselaer County Industrial Development Agency (RCIDA) to achieve certain benefits. Per the terms of this agreement, NYISO will be required to make annual payments of approximately $175,000 for the first 10 years. The agreement is cancelable at the discretion of NYISO.

10. Working Capital Reserve

At December 31, 2010 and 2009, the working capital reserve consisted of:

		2010	2009
Market participant contributions through Rate Schedule 1	$	46,440,349	46,440,347
Interest on market participant contributions		51,458	103,297
Total	$	46,491,807	46,543,644

11. Deferred Revenue

Deferred revenue at December 31, 2010 and 2009, consisted of the following:

		2010	2009
Advance payments received on interconnection studies	$	2,167,255	2,859,981
Governance participation fees		398,300	383,700
Total	$	2,565,555	3,243,681

12. Regulatory Liabilities

At December 31, 2010 and 2009, NYISO recorded the following amounts as regulatory liabilities:

		2010	2009
Funding for deferred charges	$	4,851,726	3,880,116
Voltage support service (reactive power) market		2,951,407	—
Rate Schedule 1 transactional volume overcollections		1,365,530	—
Rate Schedule 1 underspending		508,482	1,074,704
Deferred postretirement plan liability		218,227	25,489
Total		9,895,372	4,980,309
Less current portion		(4,825,418)	(1,074,704)
Long-term portion	$	5,069,954	3,905,605

NYISO recovers its operating expenses through a surcharge assessed to market participants via Rate Schedule 1 of the OATT and Services Tariff. To the extent that transactional volumes billed under Rate Schedule 1 exceed the amount expected when the Rate Schedule 1 surcharge is established, NYISO reflects a regulatory liability for the overcollection amounts. Additionally, to the extent that NYlSO's spending does not exceed the annual Rate Schedule 1 revenue requirement, a regulatory liability is also established for the underspending amounts.

ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2010 and 2009 the amounts were $218,227 and $25,489, respectively.

13. Commitments and Contingencies

NYISO is routinely involved in regulatory actions. In the opinion of management, none of these matters will have a material adverse effect on the financial position, results of operations, or liquidity of NYISO.

NYISO defended a civil suit that had been pending in New York State Supreme Court, Albany County. The suit, which named the NYISO and two individuals as defendants, was filed by a former employee, seeking reinstatement, as well as compensatory and punitive damages totaling $5 million, as relief for certain events alleged to have occurred during this individual's NYISO employment. On September 24, 2007, the Supreme Court granted, in part, a motion to dismiss the complaint and dismissed all claims asserted directly against the NYISO, leaving in place a single claim against a NYISO employee, the plaintiff's former supervisor. On December 31, 2009, the Third Department of the New York State Appellate Division reversed the Supreme Court's dismissal of some of the causes of action against the NYISO and the other defendants.

On May 14, 2009, the same former employee filed a second suit against the NYISO, alleging that, after the employee left NYISO in 2005, the employee sought re-employment in 2006 and was being considered for a new position, but that NYISO refused to rehire the former employee after learning about the first lawsuit (described above). The former employee claimed that the alleged refusal to rehire was in retaliation for asserting a claim of disability discrimination in the first lawsuit.

By stipulations dated July 16, 2010, both proceedings were discontinued with prejudice.

14. Smart Grid Investment Grant

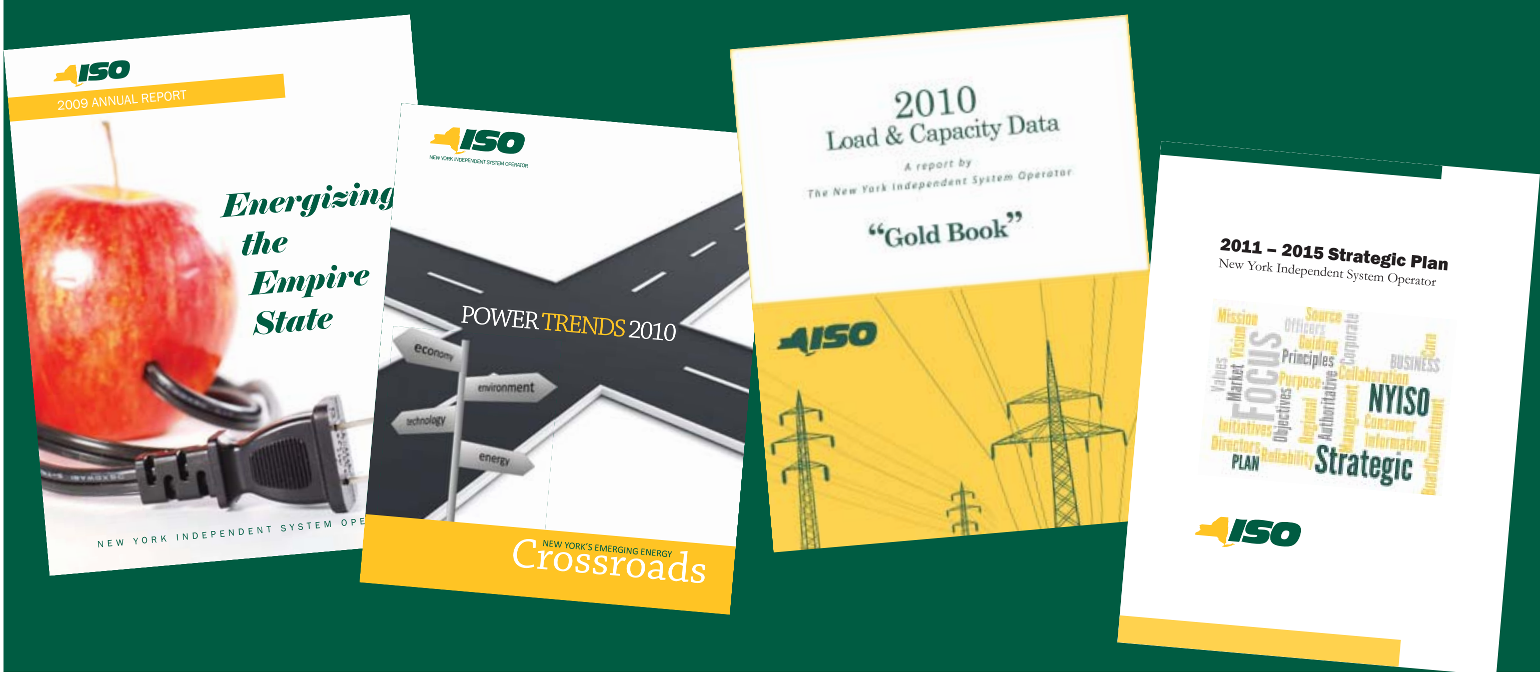
On October 27, 2009, the U.S. Department of Energy (DOE) announced that New York State will receive $37.8 million (the DOE Award) in federal stimulus funding to deploy advanced metering, new customer service enhancements and grid automation. As the prime recipient of New York's smart grid stimulus application, NYISO is responsible for administering the overall project on behalf of itself and the New York State transmission owners (NYTOs). The agreement with DOE includes provisions for funding and other requirements. The agreement with DOE was executed on May 5, 2010 and the project obligations became effective on July 1, 2010. NYISO has a separate agreement with the NYTOs which specifies the portion of the total DOE Award for which each party is eligible. Consistent with the requirements of the DOE agreement, in order to receive its respective portion of the DOE Award, each party must expend a matching amount. NYISO is eligible to receive reimbursement of $15.0 million from DOE, which is 50% of its portion of project costs. NYISO is eligible to receive reimbursement for expenditures incurred from August 6, 2009. Through December 31, 2010, NYISO incurred $4.6 million of expenses, and has invoiced $0. Subsequent to December 31, 2010, NYISO has submitted requests for reimbursement totaling $2.2 million, and has received $2.2 million to date. Under the NYISO agreement with the NYTOs, the NYISO's obligation to reimburse the NYTOs is only for the amount the NYISO receives from DOE in respect of an NYTO's request for reimbursement.

15. Eastern Interconnection Planning Collaborative Grant

On December 18, 2009, the U.S. Department of Energy (DOE) announced that the Eastern Interconnection Planning Collaborative would receive $16 million (the DOE Award) in federal stimulus funding to promote collaborative long-term analysis and planning for the Eastern electricity interconnection, which will help states, utilities, grid operators, and others prepare for future growth in energy demand, renewable energy sources, and Smart Grid technologies. As the prime recipient of the DOE Award, PJM Interconnection, L.L.C. (PJM), is responsible for administering the overall project on behalf of itself and seven other "Participating Principal Investigators" including the NYISO. The Cooperative Agreement with DOE includes provisions for funding and other requirements. The agreement with DOE was executed on July 20, 2010 and the project obligations became effective on July 15, 2010. NYISO has a separate agreement with PJM and the other Participating Principal Investigators (the EIPC Agreement) which specifies the parties' obligations under the DOE Award. Consistent with the requirements of the DOE Cooperative Agreement, NYISO is eligible to receive reimbursement of $868,000 from DOE for expenditures incurred from March 1, 2010. Through December 31, 2010, NYISO incurred $154,000 of expenses, and has invoiced $127,000. Under the PJM agreement with the Participating Principal Investigators, PJM's obligation to reimburse the NYISO is only for the amount that PJM receives from DOE in respect of NYISO's request for reimbursement.

16. Subsequent Events

NYISO considers events and transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on March 17, 2011 and subsequent events have been evaluated through that date.



NYISO At-a-Glance

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.

The NYISO is governed by an independent Board of Directors and a committee structure comprised of a diverse array of stakeholder representatives. It is subject to the oversight of the Federal Energy Regulatory Commission (FERC) and regulated in certain aspects by the New York State Public Service Commission (NYSPSC). NYISO operations are also overseen by electric system reliability regulators, including the North American Electric Reliability Corporation (NERC), Northeast Power Coordinating Council, Inc. (NPCC), and the New York State Reliability Council (NYSRC).

The members of the NYISO's 10-member Board of Directors have backgrounds in electricity systems, finance, academia, information technology, communications, and public service. The members of the Board, as well as all employees, have no business, financial, operating, or other direct relationship to any market participant or stakeholder.

The NYISO does not own power plants or transmission lines. The NYISO's independence means that its actions and decisions are focused on how best to enhance the reliability and efficiency of the power system, and safeguard the transparency and fairness of the markets.

The mission of the NYISO, in collaboration with its stakeholders, is to serve the public interest and provide benefit to consumers by:

- *Maintaining and enhancing regional reliability*
- *Operating open, fair and competitive wholesale electricity markets*
- *Planning the power system for the future*
- *Providing factual information to policy makers, stakeholders and investors in the power system*

The NYISO manages the efficient flow of power on 11,000-plus miles of electric transmission lines on a continuous basis, 24 hours-a-day, seven days-a-week. As the administrator of the competitive wholesale markets, the NYISO conducts auctions that match the retail electric service companies looking to purchase power and the suppliers offering to sell it.

In addition to these functions, the NYISO has an expanding and increasingly important planning function to assess New York's electricity needs and evaluate the ability of planned new power facilities and other options to meet those needs. This planning process involves stakeholders, regulators, public officials, consumer representatives, and energy experts who provide vital information and input from a variety of viewpoints.

NYISO Publications

In addition to the Annual Report, we issue a number of publications related to the power grid and electricity markets. They are available on our website, www.nyiso.com.

Power Trends

Power Trends is our annual analysis of the forces and factors influencing the future of New York's bulk electricity grid and its competitive wholesale electricity markets.

The "Gold Book"

Published annually, the Load & Capacity Data Report (commonly referred to as the "Gold Book") presents New York Control Area system, transmission and generation data and NYISO load forecasts. It includes forecasts of peak demand, energy requirements, energy efficiency, and demand response; existing and proposed resource capacity; and existing and proposed transmission facilities.

Comprehensive Planning Reports

As part of our Comprehensive System Planning Process, the NYISO regularly publishes its Reliability Needs Assessment, Comprehensive Reliability Plan, and Congestion Assessment and Resource Integration Study.

Strategic Plan

Each year, we review and renew our five-year Strategic Plan, which outlines the NYISO's vision, mission, core values, and guiding principles, as well identifies specific goals and initiatives.

White Papers

In order to inform the dialogue on matters relating to the electric system, we issue periodic "white papers" that address specific energy issues. White paper topics have included Envisioning a Smarter Grid for New York Consumers, Energy Storage in the New York Electricity Market, Integration of Wind into System Dispatch, and Dynamic Pricing: Potential Wholesale Market Benefits in New York State.

NYISO Connection

This quarterly newsletter for market participants provides information on evolving developments in the wholesale electricity markets and summaries of the activities of the NYISO.

Reliable,
Responsible,
Sustainable
Electricity
for the
Empire State

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NEW YORK INDEPENDENT SYSTEM OPERATOR
10 Krey Boulevard, Rensselaer, NY 12144

PHONE 518.356.6000 | WWW.NYISO.COM

Attachment V.

Affidavit: 16 NYCRR Section 37.1(o)

NEW YORK STATE PUBLIC SERVICE COMMISSION

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In the Matter of Petition of The New York Independent System Operator, Inc. Under Public Service Law Section 69 for Authority to Incur Indebtedness for a Term in Excess of Twelve Months

Case No. 12-E-______

---X

AFFIDAVIT

STATE OF NEW YORK)
) **ss.:**
COUNTY OF ALBANY)

Mary McGarvey, being duly sworn, deposes and says:

1. I am the Vice President and Chief Financial Officer of the New York Independent System Operator, Inc. (the "NYISO").

2. The accounts of the NYISO have been kept strictly in accordance with the accounting orders of the New York State Public Service Commission applicable thereto, and that since the effective date of such orders there have been no charges to asset accounts not in accordance therewith and that all required credits to such asset accounts have been made for the amount and in the manner prescribed therefor in such accounting orders.

Mary McGarvey
Mary McGarvey

Subscribed and sworn to
before me this 4 day
of April, 2012.

Diane L. Egan

Notary Public, State of New York
Qualified in Schenectady County
Commission Expires: March 21, 2013

DIANE L. EGAN
Notary Public, State of New York
Qualified in Schenectady County
No. 4924890
Commission Expires March 21, 20 13

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Attachment VI.

Certificate of Incorporation

A copy of the Certificate of Incorporation of The New York Independent System Operator, Inc., and all amendments thereto, was filed with the New York Public Service Commission on December 10, 2009 in connection with Case No. 09-E-0857.

Attachment VII.

Table of Costs to Ratepayers

NYISO
DEBT SERVICE COSTS FOR PROPOSED CONSTRUCTION FACILITY
ESTIMATED COST IMPACTS TO PARTICIPANTS AND CONSUMERS

ESTIMATED IMPACT ON NYISO MARKET PARTICIPANTS	2012	2013	2014	2015	2016	Over Loan Life	
Estimated Annual Debt Service Cost (principal & interest), in $ millions	$ 0.1	$ 0.9	$ 3.0	$ 4.8	$ 4.6		
Estimated Rate Schedule 1 MWh Throughput, in millions of MWh *	167.1	168.0	165.1	162.9	163.7		
Equals: Annual Rate Schedule 1 Impact in $/MWh	$ 0.00	$ 0.01	$ 0.02	$ 0.03	$ 0.03		
Times: Estimated Rate Schedule 1 allocation for net purchasers **	67%	67%	67%	67%	67%		
Equals: Estimated Annual Rate Schedule 1 Impact in $/MWh for net purchasers	**$ 0.00**	**$ 0.00**	**$ 0.01**	**$ 0.02**	**$ 0.02**		*Measured in $/MWh*

** Estimated Rate Schedule 1 MWh Throughput for 2012 - 2016 is based on projections updated by NYISO during April 2012.*

*** Estimated Rate Schedule 1 allocation (beginning 1/1/12) is 67% to net purchases, 27% to net suppliers, and 6% to non-physical transactions.*

ESTIMATED IMPACT ON NY RESIDENTIAL CONSUMERS ***	2012	2013	2014	2015	2016	Over Loan Life	
Average Residential Annual Consumption (wholesale kWh)	7,912	7,912	7,912	7,912	7,912		
Annual Rate Schedule 1 Impact in $/MWh for net purchasers (~67% allocation)	$ 0.00	$ 0.00	$ 0.01	$ 0.02	$ 0.02		
Equals: Estimated Annual Impact on NY Residential Consumers	**$ 0.00**	**$ 0.03**	**$ 0.10**	**$ 0.16**	**$ 0.15**	**$ 2.71**	*Measured in $*

**** Consumption estimates based on 2011 retail sales figures from the EIA plus estimated distribution losses*

ESTIMATED IMPACT ON NY COMMERCIAL & INDUSTRIAL CONSUMERS ***	2012	2013	2014	2015	2016	Over Loan Life	
Average C&I Annual Consumption (wholesale kWh)	85,488	85,488	85,488	85,488	85,488		
Annual Rate Schedule 1 Impact in $/MWh for net purchasers (~67% allocation)	$ 0.00	$ 0.00	$ 0.01	$ 0.02	$ 0.02		
Equals: Estimated Annual Impact on NY Commercial & Industrial Consumers	**$ 0.03**	**$ 0.31**	**$ 1.04**	**$ 1.69**	**$ 1.61**	**$ 29.26**	*Measured in $*

**** Consumption estimates based on 2011 retail sales figures from the EIA plus estimated distribution losses*