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

November 10, 2015

By Electronic Delivery

Hon. Kathleen H. Burgess
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: Case 15-E-____ – Petition of the New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months Pursuant to Section 69 of the Public Service Law

Dear Secretary Burgess:

Pursuant to Section 69 of the Public Service Law, enclosed for filing please find the Petition of the New York Independent System Operator, Inc. ("NYISO") requesting authority to incur indebtedness for a term in excess of twelve months. The NYISO respectfully requests that the New York State Public Service Commission issue an order approving this Petition on or before its February 2016 session, currently scheduled to occur on February 11, 2016, but in no event later than its March 2016 session.

If you have any questions regarding this filing, please do not hesitate to contact me at (518) 356-6107 or via email at gbissell@nyiso.com.

Respectfully submitted,

/s/ Garrett E. Bissell
Garrett E. Bissell
Senior Attorney
New York Independent System Operator, Inc.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Petition of the New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months Pursuant to Section 69 of the Public Service Law	**Case 15-E-____**

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

Dated: November 10, 2015

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Petition of the New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months Pursuant to Section 69 of the Public Service Law	**Case 15-E-____**

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

Pursuant to Section 69 of the Public Service Law ("PSL") and Part 37 of Title 16 of the New York Code of Rules and Regulations ("NYCRR"), the New York Independent System Operator, Inc. ("NYISO") hereby submits this Petition requesting authorization from the New York State Public Service Commission ("Commission") to incur indebtedness for a term in excess of twelve months. As further described herein, the NYISO is requesting authorization to: (i) extend the term of its currently-approved credit facilities consisting of a revolving line of credit and a term loan facility for an additional one-year period until December 31, 2018; (ii) increase the maximum principal amount available under the currently-approved term loan facility by $25 million to reflect the term extension; and (iii) enter into a new three-year, unsecured term loan credit facility dedicated to funding the multi-year project for replacing the NYISO's Energy Management System ("EMS") and Business Management System ("BMS").

Extension of the current credit facilities for an additional year will allow for continuation of the favorable rates, terms and conditions relating thereto at reduced costs, while simultaneously providing alignment with the proposed term for the new credit facility for the EMS/BMS replacement project ("EMS/BMS Project"). The proposed new credit facility for the EMS/BMS Project will provide for the application of the same favorable rates, terms and conditions of the currently-approved credit facilities to this new, project-specific term loan facility.

I. BACKGROUND

The NYISO is a Type B New York State not-for-profit corporation that is tax exempt under Section 501(c)(3) of the Internal Revenue Code. The NYISO: (i) operates and maintains the reliability of New York's bulk power system; (ii) administers the State's wholesale electricity markets; and (iii) conducts short-term and long-term planning with respect to the State's bulk power system. The Commission has previously declared that the NYISO is an "electric corporation," as such term is defined in the PSL.[1] Based on this prior determination, the Commission has indicated that the NYISO may not incur indebtedness payable at periods exceeding twelve months without the prior authorization of the Commission. A copy of the NYISO's Certificate of Incorporation already is on file with the Commission.[2]

The Commission has previously approved the following requests by the NYISO to incur indebtedness with a term exceeding twelve months:

1. On September 21, 1999, in Case 99-E-1176, the Commission authorized a $12 million revolving line of credit for working capital purposes ("Revolver").[3] On

[1] *See* Case 00-E-1380, *The Provision by the New York Independent System Operator, Inc. of Information and Data to Department Staff*, Order Directing Provision of Data and Information at 5, fn. 1 (issued and effective August 14, 2000).

[2] Case 09-E-0857, *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*, Petition of the New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months at Attachment VII (December 10, 2009).

[3] Case 99-E-1176, *Petition of the New York Independent System Operator, Inc. for Authority to Issue Long-Term Debt*, Order (issued and effective September 21, 1999).

September 8, 2000, the Commission authorized an increase to the Revolver to $50 million.[4]

2. On October 20, 1999, in Case 99-E-1176, the Commission authorized a $54 million term loan agreement for start-up costs ("Term Loan").[5]

3. On October 25, 2001, in Case 01-E-1068, the Commission authorized a three-year term note with a credit line of up to $20 million to purchase computer hardware ("3-Year Term Note").[6]

4. On February 10, 2003, in Case 02-E-1565, the Commission authorized a five-year term note with a credit line of up to $59.3 million to purchase computer equipment and software upgrades ("5-Year Term Note").[7]

5. On March 16, 2004, in Case 03-E-1770, the Commission authorized a $100 million revolving line of credit to provide funding for strategic initiatives for 2004 through 2006 related to the management of the New York power grid ("2004-2006 Budget Facility").[8]

6. On May 18, 2005, in Case 05-E-0270, the Commission authorized $25 million in secured financing to provide funding for the acquisition of certain real property

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[4] Case 99-E-1176, *supra*, Order (issued and effective September 8, 2000).

[5] Case 99-E-1176, *Petition of the New York Independent System Operator, Inc. to Amend the Terms of Its Long-Term Debt Previously Approved in this Proceeding*, Order (issued and effective October 20, 1999).

[6] Case 01-E-1068, *Petition of the New York Independent System Operator, Inc. for Authority to Issue Long-Term Debt*, Order (issued and effective October 25, 2001).

[7] Case 02-E-1565, *Petition of the New York Independent System Operator, Inc. for Authority to Issue Long-Term Debt*, Order Approving Petition (issued and effective February 10, 2003).

[8] Case 03-E-1770, *Petition of the New York Independent System Operator, Inc. for Approval of a Three-Year Revolving Credit Facility Worth Up to $100,000,000,* Order (issued and effective March 16, 2004).

and for the renovation of the office building thereon ("Mortgage and Renovations Loan").[9]

7. On July 21, 2005, in Case 05-E-0503, the Commission authorized a $50 million revolving line of credit to replace the Revolver, which was set to expire in October 2005 ("Replacement Revolver").[10]

8. On January 19, 2007, in Case 06-E-1254, the Commission authorized a $80 million revolving loan facility to provide funding for strategic initiatives for 2007 through 2010 related to the management of the New York power grid ("2007-2010 Budget Facility").[11]

9. On July 19, 2010, in Case 10-E-0160, the Commission authorized a combined credit facility consisting of: (i) a $50 million revolving line of credit to replace the Replacement Revolver, which was set to expire in July 2010 ("2010 Revolver"); and (ii) a $75 million revolving loan facility to provide funding for strategic initiatives for 2011 through 2013 related to the management of the New York power grid ("2011-2013 Budget Facility") (the 2010 Revolver and the 2011-2013 Budget Facility are together referred to as the "Combined Credit Facility").[12]

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[9] Case 05-E-0270, *Petition of the New York Independent System Operator, Inc. to Incur $25,000,000 in Indebtedness*, Order (issued and effective May 18, 2005).

[10] Case 05-E-0503, *Petition of the New York Independent System Operator, Inc. for Authority to Enter into a Five-Year Revolving Credit Agreement*, Order Concerning Five-Year Revolving Credit Agreement (issued and effective July 21, 2005).

[11] Case 06-E-1254, *Petition of New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months*, Order Authorizing Issuance of Securities (issued and effective January 19, 2007).

[12] Case 10-E-0160, *Petition of New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months Under §69 of the New York Public Service Law*, Order Granting Authorization to Incur Indebtedness, with Conditions (issued and effective July 19, 2010).

10. On April 19, 2011, in Case 10-E-0640, the Commission authorized a $45 million construction loan facility to provide funding for renovating and upgrading the NYISO power control centers and related improvements ("Construction Loan").[13]

11. On July 12, 2012, in Case 12-E-0168, the Commission authorized a $45 million construction loan facility to refund and replace the Construction Loan ("Replacement Construction Loan").[14]

12. On September 20, 2013, in Case 13-E-0240, the Commission authorized a combined credit facility consisting of: (i) a four-year, $50 million revolving line of credit to replace the 2010 Revolver, which was set to expire after December 2013 ("Revolving Line of Credit"); and (ii) a $100 million capital and project financing facility to provide funding for strategic initiatives for 2014 through 2017 related to the management of the New York power grid ("2014-2017 Budget Facility") (the Revolving Line of Credit and 2014-2017 Budget Facility are together referred to as the "Senior Credit Facility").[15]

The NYISO respectfully requests authorization to amend the Senior Credit Facility to: (i) extend the term of the Revolving Line of Credit by one year until December 31, 2018 ("Amended Revolving Line of Credit"); (ii) extend the term of the 2014-2017 Budget Facility by one year until December 31, 2018 and increase the maximum principal amount available

[13] Case 10-E-0640, *Petition of New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months*, Order Approving Financing with Conditions (issued and effective April 19, 2011).

[14] Case 12-E-0168, *Petition of the New York Independent System Operator, Inc. for Authorization to Incur Indebtedness for a Term in Excess of Twelve Months*, Order Approving Financing with Conditions (issued and effective July 12, 2012).

[15] Case 13-E-0240, *Petition of New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months*, Order Conditionally Granting Authorization to Incur Indebtedness (issued and effective September 20, 2013).

pursuant to such facility by $25 million to reflect the term extension ("Amended 2014-2018 Budget Facility"); and (iii) add a separate, three-year unsecured financing facility with a maximum principal amount of $30 million to provide funding for the EMS/BMS Project ("EMS/BMS Project Facility") (the Amended Revolving Line of Credit, Amended 2014-2018 Budget Facility and EMS/BMS Project Facility are together referred to as the "Amended Senior Credit Facility"). All three facilities will mature and expire at the same time (*i.e.*, December 31, 2018).

Amending the existing Senior Credit Facility to include a new facility dedicated for funding of the EMS/BMS Project will provide for application of the same favorable rates, terms and conditions of the currently-approved credit facilities to this new, project-specific term loan facility. The one-year term extension of the existing revolving line of credit and term loan facility will provide for alignment of the maturity date for all three facilities, as well as extension of the current favorable terms for such facilities for an additional year. Proceeding with an amendment of the Senior Credit Facility, rather than seeking to execute an entirely new arrangement, is expected to achieve material cost savings, including reduced external legal fees and internal labor costs, as well as avoidance of arranger fees.

The NYISO discussed the EMS/BMS Project with its stakeholders as part of its 2016 project prioritization process, which commenced in May 2015 and is a component of the overall development and review of the NYISO's 2016 budget.[16] Stakeholders expressed concerns about

[16] As part of this process, the NYISO also made presentations specific to the EMS/BMS Project. *See*, *e.g.*, NYISO, *EMS/BMS Strategy* (presented at the July 13, 2015 Budget & Priorities Working Group ["BPWG"] meeting), available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc_bpwg/meeting_materials/2015-07-13/Agenda%2003%20-%20EMS_BMS%20Strategy.pdf; and NYISO, *EMS/BMS Strategy Update* (presented at the July 29, 2015 BPWG meeting), available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc_bpwg/meeting_materials/2015-07-29/Agenda%2003_EMS_BMS%20Stategy%20Update.pdf.

the potential impact of the EMS/BMS Project on the NYISO's ability to pursue other projects and initiatives of interest to stakeholders. In order to provide continued financing availability to support the NYISO's historical level of project deployments and capital investments (approximately $25 million annually), stakeholders supported the NYISO pursuing supplemental financing to fund the EMS/BMS Project. The 2016 budget approved by stakeholders at the October 28, 2015 Management Committee meeting assumed pursuit of additional financing for the EMS/BMS Project.[17] The NYISO Board of Directors approved entering into the Amended Senior Credit Facility on October 20, 2015.

II. PROPOSED CREDIT FACILITIES

Pursuant to Section 69 of the PSL, the NYISO seeks Commission authorization to incur indebtedness for a term in excess of twelve months by executing the Amended Senior Credit Facility. The Amended Senior Credit Facility provides a maximum, aggregate principal amount of $205 million, consisting of: (i) the Amended Revolving Line of Credit with a maximum principal amount of $50 million; (ii) the Amended 2014-2018 Budget Facility with a maximum principal amount of $125 million; and (iii) the EMS/BMS Project Facility with a maximum principal amount of $30 million. KeyBank National Association ("KeyBank") will continue to serve as the administrative agent and lead arranger for the Amended Senior Credit Facility. KeyBank will also serve as a lender under the Amended Senior Credit Facility, together with TD Bank, N.A. ("TD Bank").

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[17] *See*, NYISO, *Management Committee – Final Motion Summary* at 1 (*see* Motion #3) (October 29, 2015), available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2015-10-28/102815_MC_Final_Motions.pdf; and NYISO, *NYISO 2016 Budget Overview* at 17 (presented at the October 28, 2015 Management Committee meeting), available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2015-10-28/Agenda%2005_%202016%20draft%20budget%20and%202017-2018%20projections.pdf.

A. Amended Revolving Line of Credit

The Amended Revolving Line of Credit, like the Revolving Line of Credit, will serve as a cash flow management tool to provide liquidity to the NYISO-administered markets. The need for working capital primarily arises from:

- bridging the short time interval between the due date for payments to the NYISO from net buyers of energy, capacity and ancillary services, and the due date for payments by the NYISO to the net suppliers of such products. If any significant portion of settlement payments due to the NYISO from net buyers are delayed, the NYISO needs available liquidity to make timely remittances to net suppliers; and
- accommodating temporary shortfalls in operating cash flows caused by seasonal fluctuations in NYISO revenues.

The Amended Revolving Line of Credit extends the maturity date of the Revolving Line of Credit by one year until December 31, 2018. The maximum principal amount of the Amended Revolving Line of Credit is $50 million – the same as the Revolving Line of Credit. The borrowing rates for the Amended Revolving Line of Credit are also the same as the Revolving Line of Credit. The NYISO can borrow, at its option, at an interest rate equal to either: (i) a rate based on the one, three or six month London Interbank Offering Rate for corresponding deposits of U.S. Dollars quoted by major banks in London ("LIBOR") plus a margin of 87.5 basis points; or (ii) a per annum "base rate" equal to the greater of: (a) the Wall Street Journal U.S. Prime Rate, or (b) the Federal Funds Rate plus one percent.

B. Amended 2014-2018 Budget Facility

Consistent with the purpose of the 2014-2017 Budget Facility, the Amended 2014-2018 Budget Facility will be used to finance capital investments, software development projects and other strategic initiatives in support of the NYISO's responsibilities to maintain and enhance the reliable, safe and efficient operation of the New York State transmission system, as well as promote and operate a fair and competitive wholesale electricity market. The NYISO selects the capital investments, projects and initiatives pursued each year through its annual project prioritization process undertaken in consultation with stakeholders as part of the development of the NYISO's annual budget. The NYISO estimates that the average annual funding required for the selected items will be approximately $25 million.[18]

Draws pursuant to the Amended 2014-2018 Budget Facility, like the 2014-2017 Budget Facility, will be converted into three-year term loans at the end of each respective calendar year. Use of a term loan structure allows the NYISO to amortize these expenditures over a three-year period, thereby aligning recovery of project costs for equipment and software with their approximate useful lives. This approach also assists in providing greater stability and predictability to collections through Rate Schedule 1 of the NYISO's Market Administration and Control Area Services Tariff ("Services Tariff") and Rate Schedule 1 of the Open Access Transmission Tariff ("OATT"). Stakeholders have consistently supported this approach. The NYISO will recover the funds needed to pay the principal and interest of each term loan through Rate Schedule 1 of the Services Tariff and Rate Schedule 1 of the OATT.

The Amended 2014-2018 Budget Facility extends the maturity date of the 2014-2017 Budget Facility by one year until December 31, 2018. The maximum principal amount is also increased by $25 million to $125 million to reflect the one-year term extension. The borrowing rates remain the same as the 2014-2017 Budget Facility. The NYISO can borrow, at its option, at an interest rate equal to either: (i) a rate based on the one, two or three month LIBOR plus a

[18] Case 12-E-0168, *supra*, NYISO Capital Plan for 2014-2018 (December 20, 2013); and Case 12-E-0168, *supra*, NYISO Capital Plan for 2015-2019 (December 16, 2014).

margin of 95 basis points; or (ii) a per annum "base rate" equal to the greater of: (a) the Wall Street Journal U.S. Prime Rate, or (b) the Federal Funds Rate plus one percent. Interest only is payable during the calendar year in which draws are made. At the end of each calendar year during the draw period, the aggregate principal amount of all draws during that year (plus any interest accrued and remaining unpaid) will be converted to a three-year term loan.

C. EMS/BMS Project Facility

The NYISO currently utilizes a combined EMS and BMS provided by a third-party vendor, ABB, which are collectively referred to as the Ranger system. These systems are used to operate New York's bulk power system and manage the NYISO-administered wholesale energy and ancillary services markets. The Ranger system was initially placed into operation in 2005, upgraded in 2007 and incrementally enhanced over time. The Ranger system runs on a dedicated hardware platform that was installed in 2011.

In 2012, ABB publicly announced that it would cease further evolution of the Ranger system in favor of consolidating their products into a single Network Manager Product platform ("Network Manager"). Network Manager is ABB's current and future product line replacement for Ranger. While ABB continues to support the NYISO, development timelines and costs are increasing because subject matter experts and support staff familiar with the legacy Ranger product are less available to provide enhancements. Additionally, the dedicated hardware platform that Ranger runs on is projected to reach its end of support life in 2019.

With continued demand and need for new and innovative market design features, structural and performance limitations of the current software and hardware could become apparent and may constrain the NYISO's ability to deliver further enhancements. With both the Ranger system and its underlying hardware approaching the end of their lifecycles, it became necessary for the NYISO to assess future options with respect to its EMS and BMS. In 2014, the NYISO commenced an assessment to develop a strategy for addressing the future of its EMS and BMS. This assessment included a review of third-party vendors and their product offerings, as well as investigation of an option to extend the life of the current system. The option to pursue a life extension of the current system was not recommended due to the high risk and cost for what would ultimately be a short-term solution.[19]

Based on the results of the assessment, the NYISO recommended pursuing replacement of the Ranger system with a new system utilizing ABB's Network Manager. The project is anticipated to be completed in less than four years, beginning in 2016 with project completion expected in 2019. The estimated cost of the new system is approximately $30 million. The NYISO Board of Directors concurred with the NYISO staff's recommendation on July 21, 2015. The second phase of the EMS/BMS Project was included in the final list of projects comprising the 2016 budget that stakeholders approved at the October 28, 2015 Management Committee meeting.[20]

Given the scope and estimated cost of the EMS/BMS Project, stakeholders expressed concerns regarding the impact of the project on funding available for other project and capital investments over the coming years. Specifically, stakeholders noted their preference for the NYISO to maintain its historical project and capital funding level (approximately $25 million per

[19] Because the current hardware platform for the Ranger system only has committed support through 2019, a hardware replacement effort would be required to sustain the existing system. The assessment revealed that the cost for such platform replacement would likely be double the cost of implementing a new system. Extending the life of the current system would also not provide the NYISO the desired performance and system reliability for meeting future needs to operate the bulk transmission system and enhance its markets.

[20] This phase involves: (i) the identification of requirements for the system from the perspectives of system operation and market administration; (ii) the development and negotiation of contracts and a statement of work with ABB; (iii) the development of initial project implementation plans; and (iv) initial system development work.

year), while simultaneously pursuing the EMS/BMS Project. In response to stakeholder feedback, the NYISO proposed to pursue supplemental financing to provide funding for this project. The EMS/BMS Project Facility will accomplish this objective.

Consistent with the Amended 2014-2018 Budget Facility, draws pursuant to the EMS/BMS Project Facility will be converted into the three-year term loans at the end of each respective calendar year. The EMS/BMS Project Facility will allow the NYISO to spread the recovery of annual project-related costs over several years. This approach will help facilitate greater stability and predictability with respect to the annual rates established pursuant to Rate Schedule 1 of the Services Tariff and Rate Schedule 1 of the OATT. The NYISO will recover the funds needed to pay the principal and interest of each term loan through Rate Schedule 1 of the Services Tariff and Rate Schedule 1 of the OATT.

The maximum principal amount of the EMS/BMS Project Facility is $30 million. Draws under the EMS/BMS Project Facility will be available beginning on the effective date of the Amended Senior Credit Facility and remain available until December 31, 2018. The term of the EMS/BMS Project Facility aligns with the period over which the vast majority of the costs of the project will be incurred. The borrowing rates for the EMS/BMS Project Facility are the same as the 2014-2017 Budget Facility. The NYISO can borrow, at its option, at an interest rate equal to either: (i) a rate based on the one, two or three month LIBOR plus a margin of 95 basis points; or (ii) a per annum "base rate" equal to the greater of: (a) the Wall Street Journal U.S. Prime Rate, or (b) the Federal Funds Rate plus one percent. Interest only is payable during the calendar year in which draws are made. At the end of each calendar year during the draw period, the aggregate principal amount of all draws during that year (plus any interest accrued and remaining unpaid) will be converted to a three-year term loan.

D. Lender's Commitment

The commercial terms and conditions set forth in the Commitment Letter included in Attachment I represent the terms that the NYISO and KeyBank have agreed to for the Amended Senior Credit Facility.[21] These terms are representative of those available in the market for comparable loans. Although the NYISO has not yet executed a definitive loan agreement, it anticipates closing on the Amended Senior Credit Facility as soon as reasonably practicable following Commission approval of this Petition. 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 Attachment I.

The terms and conditions of the Amended Senior Credit Facility are competitive, commercially reasonable and well suited to the financing needs described above. In seeking to procure separate financing for the EMS/BMS Project, the NYISO engaged in discussions with KeyBank – the lead arranger of the Senior Credit Facility – to assess potential options and gauge current market conditions for similar syndicated loan arrangements. These discussions confirmed the observation that middle market LIBOR interest rate spreads have remained relatively unchanged since the execution of the Senior Credit Facility in 2013 and the rates provided by the Senior Credit Facility remain competitive. Accordingly, extension of the current rates provided under the Senior Credit Facility for an additional year as it relates to the Amended Revolving Line of Credit and the Amended 2014-2018 Budget Facility, as well as application of those rates to the new EMS/BMS Project Facility, are commercially reasonable and representative of competitive rates that the NYISO could otherwise expect to obtain through

[21] Attachment I also includes a written commitment from TD Bank to KeyBank and the NYISO in connection with serving as a member of the syndicated loan arrangement for the Amended Senior Credit Facility.

seeking an entirely new financing arrangement under current market conditions. The decision to amend the Senior Credit Facility, rather than seek to enter into a new arrangement, is anticipated to result in material cost savings, including reduced external legal costs, internal labor costs and avoidance of arranger fees.

E. Other Sources of Available Financing

The credit facilities previously approved by the Commission are either not available or inadequate to meet the financing needs described above. Accordingly, the NYISO requires a new credit facility to meet such needs.

The following facilities are unavailable because they have either expired or been paid off and terminated: (i) the Revolver authorized in Case 99-E-1176; (ii) the Term Loan also authorized in Case 99-E-1176; (iii) the 3-Year Term Note authorized in Case 01-E-1068; (iv) the 5-Year Term Note authorized in Case 02-E-1565; (v) the 2004-2006 Budget Facility authorized in Case 03-E-1770; (vi) the Replacement Revolver authorized in Case 05-E-0503; (vii) the 2007-2010 Budget Facility authorized in Case 06-E-1245; (viii) the 2010 Revolver authorized in Case 10-E-0160; and (ix) the Construction Loan authorized in Case 10-E-0640. The Mortgage and Renovations Loan authorized in Case 05-E-0270 is unavailable because the draw period expired in 2006. The Replacement Construction Loan authorized in Case 12-E-0168 is unavailable because the draw period has expired.

The Senior Credit Facility authorized in Case 13-E-0240 is unavailable to serve the one-year term extension proposed for the existing revolving line of credit and term loan facility because the draw periods for these facilities expire December 31, 2017. The Senior Credit Facility is also inadequate to meet the financing needs for the EMS/BMS Project.

The EMS/BMS Project is estimated to take less than four years to complete beginning in 2016. The NYISO expects to incur the vast majority of project-related costs during the 2016-

2018 period. The draw period 2014-2017 Budget Facility expires December 31, 2017. Therefore, it does not provide a term that aligns with the schedule of incurring costs for the EMS/BMS Project. The Revolving Line of Credit is also unavailable to meet the financing needs for the EMS/BMS Project because it is limited to serving as a cash flow management tool to provide liquidity to the NYISO-administered markets.

In addition, stakeholders expressed significant concerns regarding the impact of the EMS/BMS Project on available financing to fund other projects and capital initiatives. Stakeholders strongly supported the pursuit of supplemental financing to fund the EMS/BMS Project in order to maintain the historical annual funding level for other projects and capital initiatives (approximately $25 million). The NYISO anticipates that absent additional financing, it would not have access to sufficient funds to finance the projected EMS/BMS Project expenditures for 2016 and 2017 pursuant to the 2014-2017 Budget Facility.

The 2016 budget recently approved by stakeholders anticipates capital and project spending of approximately $25.1 million in 2016, without accounting for any costs related to the EMS/BMS Project. The NYISO also currently estimates capital and project spending of approximately $23.9 million for 2017 without regard to any EMS/BMS Project-related costs.

As of January 2016, there will be only approximately $50 million remaining available for draws under the 2014-2017 Budget Facility. The 2016 budget recommended for NYISO Board of Directors approval by stakeholders at the October 28, 2015 Management Committee meeting includes approximately $7 million in estimated costs for the EMS/BMS Project.[22] The NYISO estimates that additional project-related costs of approximately $11.5 million will also be

[22] *See* NYISO, *2016 Project Prioritization & Budgeting Process* at 11 (presented at the August 26, 2015 BPWG meeting), available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc_bpwg/meeting_materials/2015-08-26/Agenda%2004_2016%20Project%20Prioritization_Budgeting%20Process.pdf.

incurred in 2017. Based on the NYISO's projected capital and project spending for 2016 and 2017 and absent supplemental financing, the NYISO would face a financing shortfall of approximately $6.9 million in 2016 and $10.4 million in 2017 after accounting for the anticipated EMS/BMS Project-related costs for each year.

Absent a new financing mechanism to fund the costs of the EMS/BMS Project, the NYISO would be required to include the full value of project-related costs as part of the NYISO's annual revenue requirement collected through Rate Schedule 1 of the Services Tariff and Rate Schedule 1 of the OATT. The estimated impact of including these costs would be an increase to Rate Schedule 1 of approximately $0.04 per MWh in 2016 and $0.07 per MWh in 2017.[23]

By executing a new term loan facility, as contemplated by the EMS/BMS Project Facility, the annual project-related impact to Rate Schedule 1 charges will be mitigated by spreading it out over several years. Rather than needing to recover project-related costs in the same year as they are incurred, the EMS/BMS Project Facility will allow the NYISO to spread each year's costs over a three-year period. Project-related costs incurred in 2016 will be converted into a term loan at the end of 2016 and repaid over the three-year period from 2017-2019. Likewise, project-related costs incurred in 2017 and 2018 will be converted to term loans at the end of each respective calendar year and repaid over the 2018-2020 and 2019-2021 periods, respectively. Instead of incurring the single year Rate Schedule 1 impacts noted above

[23] The NYISO currently lacks any financing mechanism to address the EMS/BMS Project costs for 2018. Assuming: (i) $25 million of available financing to fund capital and project expenditures in 2018, as contemplated by the Amended 2014-2018 Budget Facility; (ii) estimated capital and project expenditures of approximately $24.1 million in 2018, without accounting for any EMS/BMS Project-related costs; and (iii) estimated EMS/BMS Project expenditures of $11.5 million in 2018, the NYISO would face a financing shortfall of approximately $10.6 million in 2018. Absent supplemental financing for the EMS/BMS Project, including the full value of project-related costs in the revenue requirement for 2018 would result in an estimated increase to Rate Schedule 1 of approximately $0.07 per MWh for 2018.

for 2016 through 2018, the NYISO projects that recovery of the estimated $30 million cost of the EMS/BMS Project under this approach would result in impacts to Rate Schedule 1 of approximately $0.00 per MWh in 2016, $0.02 per MWh in 2017, $0.05 per MWh in 2018, $0.07 per MWh in 2019, $0.05 per MWh in 2020 and $0.03 per MWh in 2021.

III. INFORMATION IN SUPPORT OF PETITION

Pursuant to Part 37 of Title 16 of the NYCRR, the NYISO provides the following information in support of this Petition:

A. Financial Condition of the NYISO [16 NYCRR §§ 37.1(a) and 18.1]

The NYISO has not issued any capital stock or equity interests of any kind. Accordingly, the NYISO has not declared any dividends. The NYISO has also not issued any bonds. Pursuant to Commission authorization, the NYISO executed a 20-year commercial mortgage on July 8, 2005 to fund the purchase of, and certain improvements to, its property at 10 Krey Boulevard, Rensselaer, New York.[24] HSBC Bank U.S.A., N.A. is the mortgagee.

As further described in Section I above, the Commission has previously authorized the NYISO to enter into the following credit facilities pursuant to Section 69 of the PSL: (i) the $50 million Revolver authorized in Case 99-E-1176; (ii) the $54 million Term Loan also authorized in Case 99-E-1176; (iii) the $20 million 3-Year Term Note authorized in Case 01-E-1068; (iv) the $59.3 million 5-Year Term Note authorized in Case 02-E-1565; (v) the $100 million 2004-2006 Budget Facility authorized in Case 03-E-1770; (vi) the $25 million Mortgage and Renovations Loan authorized in Case 05-E-0270; (vii) the $50 million Replacement Revolver authorized in Case 05-E-0503; (viii) the $80 million 2007-2010 Budget Facility authorized in Case 06-E-1245; (ix) the Combined Credit Facility, consisting of the $50 million 2010 Revolver

[24] *See* Case 05-E-0270, *supra*, Order (issued and effective May 18, 2005).

and the $75 million 2011-2013 Budget Facility, authorized in Case 10-E-0160; (x) the $45 million Construction Loan authorized in Case 10-E-0640; (xi) the $45 million Replacement Construction Loan authorized in Case 12-E-0168; and (xii) the Senior Credit Facility, consisting of the $50 million Revolving Line of Credit and the $100 million 2014-2017 Budget Facility, authorized in Case 13-E-0240.

As of September 30, 2015, the amounts outstanding with respect to certain credit facilities previously approved by the Commission are as follows: (i) $15,887,853 for the Mortgage and Renovations Loan authorized in Case 05-E-0270; (ii) $6,847,303 for the 2011-2013 Budget Facility authorized in Case 10-E-0160; (iii) $41,900,008 for the Replacement Construction Loan authorized in Case 12-E-0168; and (iv) $2,000,000 for the Revolving Line of Credit and $32,444,444 for the 2014-2017 Budget Facility authorized in Case 13-E-0240.[25]

The NYISO has no contingent assets or liabilities. Attachment II provides a statement of the amounts of interest accrued on the outstanding indebtedness of the NYISO for the most recent audited fiscal period ending December 31, 2014. The NYISO's audited financial statements for the fiscal years ending December 31, 2013 and December 31, 2014 are included in Attachment III. Attachment IV provides the NYISO's latest unaudited financial statements through September 30, 2015.

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[25] There are no amounts outstanding with respect to the following credit facilities previously approved by the Commission because such facilities have either expired or been paid off and terminated: (i) the Revolver authorized in Case 99-E-1176; (ii) the Term Loan also authorized in Case 99-E-1176; (iii) the 3-Year Term Note authorized in Case 01-E-1068; (iv) the 5-Year Term Note authorized in Case 02-E-1565; (v) the 2004-2006 Budget Facility authorized in Case 03-E-1770; (vi) the Replacement Revolver authorized in Case 05-E-0503; (vii) the 2007-2010 Budget Facility authorized in Case 06-E-1245; (viii) the 2010 Revolver authorized in Case 10-E-0160; and (ix) the Construction Loan authorized in Case 10-E-0640.

B. Book Value of the NYISO's Utility Property [16 NYCRR §§ 37.1(b) and 31.1(f)]

The book value of the NYISO's property and equipment as of September 30, 2015 was $337,712,950. This value represents the "original cost" of such property and equipment, as such term is defined in 16 NYCRR § 31.1(f).

C. Amount for a Franchise [16 NYCRR § 37.1(c)]

The book value reported for the NYISO's property and equipment does not include any amount for a franchise, consent or right to operate as a public utility.

D. Stock Issuance [16 NYCRR § 37.1(d)]

The NYISO has not issued any stock or equity interests of any kind. This Petition does not propose for the NYISO to issue any stock or equity interests.

E. Amount of Proposed Indebtedness [16 NYCRR § 37.1(e)]

Please refer to Section II(A-C) of this Petition.

F. Purpose of Proposed Indebtedness [16 NYCRR § 37.1(f)]

Please refer to Section II(A-C) of this Petition.

G. Other Available Funds [16 NYCRR § 37.1(g)]

Please refer to Section II(E) of this Petition.

H. Finalized Loan Agreement [16 NYCRR § 37.1(h)]

Please refer to Section II(D) of this Petition.

I. Estimated Costs and Expenses of Proposed Indebtedness [16 NYCRR § 37.1(i)]

The NYISO does not know what will be the exact costs and expenses associated with the Amended Senior Credit Facility because it has not yet executed a definitive loan agreement with the lenders. The Commitment Letter included in Attachment I contains a cap on the expenses incurred by the lenders that the NYISO would be obligated to reimburse. Notably, the terms and conditions set forth in Attachment I provide for no arranger fee charges related to the extension of the existing facilities or the new EMS/BMS Project Facility. This provides material cost savings compared to the alternative of pursuing an entirely new financing arrangement. The NYISO also anticipates achieving additional cost savings, including reduced external legal fees and internal labor costs, with respect to the execution of an amendment to the existing Senior Credit Facility compared to the alternative of pursing a new financing arrangement. Such cost savings arise from eliminating the need to review and negotiate new loan documentation and the potential need for establishing a commercial relationship with a new lender(s). The NYISO anticipates that any other costs and expenses associated with the Amended Senior Credit Facility will be comparable to those associated with substantially similar credit facilities offered by other lenders and, therefore, will be commercially reasonable.

J. Securitization of Proposed Indebtedness [16 NYCRR § 37.1(j)]

All three facilities included as part of the Amended Senior Credit Facility are unsecured. There is no mortgage or other security instrument associated with the Amended Senior Credit Facility.

K. Planned Merger or Consolidation [16 NYCRR § 37.1(k)]

The NYISO has no plans to merge or consolidate with another organization either in connection with the Amended Senior Credit Facility or otherwise.

L. Stockholder Consent [16 NYCRR § 37.1(l)]

The NYISO has no stockholders; therefore no such consent is required in connection with the Amended Senior Credit Facility. However, the NYISO Board of Directors approved entering into the Amended Senior Credit Facility on October 20, 2015. The NYISO's stakeholders also approved the proposal to pursue supplemental financing for the EMS/BMS Project as part of the

2016 NYISO budget approval provided at the October 28, 2015 Management Committee meeting.[26]

M. Other Required Approvals [16 NYCRR § 37.1(m)]

No authorization from other public authorities is required in connection with entering into the Amended Senior Credit Facility. The NYISO is regulated by the Federal Energy Regulatory Commission ("FERC"); however, FERC need not approve a financing that is subject to approval by a State commission, such as the Commission. *See* 16 U.S.C. § 824c(f).

N. Capitalization of Any Franchise [16 NYCRR § 37.1(n)]

The NYISO is not proposing to capitalize any franchise in connection with the Amended Senior Credit Facility.

O. Affidavit of Principal Accounting Officer [16 NYCRR § 37.1(o)]

Attachment V provides the verification statement and affidavit of Cheryl L. Hussey, Vice President and Chief Financial Officer of the NYISO, attesting that, among other things, the NYISO is in compliance with all applicable accounting standards.

IV. SUPPORTING ATTACHMENTS

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

1. A copy of the Commitment Letter related to the Amended Senior Credit Facility ("Attachment I");

2. Statement of Accrued Interest on Outstanding Indebtedness ("Attachment II");

3. Copies of the NYISO's Most Recent Audited Financial Statements ("Attachment III");

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[26] *See*, NYISO, *Management Committee – Final Motion Summary* at 1 (*see* Motion #3) (October 29, 2015), available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2015-10-28/102815_MC_Final_Motions.pdf; and NYISO, *NYISO 2016 Budget Overview* at 17 (presented at the October 28, 2015 Management Committee meeting), available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/mc/meeting_materials/2015-10-28/Agenda%2005_%202016%20draft%20budget%20and%202017-2018%20projections.pdf.

4. Copies of the NYISO's Most Recent Unaudited Financial Statements ("Attachment IV); and

5. Verification Statement and Affidavit of Cheryl L. Hussey, Vice President and Chief Financial Officer ("Attachment V").

V. CONCLUSION

For the foregoing reasons, the NYISO submits that entering into the Amended Senior Credit Facility is in the public interest and the terms and conditions relating thereto are commercially reasonable. The NYISO respectfully requests that the Commission issue an order approving this Petition on or before its February 2016 session, currently scheduled to occur on February 11, 2016, but in no event later than its March 2016 session.

Dated: November 10, 2015

Respectfully submitted,

/s/ *Garrett E. Bissell*
Garrett E. Bissell
Senior Attorney
New York Independent System Operator, Inc.
10 Krey Blvd.
Rensselaer, New York 12144
(518) 356-6107
gbissell@nyiso.com

Attachment I

William B. Palmer
Senior Vice President
Commercial Banking Division
Phone: 518-257-8586
Fax: 866-573-0101
E-Mail: william_b_palmer@keybank.com

KeyBank

October 8, 2015

The New York Independent System Operator, Inc.
10 Krey Boulevard
Rensselaer, New York 12144

Attention: Chief Financial Officer

Re: Loan Commitment

Ladies and Gentlemen:

KeyBank National Association ("KeyBank") is pleased to offer to be the sole and exclusive administrative agent and lead arranger in connection with certain loan facilities to be made available to The New York Independent System Operator, Inc. ("you," the "Borrower" or "NYISO") effective as of February 2, 2016 (the "Effective Date") consisting of (i) the extension of an unsecured revolving loan of up to $50,000,000 outstanding at any one time ("Revolving Loan"), (ii) the extension of and $25,000,000 increase to the existing unsecured delayed draw term loan for a total of up to $125,000,000 (the "Delayed Draw Term Loan"), and (iii) a new unsecured delayed draw term loan for its Ranger Replacement Project of up to $30,000,000 (the "Delayed Draw Ranger Loan") (together with the Revolving Loan and the Delayed Draw Term Loan, the "Facilities"). KeyBank is also pleased to offer its commitment to lend (i) up to $30,000,000 of the Revolving Loan and (ii) up to $18,000,000 of the Delayed Draw Ranger Loan and (iii) (A) up to 65% of the amounts drawn under the Delayed Draw Term Loan in calendar years 2014 and 2015 and converted to term loan prior to the Effective Date and (B) up to 60% of the amounts available to be drawn under the Delayed Draw Term Loan thereafter, such amount remaining after the Effective Date contemplated to be $45,000,000.

This Commitment Letter also confirms that KeyBank has received the attached written commitment from TD Bank, N.A (the "Additional Lender" and, together with KeyBank, the "Lenders") to lend the remaining portions of the Facilities, that being (i) up to $20,000,000 of the Revolving Loan and (ii) up to $12,000,000 of the Delayed Draw Ranger Loan and (iii) (A) up to 35% of the amounts drawn under the Delayed Draw Term Loan in calendar years 2014 and 2015 and converted to term loan prior to the Effective Date and (B) up to 40% of the amounts available to be drawn under the Delayed Draw Term Loan thereafter, such amount contemplated to be $30,000,000. It is understood and agreed that KeyBank will be the administrative agent under the Facilities and that no Additional Lender will receive compensation from you in connection with their commitment except on the terms contained in this Commitment Letter. This Commitment Letter also confirms that you have engaged KeyBank on a best efforts basis to act as lead arranger to form a syndicate of lenders reasonably acceptable to you and that the Lenders and allocations set forth above are acceptable to you.

You hereby represent, warrant and covenant that (a) all information, other than Projections (defined below), which has been or is hereafter made available to KeyBank and the Additional Lenders by you or any of your authorized representatives (or on your or 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 NYISO that have been or are hereafter made available to KeyBank or the Additional Lenders by you or any of your authorized representatives (the "Projections") have been or will be prepared in good faith based upon assumptions you believe to be reasonable at the time prepared (it being understood that Projections by their nature are subject to uncertainties outside of your control and that actual results may differ). In arranging and syndicating the Facilities, KeyBank 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 you hereby authorize KeyBank to make such Information and Projections available to the proposed syndicate of Lenders.

You further agree to indemnify and hold harmless KeyBank, each Additional Lender and each of their respective 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, penalties, 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 in connection therewith) (a) any matters contemplated by this letter or (b) the Facilities except to the extent such claim, damage, penalty, 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. 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.

KeyBank 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 KeyBank or an Additional Lender who are or are expected to become engaged in evaluating, approving, structuring or administrating the Facilities or rendering legal advice in connection therewith; provided that nothing herein shall prevent KeyBank 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 an Additional Lender or its affiliates or representatives; or (c) otherwise as required by law. KeyBank agrees to execute any confidentiality or non-disclosure agreements reasonably required by NYISO. KeyBank shall notify any Additional Lender to which any such Information and

Projections are disclosed that such Information and Projections are confidential, and that they may have to execute any confidentiality or non-disclosure agreements reasonably required by NYISO.

You acknowledge and agree that (a) this Commitment Letter and any related arranging or other services described in this letter would be an arm's-length commercial transaction between you, on the one hand, and KeyBank, on the other hand, and you are capable of evaluating and understanding, and understand and accept, the terms, risks and conditions of the transactions contemplated by this letter; (b) in connection with the process leading to such transaction, KeyBank is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for you or any of your creditors or employees or any other party; (c) KeyBank has 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 KeyBank has no obligation to you with respect to the transactions contemplated hereby except those obligations expressly set forth in this letter; and (d) KeyBank has 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.

By executing this Commitment Letter, you agree to reimburse KeyBank from time to time, within thirty (30) days of demand for all reasonable and documented third-party out-of-pocket fees and expenses incurred in connection with this Commitment Letter including, but not limited to, (a) the reasonable fees, disbursements and other charges of Phillips Lytle LLP, as counsel to KeyBank as the lead arranger and the administrative agent in connection with the Facilities, and (b) the reasonable and documented due diligence expenses incurred in connection with the Facilities, the syndication thereof, the preparation of the definitive documentation therefor and the other transactions contemplated hereby; provided, however, that KeyBank shall not be entitled to reimbursement of any such fees and expenses in excess of the amount set forth in the Summary of Terms under "Expenses" unless approved by you, such approval not to be unreasonably withheld.

This Commitment Letter and the fee letter between you and KeyBank regarding the Facilities (the "Fee Letter") and the contents hereof and thereof are confidential and, except for disclosure hereof or thereof on a confidential basis to your accountants, attorneys and other professional advisors retained by you in connection with the Facilities or as otherwise required by law, may not be disclosed in whole or in part to any person or entity without KeyBank's prior written consent; provided, however, it is understood and agreed that you may disclose this Commitment Letter (including the Summary of Terms) and not the Fee Letter after NYISO's acceptance of this Commitment Letter and the Fee Letter, in filings with any applicable regulatory authorities whether or not such filings are made on a confidential basis. 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 you, which information includes your name and address and other information that will allow KeyBank to identify you in accordance with the Act.

The provisions of the immediately preceding six paragraphs shall remain in full force and effect regardless of whether any definitive documentation for the Facilities shall be executed and delivered, and notwithstanding the termination of this Commitment Letter. Notwithstanding anything contained herein to the contrary, your obligations and liabilities under this Commitment Letter, other than your obligation of confidentiality, to the extent superseded by the applicable provisions of the loan documentation pertaining to the Facilities, shall automatically terminate at the execution of definitive documentation with respect to the Facilities. This Commitment Letter and the Fee Letter may be executed in counterparts which, taken together, shall constitute an original. Delivery of an executed counterpart of this Commitment Letter or the Fee Letter by telecopier or facsimile shall be effective as delivery of a manually executed counterpart thereof.

This Commitment Letter and the Fee Letter shall be governed by, and construed in accordance with, the internal laws of the State of New York without resort to principles of conflicts of law. Each of you and KeyBank hereby irrevocably waives any and all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Commitment Letter, the Fee Letter, the transactions contemplated hereby and thereby or the actions of KeyBank in the negotiation, performance or enforcement hereof. Other than the six paragraphs referenced above, the commitments and undertakings of KeyBank may be terminated if you fail to perform your obligations under this Commitment Letter or the Fee Letter. Also, other than the six paragraphs referenced above, the commitments and undertakings of KeyBank and NYISO shall terminate upon a final determination by the State of New York Public Service Commission rejecting NYISO's petition for authority to enter into the Facilities, which NYISO, in its reasonable judgment, elects not to appeal.

This Commitment Letter together with the Summary of Terms and the Fee Letter, embody the entire agreement and understanding among KeyBank and you with respect to the Facilities and supersedes all prior agreements and understandings relating to the specific matters hereof. This letter does not include all the terms and conditions that will be covered in the definitive loan documentation for the Facilities, but it does state the essential business terms for the Facilities. It is agreed that no party has been authorized by KeyBank or NYISO to make any oral or written statements that are inconsistent with this Commitment Letter. This Commitment Letter is not assignable by NYISO without KeyBank's prior written consent and is intended to be solely for the benefit of the parties hereto and the Indemnified Parties.

This offer will expire at 5:00 p.m. New York time on October 31, 2015 ("Acceptance Date") unless you execute this Commitment Letter and the Fee Letter and return them to us prior to that time, whereupon this Commitment Letter and the Fee Letter (each of which may be signed in one or more counterparts) shall become binding agreements. Thereafter, subject to any additional termination provisions herein, this undertaking and commitment will expire on March 31, 2016 unless definitive documentation for the Facilities are executed and delivered prior to such date. Notwithstanding anything herein to the contrary, this Commitment Letter supersedes and replaces our Commitment Letter to you dated October 1, 2015.

As further consideration of the time and resources that KeyBank will devote to the Facilities, you agree that, until such expiration, 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 NYISO.

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We are pleased to have the opportunity to again work with you in connection with this important financing.

Very truly yours,

KEYBANK NATIONAL ASSOCIATION

By: William B Palmer

William B. Palmer
Senior Vice President

ACCEPTED AND AGREED TO
AS OF THE _____ DAY OF OCTOBER, 2015

THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

By: Cheryl L. Hussey
Name: Cheryl L. Hussey
Title: Chief Financial Officer

SUMMARY OF TERMS AND CONDITIONS
THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
Revisions and Additions to Existing
$50,000,000 Revolving Line of Credit and
$100,000,000 Delayed Draw Term Loan Facilities
(the "Existing Facilities")

BORROWER:	The New York Independent System Operator, Inc.
ADMINSTRATIVE AGENT AND LEAD ARRANGER:	KeyBank National Association ("KeyBank") will act as sole and exclusive administrative agent (the "Administrative Agent") and will act as sole and exclusive lead arranger (the "Arranger").
LENDERS:	A syndicate of financial institutions (including KeyBank) arranged by KeyBank, which institutions shall be acceptable to the Borrower and the Administrative Agent (collectively, the "Lenders"). The respective commitments of the Lenders are set forth on the first page of this Commitment Letter.
EFFECTIVE DATE OF REVISIONS:	No earlier than February 2, 2016.
FACILITIES:	There are three loan facilities, the Revolving Line of Credit Facility, the Delayed Draw Term Loan Facility and the Delayed Draw Ranger Loan Facility (each, a "Facility" and collectively, the "Facilities").

FACILITY 1:

REVOLVING LINE OF CREDIT:	Continuation of an aggregate amount of up to $50,000,000 outstanding at any one time to be available upon the terms and conditions set forth herein.
PAYMENTS:	Monthly interest only payments prior to maturity.
MATURITY:	Extend maturity one additional year to December 31, 2018
PURPOSE:	The proceeds of the Revolving Line of Credit shall be used to: (i) support the liquidity needs of the markets administered by Borrower; and (ii) fund temporary cash flow/timing differences for operating activities of Borrower.

INTEREST RATE:

As selected by Borrower, interest shall be either at the Base Rate plus 0% or for LIBOR loans, interest shall be determined for an interest period of one, three or six months, as selected by the Borrower, and based on LIBOR plus an applicable margin of 87.5 basis points.

Interest on this Facility 1 shall be computed on a 360-day year and shall be payable monthly on the first Business Day of each month for any loans subject to the Base Rate, and for LIBOR loans shall be payable on the earliest of (i) the last day of each applicable interest period, (ii) every 90th day after the date such loan is made, and (iii) on the date Facility 1 is paid in full.

As used herein for all Facilities, LIBOR means the London Interbank Offered Rate (adjusted for statutory reserve requirements) for the corresponding deposits of U.S. Dollars quoted by major banks in London and appearing on the applicable Reuters Screen for the corresponding deposits of U.S. Dollars or, if such source is unavailable, such other alternate source selected by the Administrative Agent to determine such rate on the day that is two London banking days prior to the start of each Interest Period. Interest on the Revolving Line of Credit shall be computed on a 360-day year and shall be payable monthly for the actual number of days elapsed, which will result in a higher effective annual rate. Additionally, the loan documents for the Facilities will contain customary and reasonable provisions related to increased costs, capital adequacy and yield protection, withholding and other taxes, and legality.

Also, as used herein for all Facilities, Base Rate means the rate of interest per annum equal to the greater of (a) the rate published from time to time by The Wall Street Journal as the U.S. Prime Rate, or in the event The Wall Street Journal ceases publication of Prime Rates, the base, reference or other rate designated by KeyBank in its sole discretion for general commercial loan reference purposes; or (b) one percent (1%) in excess of the Federal Funds Rate.

FEES:

The following fees in connection with Facility 1 are payable to the Administrative Agent for the ratable account of the Lenders as set forth below:

Unused Fees are payable quarterly in arrears on the first day of each calendar quarter in an amount equal to 12.5 basis points on the unused portion of the total commitment for the Revolving Line of Credit in effect for the applicable quarter.

FACILITY 2:

DELAYED DRAW TERM LOAN: The aggregate principal amount of the existing Delayed Draw Term Loan shall be increased to $125,000,000 inclusive of amounts drawn in calendar years 2014 and 2015 and to be available upon the terms and conditions set forth below. This amount represents an increase in the existing facility of $25,000,000.

DRAWS/MATURITY: The maturity of the existing Delayed Draw Term Loan facility will be extended by one additional year. Drawings to fund capital expenditures will be available until December 31, 2018. Each draw will permanently reduce the amount of the commitment for this Facility 2. Draws may commence January 1, 2014 and interest only payments will be required during the first year on amounts drawn during such year. Each year commencing January 1, 2015, all draws outstanding as of the end of the immediately preceding calendar year shall convert to a term loan (each, a "Term-Out Loan"), and each Term-Out Loan will have a three-year maturity (from January 1 of the year such Term-Out Loan is made). For each Term-Out Loan, 36 nearly equal consecutive monthly payments of principal, plus accrued interest will be required so that each Term-Out Loan is fully repaid within three years.

PURPOSE: To provide funding for capital investments, software development projects and other strategic initiatives in support of the Borrower's responsibility for maintaining and enhancing the reliable, safe and efficient operation of the New York State transmission system and promoting and operating a fair and competitive wholesale market for electricity in New York State.

INTEREST RATE: As selected by Borrower, interest will be either at the Base Rate plus 0% or, for LIBOR loans, interest shall be determined for an interest period of one, two or three months, as selected by Borrower and based on LIBOR plus an applicable margin of 95 basis points.

Interest on this Facility 2 shall be computed on a 360-day year and shall be payable monthly on the first Business Day of each month for any loans subject to the Base Rate, and for LIBOR loans shall be payable on the earliest of (i) the last day of each applicable interest period, (ii) every 90th day after the date such loan is made, and (iii) on the date Facility 2 is paid in full.

FEES: The following fees in connection with Facility 2 are payable to the Administrative Agent for the ratable account of the Lenders as set forth below:

Upfront Fees are payable in full on the Closing Date based on 12.5 basis points of the $25,000,000.00 increase in the total commitment for the Delayed Draw Term Loan.

Unused Fees are payable quarterly in arrears on the first day of each calendar quarter in an amount equal to 12.5 basis points on the unused portion of the total commitment for the Delayed Draw Term Loan in effect for the applicable quarter.

FACILITY 3

DELAYED DRAW RANGER LOAN: An aggregate principal amount of $30,000,000.00 to be available upon the terms and conditions set forth below:

DRAWS/MATURITY: Drawings to fund capital expenditures will be available until December 31, 2018. Each draw will permanently reduce the amount of the commitment for this Facility 3. Draws may commence January 1, 2016 and interest only payments will be required during the first year on amounts drawn during such year. Each year commencing January 1, 2017, all draws outstanding as of the end of the immediately preceding calendar year shall convert to a term loan (each, a " Ranger Term-Out Loan"), and each Ranger Term-Out Loan will have a three-year maturity (from January 1 of the year such Ranger Term-Out Loan is made). For each Ranger Term-Out Loan, 36 nearly equal consecutive monthly payments of principal, plus accrued interest will be required so that each Ranger Term-Out Loan is fully repaid within three years.

PURPOSE: To provide funding for the Ranger Replacement Project.

INTEREST RATE: As selected by Borrower, interest will be either at the Base Rate plus 0% or, for LIBOR loans, interest shall be determined for an interest period of one, two or three months, as selected by Borrower and based on LIBOR plus an applicable margin of 95 basis points.

Interest on this Facility 3 shall be computed on a 360-day year and shall be payable monthly on the first Business Day of each month for any loans subject to the Base Rate, and for LIBOR loans shall be payable on the earliest of (i) the last day of each applicable interest period, (ii) every 90th day after the date such loan is made, and (iii) on the date Facility 3 is paid in full.

FEES: The following fees in connection with Facility 3 are payable to the Administrative Agent for the ratable account of the Lenders as set forth below:

> **Upfront Fees** are payable in full on the Closing Date based on 12.5 basis points of the $30,000,000.00 total commitment for the Delayed Draw Ranger Loan.
>
> **Unused Fees** are payable quarterly in arrears on the first day of each calendar quarter in an amount equal to 12.5 basis points on the unused portion of the total commitment for the Delayed Draw Ranger Loan in effect for the applicable quarter.

PROVISIONS APPLICABLE TO ALL FACILITIES:

The Loan Documentation will be based on the Borrower's current loan documents for the Existing Facilities and will include, without limitation, the following provisions:

COLLATERAL: No collateral for any of the Facilities is required. The Loan Documentation will contain a negative pledge against encumbrances on assets other than existing encumbrances and other customary permitted encumbrances.

CLOSING DATE: The execution of definitive loan documentation, including satisfactory legal opinions and other customary closing documents, (collectively, the "Loan Documentation") to occur on or before March 31, 2016 (the "Closing Date").

DEFAULT RATE/ LATE PAYMENT CHARGE: Upon the occurrence and during any continuance of any Event of Default, the applicable interest rate shall increase by 200 basis points. A late charge of 6% of any installment payment not received within fifteen (15) days of when due will be required.

PREPAYMENT: The Facilities may be prepaid in full without prepayment charge or premium except for any applicable Breakage Costs described below:

In the event of (a) the payment of any principal of a LIBOR Loan other than on the last day of the interest period applicable thereto (including as a result of an Event of Default and whether by voluntary prepayment, acceleration or otherwise), (b) the conversion or continuation of a LIBOR Loan other than on the last day of the interest period applicable thereto, or (c) the failure by the Borrower to borrow, prepay, convert or continue any LIBOR Loan on the date specified in any applicable notice (regardless of whether such notice is withdrawn or revoked), then, in any such event, the Borrower shall indemnify each Lender, and hold each Lender harmless from any and all Breakage Costs which such Lender may sustain or incur as a consequence thereof, and shall compensate each Lender, within fifteen (15) Business Days after written demand from such Lender, for Breakage Costs attributable to such event which Breakage Costs shall be deemed to include an amount determined by such Lender to be the excess, if any, of (A) the amount of interest that would have accrued on the principal amount of such LIBOR Loan if such event had not occurred at the LIBOR rate applicable to such LIBOR Loan for the period from the date of such event to the last day of the then current interest period therefor (or in the case of a failure to borrow, convert or continue, for the period that would have been the interest period for such LIBOR Loan) over (B) the amount of interest that would accrue on the principal amount of such LIBOR Loan for the same period if the LIBOR rate were set on the date such LIBOR Loan was prepaid or converted or the date on which the Borrower failed to borrow, convert or continue such LIBOR Loan. A certificate as to any additional amount payable under this provision submitted to the Borrower by any Lender (with a copy to the Administrative Agent) shall be conclusive, absent manifest error.

FINANCIAL COVENANTS/RATIOS: No Financial Covenants. Continuation of covenants governing the Borrower's operating requirements, as set forth in the documentation for the Existing Facilities.

CONDITIONS PRECEDENT TO CLOSING:

The closing of the Facilities will be subject to satisfaction of the conditions precedent deemed appropriate by the Administrative Agent and the Lenders. The definitive agreement or agreements with respect to the Facilities shall contain customary and reasonable conditions precedent, including, but not limited to, the following:

(i) Delivery of Loan Documentation satisfactory to the Borrower, the Administrative Agent and the Lenders, including, without limitation, a satisfactory opinion from counsel to the Borrower regarding usual and customary matters and specifically including PSC approval of the borrowing of the Facilities.

(ii) There shall not have occurred a material adverse change (x) in the business, assets, properties, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of the Borrower since December 31, 2014 or (y) in the facts and information regarding such entity as represented to date.

(iii) The absence of any action, suit, investigation or proceeding pending or, to the knowledge of the Borrower, threatened in any court or before any arbitrator or governmental authority that could reasonably be expected to (x) have a material adverse effect on the business, assets, properties, liabilities (actual and contingent), operations, condition (financial or otherwise) or prospects of the Borrower, (y) adversely affect the ability of the Borrower to perform its obligations under the Loan Documentation or (z) adversely affect the rights and remedies of the Administrative Agent or the Lenders under the Loan Documentation (collectively, a "Material Adverse Effect").

Borrower shall provide the following items to the Administrative Agent at least ten (10) days prior to the Closing Date:

INSURANCE:

Insurance policies or certificates evidencing same, in amounts and with insurers acceptable to the Administrative Agent, cancelable only upon thirty (30) days prior written notice to the Administrative Agent, and providing:

(a) Extended coverage casualty insurance providing for a mandatory 30-day notice to the Administrative Agent of cancellation;

(b) Public liability and property damage insurance in amounts acceptable to the Administrative Agent naming the Administrative Agent as an additional insured party; and

(c) Workers' Compensation insurance.

CONDITIONS PRECEDENT TO ALL BORROWINGS: Usual and customary for transactions of this type, to include without limitation: (i) all representations and warranties are true and correct as of the date of each borrowing and (ii) no event of default under any definitive loan agreement governing the Facilities or incipient default has occurred and is continuing, or would result from such borrowing.

REPRESENTATIONS AND WARRANTIES: Usual and customary for transactions of this type, to include without limitation: (i) corporate existence and status; (ii) corporate power and authority, enforceability; (iii) no violation of law, contracts or organizational documents; (iv) no material litigation; (v) accuracy and completeness of specified financial statements and no material adverse change; (vi) all required governmental or third party approvals or consents obtained; (vii) use of proceeds and not engaging in business of purchasing/carrying margin stock; (viii) status under Investment Company Act; (ix) ERISA matters; (x) environmental matters; (xi) tax matters; (xii) ownership of property and insurance matters; (xiii) accuracy of disclosures made to the Administrative Agent and the Lenders; (xiv) compliance with laws; and (xv) no default.

COVENANTS: Usual and customary for transactions of this type, to include without limitation: (i) delivery of audited financial statements within 120 days of fiscal year-end, and company prepared quarterly financial statements within 45 days of the end of each fiscal quarter, compliance certificates and notices of default, material litigation, material governmental proceedings or material, ERISA and environmental proceedings and material changes in accounting or financial reporting practices; (ii) compliance with laws and material contractual obligations; (iii) payment of obligations; (iv) preservation of existence; (v) maintenance of books and records and inspection rights; (vi) maintenance of insurance; and (vii) limitation on liens, mergers, acquisitions and joint ventures, sales of assets and incurrence of debt.

EVENTS OF DEFAULT: Usual and customary in transactions of this type, with cure periods and carve-outs to be mutually agreed upon, to include without limitation: (i) nonpayment of principal when due, or interest, fees or other amounts within five (5) Business Days of when due; (ii) any representation or warranty proving to have been incorrect when made or confirmed; (iii) failure to perform or observe covenants set forth in the Loan Documentation within a specified period of time, where customary and appropriate, after such failure; (iv) cross-default to other indebtedness; (v) bankruptcy and insolvency defaults (with grace period for involuntary proceedings); (vi) monetary judgment defaults in an amount to be agreed; (vii) actual or asserted invalidity of any Loan Documentation; (viii) change in governmental approvals or Borrower's tariffs which could have a material adverse effect on the business assets, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of the Borrower and which is, in the Administrative Agent's reasonable judgment, materially adverse to the interests of the Lenders in connection with the Facilities; (ix) change in approvals or tariffs or FERC or PSC filings or actions which could have a Material Adverse Effect; and (x) customary ERISA defaults.

ASSIGNMENTS:

Each Lender will be permitted to make assignments in respect of the Facilities in a minimum amount equal to $5,000,000 and increments of $1,000,000 above such minimum amount or the entire amount of such Lender's portion of the Facilities to other financial institutions approved by the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower, which approvals shall not be unreasonably withheld or delayed; provided, however, that the approval of the Borrower shall not be required in connection with assignments to other Lenders, or to any affiliate of a Lender.

An assignment fee of $3,500 payable to the Administrative Agent will be charged to each assignor with respect to each assignment. Each Lender will also have the right, without consent of the Borrower or the Administrative Agent, to assign as security all or part of its rights under the Loan Documentation to any Federal Reserve Bank.

PARTICIPATIONS:

Lenders will be permitted to sell participations with voting rights limited to significant matters such as changes in amount, rate and maturity date.

WAIVERS AND AMENDMENTS:

Amendments and waivers of the provisions of the loan agreement and other definitive credit documentation will require the approval of Lenders (the "Required Lenders") holding loans and commitments representing more than 66-2/3% of the aggregate amount of loans and commitments under the applicable Facility, except that the consent of all the Lenders affected thereby shall be required with respect to (i) increases in the commitment of such Lenders, (ii) reductions of principal, interest or fees, (iii) extensions of scheduled maturities or times for payment, (iv) release of the Borrower from its obligations with respect to any indebtedness under the loan documentation or any swap agreement and (v) change definition of "Required Lenders".

GOVERNING LAW: State of New York.

EXPENSES: The Borrower will pay on demand all reasonable and documented third-party costs and expenses associated with the preparation, due diligence, administration, syndication and closing of all Loan Documentation, including, without limitation, the reasonable legal fees and expenses of counsel to KeyBank, regardless of whether or not the Facilities are closed; provided however, the aggregate amount of all such expenses shall not exceed $40,000, unless approved by the Borrower, such approval not to be unreasonably withheld. The Borrower will also pay on demand the reasonable third-party expenses of the Administrative Agent and each Lender in connection with the enforcement of any Loan Documentation.

OTHER: Each of the parties shall (i) waive its right to a trial by jury and (ii) submit to New York jurisdiction.

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TD Bank
America's Most Convenient Bank®
One Old Loudon Road
Latham, NY 12110

tdbank.com

October 08, 2015

KeyBank National Association
4900 Tiedeman Road
OH-01-49-0114
Brooklyn, OH 44114

The New York Independent System Operator, Inc.
10 Krey Boulevard
Rensselaer, NY 12144

Re: The New York Independent System Operator, Inc. (the "Company")
Up to $79,500,000 aggregate commitments comprised of the following: (i) up to $20,000,000 of an unsecured revolving credit facility (the "Revolver") and (ii) up to $12,000,000 of a new delayed draw term loan for the Company's Ranger Replacement Project, the (the "Delayed Draw Ranger Loan") and (iii) (A) up to 35% of the amounts drawn under the existing delayed draw term loan (the "Delayed Draw Term Loan") in calendar years 2014 and 2015 and converted to term loan prior to the effective date of the Senior Unsecured Credit Facilities (defined below) and (B) up to 40% of the amounts available to be drawn under the Delayed Draw Term Loan thereafter, such amount contemplated to be $30,000,000 (collectively, the "Senior Unsecured Credit Facilities")

KeyBank National Association and The New York Independent System Operator, Inc.:

TD Bank, N.A. (the "Lender") is pleased to confirm its commitment to provide the Company with up to$79,500,000 of the above-referenced Senior Unsecured Credit Facilities (the "Maximum Commitment Amount"), comprised of (i) up to $20,000,000 of the Revolving Loan and (ii) up to $12,000,000 of the Delayed Draw Ranger Loan and (iii) (A) up to 35% of the amounts drawn under the Delayed Draw Term Loan in calendar years 2014 and 2015 and converted to term loan prior to the Effective Date and (B) up to 40% of the amounts available to be drawn under the Delayed Draw Term Loan thereafter, such amount contemplated to be $30,000,000. This commitment is subject to: a) the Summary of Terms and Conditions dated October 08, 2015 which has been furnished to us by KeyBank National Association, as agent (the "Agent") for the Company; and b) documentation in form and substance satisfactory to the Lender.

The Lender acknowledges that it has made its own credit analysis and made its own decision to enter into this commitment, independently and without reliance upon the Agent or any of its affiliates. Neither the Agent nor any of its affiliates shall have any liability or responsibility to the Lender if the Lender's commitment is not accepted or closed.

This letter is solely for the benefit of the Agent and the Company and no other person shall obtain any rights hereunder or be entitled to rely on, or claim reliance upon, this commitment. The Lender understands and agrees that the Maximum Commitment Amount is subject to acceptance by the Agent and the Company and that the Maximum Commitment Amount may be reduced by the Agent and the Company.

Sincerely,

TD Bank, N.A.

By: Kenneth R C
Title: Kenneth R. Countermine, VP
Senior Relationship Manager

Restricted

Attachment II

NYISO
Statement of Financial Condition
Accrued Interest on Indebtedness

		As of December 31, 2014	
Credit Facility	**Interest Rate**	**Outstanding Principal**	**Accrued Interest**
Revolving Line of Credit	N/A	-	-
Replacement Construction Loan	2.405% - 4.149%	$43,884,745	$149,466
2011-2013 Budget Facility	1.156% - 4.023%	$19,040,961	$64,359
2014-2017 Budget Facility	1.106% - 1.780%	$25,000,000	$35,429
Mortgage and Renovations Loan	5.790% - 5.960%	$16,687,827	$84,284
Total		**$104,613,533**	**$333,538**

Attachment III

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of New York Independent System Operator, Inc. which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of New York Independent System Operator, Inc. and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Albany, New York
March 13, 2015

KPMG LLP

Statement of Financial Position

December 31, 2014 and 2013

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	51,567,015	47,745,703
Restricted cash		417,362,068	604,091,333
Accounts receivable – net (note 2)		80,501,872	110,495,816
Prepaid expenses		7,243,302	6,632,371
Regulatory assets – current portion (note 3)		11,777	—
Other current assets		62,537	39,143
Total current assets		556,748,571	769,004,366
Noncurrent assets:			
Regulatory assets (note 3)		13,226,398	12,511,584
Property and equipment – net (note 4)		121,610,352	124,896,857
Other noncurrent assets (note 7)		4,979,804	5,329,483
Total noncurrent assets		139,816,554	142,737,924
Total	$	696,565,125	911,742,290
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$	141,894,041	328,604,680
Market participant security deposits		362,535,937	389,780,555
Market participant prepayments		5,714,915	6,553,030
Working capital reserve (note 10)		33,010,149	33,008,965
Long-term debt – current portion (note 6)		22,334,961	27,152,961
Regulatory liabilities – current portion (note 3)		5,783,212	7,582,953
Deferred revenue (note 11)		4,321,447	5,209,576
Other current liabilities (note 8)		1,668,658	1,879,320
Total current liabilities		577,263,320	799,772,040
Noncurrent liabilities:			
Accrued pension liability (note 8)		2,651,751	2,030,119
Accrued postretirement liability (note 8)		565,484	3,087,905
Regulatory liabilities (note 3)		9,845,620	7,230,016
Other noncurrent liabilities (notes 7 and 8)		23,960,378	21,102,061
Long-term debt (note 6)		82,278,572	78,520,149
Total noncurrent liabilities		119,301,805	111,970,250
Total liabilities		696,565,125	911,742,290
Commitments and contingencies (note 12)			
Unrestricted net assets		—	—
Total liabilities and net assets	$	696,565,125	911,742,290

See accompanying notes to financial statements.

Statement of Activities

December 31, 2014 and 2013

		2014	2013
Revenues:			
Rate Schedule 1 tariff charge	$	164,984,481	146,951,582
Grant revenue (notes 13 and 14)		4,610,945	8,942,426
Planning studies revenue		3,347,306	2,867,211
Fees and services		1,364,906	1,073,961
Interest income		9,303	6,000
Total revenues		174,316,941	159,841,180
Operating expenses:			
Compensation and related benefits (note 8)		73,685,956	73,053,490
Depreciation and amortization (note 4)		26,697,078	22,707,964
Professional fees and consultants		20,541,424	21,730,017
Maintenance, software licenses and facility costs		16,764,557	16,879,278
Federal energy regulatory commission fees		12,000,000	10,951,756
Administrative and other expenses		4,384,954	4,093,293
Interest expense		4,030,128	2,971,226
Grant expenses – New York transmission owners (notes 13 and 14)		3,817,137	4,864,596
Telecommunication expenses		3,736,307	3,704,215
Change in fair value of interest rate swaps (note 7)		3,245,985	(6,122,878)
Insurance expense		2,856,974	2,785,320
Training, travel, and meeting expenses		2,305,162	1,938,976
Northeast power coordinating council fees		251,279	283,927
Total operating expenses		174,316,941	159,841,180
Change in unrestricted net assets		—	—
Unrestricted net assets, beginning of year		—	—
Unrestricted net assets, end of year	$	—	—

See accompanying notes to financial statements.

Statement of Cash Flows
December 31, 2014 and 2013

		2014	2013
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		26,697,078	22,707,964
Loss on disposition of assets		—	28,826
Change in operating assets and liabilities:			
Decrease (increase) in accounts receivable and prepaid expenses		29,383,013	(104,200,613)
Decrease (increase) in restricted cash		186,729,265	(268,346,915)
(Increase) decrease in regulatory assets		(830,761)	1,049,229
Decrease other assets		326,285	2,695,842
(Decrease) increase in accounts payable and accrued expenses		(185,518,722)	208,631,299
(Decrease) increase in market participant prepayments		(838,115)	4,404,641
(Decrease) increase in market participant security deposits		(27,244,618)	155,712,004
Increase (decrease) in working capital reserve		1,184	(5,638)
(Decrease) increase in regulatory liabilities		(2,525,542)	5,618,008
Increase in deferred revenue and other liabilities		3,304,312	4,585,006
Net cash provided by operating activities		29,483,379	32,879,653
Cash flows from investing activities:			
Acquisition of property and equipment (including capitalized interest)		(24,602,490)	(45,619,786)
Net cash used in investing activities		(24,602,490)	(45,619,786)
Cash flows from financing activities:			
Proceeds from revolving credit facility loan		5,000,000	4,000,000
Repayment of revolving credit facility loan		(5,000,000)	(4,000,000)
Repayment of 2007 – 2010 budget facility loan		—	(9,785,714)
Proceeds from 2011 – 2013 budget facility loan		—	24,200,000
Repayment of 2011 – 2013 budget facility loan		(30,192,372)	(17,433,334)
Proceeds from 2014 – 2017 budget facility loan		25,000,000	—
Proceeds from 2012 Infrastructure Loan		6,249,025	21,155,637
Repayment of 2012 Infrastructure Loan		(1,102,632)	—
Repayment of Mortgage and Renovations loans		(1,013,598)	(955,293)
Net cash (used by) provided by financing activities		(1,059,577)	17,181,296
Net increase in cash and cash equivalents		3,821,312	4,441,163
Cash and cash equivalents – beginning of year		47,745,703	43,304,540
Cash and cash equivalents – end of year	$	51,567,015	47,745,703
Supplemental disclosure of cash flow:			
Information – cash paid during the year for interest, net of capitalized interest	$	3,992,021	2,936,187
Noncash operating activity:			
Change in pension and postretirement liabilities	$	3,445,575	6,603,766
Noncash investing activities:			
Property and equipment additions which were accrued but not paid	$	4,508,179	5,700,096
Property and equipment additions previously accrued which were paid		5,700,096	5,396,646

See accompanying 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 11,000 circuit miles of high-voltage transmission lines and serves approximately 400 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. The NYISO facilitates fair and open competition in the wholesale electricity markets in which electricity and related services are purchased and sold on the basis of competitive bidding. Billing invoices are issued by NYISO to each market participant to settle transactions occurring in the NYISO markets.

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 Commission.

(b) Basis of Accounting and Presentation

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

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, recoverability of regulatory assets, the valuation of derivative instruments, and reserves for employee benefit obligations.

(c) Regulatory Accounting

NYISO's financial statements are prepared in accordance with generally accepted accounting principles for rate-regulated entities, Financial Accounting Standards Board Accounting Standards Codification (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

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 from and to market participants for each settlement period.

Effective July 1, 2012, NYISO's two FERC-approved tariffs, the Open Access Transmission Tariff (OATT) and the Market Administration and Control Area Services Tariff (Services Tariff), were amended to clarify NYISO's role as the single counterparty to market participant transactions in the NYISO markets. For all market participant transactions in the NYISO markets, flash title passes through NYISO immediately prior to passing to the ultimate buyer and seller of the product. This arrangement reinforces NYISO's authority to continue to net a market participant's offsetting financial positions in NYISO markets for credit and billing purposes; provides clarity in NYISO's legal standing to pursue collection from a bankrupt market participant; and, also complies with the FERC directives on credit policy requirements for competitive wholesale electricity markets.

NYISO's tariffs allow recovery of NYISO's capital requirements, operating expenses and debt service costs 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 settlement period's invoice.

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 $16,996,595 and $14,376,435, respectively, in the accompanying 2014 and 2013 Statements of Financial Position in connection with this rate-making recovery mechanism.

Revenues recorded as planning studies revenues arise from billing and collection services in the study service agreement process performed by NYISO. These revenues are offset by the corresponding study expenses, recorded in operating expenses, which were incurred in performing such studies. A portion of the deposits related to planning 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, 2014 and 2013 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, for general operating purposes, and amounts for funding employee benefit plans.

(g) Restricted Cash

Restricted cash consists primarily of market participant security deposits held in escrow accounts, amounts prepaid by market participants in advance of settlement billing dates, amounts collected on settlement invoices, amounts collected for Transmission Congestion Contract (TCC) auctions, amounts deposited for planning studies and funds received from FERC for the purpose of enhancing NYISO's surveillance capabilities. 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 its operations.

(h) Other Assets

Other assets consist primarily of timing differences on certain rate-making recoveries, the fair value of interest rate 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.

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.

NYISO capitalizes the interest cost as part of the historical cost of acquiring certain assets.

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, 2014 and 2013.

(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 the Rate Schedule 1. Any change to NYISO's 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. Also, certain market participants choose to make advance payments to the NYISO to be applied to future settlement invoices.

(l) Deferred Revenue

Advance payments from developers for planning studies, and funds received from FERC for the purpose of enhancing NYISO's surveillance capabilities 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 included in deferred revenue.

(m) Income Taxes

NYISO has been recognized by the Internal Revenue Service as an organization described in Internal Revenue Code (The Code) Section 501(c)(3) and is generally exempt from income taxes under Section 501(a) of the Code. During the calendar years 2014 and 2013, no unrelated business taxable income was generated by NYISO, and therefore no disclosure is made for federal or state income taxes.

The NYISO has determined prior to recording any benefit in the financial statements that it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authorities, as required by the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement.

(n) Fair Value

NYISO utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Fair value is determined based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between the observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that NYISO has the ability to access at the measurement date
- Level 2 inputs: Other than quoted prices included within Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for a situation in which there is little, if any, market activity for the asset or liability at the measurement date

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is available for that particular financial instrument.

NYISO's financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses, short-term and long term debt, and benefit plan assets such that carrying value approximates fair value. The fair value of derivative instruments and benefit plan assets is discussed in notes 7 and 8, respectively.

(o) Pension and Other Postretirement Benefit Plans

NYISO has a defined benefit pension plan covering certain employees upon their retirement. The benefits are based on years of service and employee's compensation during the five years before retirement. NYISO also sponsors a defined benefit medical plan for retired employees and their dependents. NYISO records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare costs and trend rates. Assumptions are reviewed on an annual basis and modifications are made to the assumptions based on current rates and trends. The effect of modifications made to those assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

The net periodic costs are recognized as employees render the services necessary to earn the pension and postretirement benefits. Unamortized amounts that are expected to be recovered in rates in future years are recorded as a regulatory asset or liability. See note 8 for additional information.

(p) Concentration of Credit Risk

Financial instruments that subject NYISO to credit risk consist primarily of market settlement invoices 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 and for market participant challenges to amounts billed for a particular service period. Settlement invoices can be adjusted for up to four months after the date of the monthly invoice 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 period. If NYISO agrees with the provisions of the challenge, a final invoice is issued for that service period. As a result, NYISO is exposed to credit risk until all settlement adjustment and final invoices for each service period are finalized and liquidated. As of December 31, 2014, the adjustments and true-ups of all settlement invoices through March 2014 were completed. However, in the event of a market participant default and bad debt loss, Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from all remaining market participants on future invoices.

(q) Derivative Instruments

NYISO recognizes all derivative instruments as either assets or liabilities in the Statement of Financial Position at their respective fair value. 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 a change in fair value of interest rate swaps in the Statement of Activities. Due to NYISO's regulated rates, any changes in fair value of these derivative instruments are recorded as either Other Current or Noncurrent Assets or Other Current or Noncurrent Liabilities, as appropriate. Payments on these derivative instruments are recorded and classified as interest expense.

NYISO uses derivative instruments primarily to hedge the cash flow effects of fluctuations in interest rates. NYISO is exposed to credit loss in the event of nonperformance by the commercial banks under the interest rate swap agreements. The credit risk related to hedge agreements is limited to the cost to NYISO to replace the aforementioned hedge arrangements with like instruments. NYISO monitors the credit standing of the counterparties and anticipates that the counterparties will be able to fully satisfy their obligations under the hedge arrangements. See note 7 for additional information.

(2) Accounts Receivable

NYISO's accounts receivable at December 31, 2014 and 2013 consisted of the following:

		2014	2013
Billed:			
Current-due settlement invoices	$	67,608,207	96,162,494
Grants billed receivables		306,437	540,780
Miscellaneous billed receivables		224,394	154,173
Past-due-settlement invoices		39,848	1,572,296
		68,178,886	98,429,743
Unbilled:			
Centralized TCC 2 year auction		9,978,057	9,121,948
Rate Schedule 1 revenue for December		2,138,159	1,867,864
Miscellaneous unbilled receivables		139,706	799,167
Grants unbilled receivables		66,758	276,788
Replenishments of working capital reserve		306	306
		12,322,986	12,066,073
Total	$	80,501,872	110,495,816

NYISO invoices market participants weekly for settlement charges and Rate Schedule 1 revenue. Current due settlement invoices represent amounts invoiced on December 31, 2014 and due to be collected on January 5, 2015.

Past due settlement invoices as of December 31, 2014 are expected to be recovered in 2015. 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.

NYISO conducts a Centralized TCC Two Year Auction, with the second year payment due to the NYISO in January of the subsequent year.

NYISO recovers its Rate Schedule 1 revenue in the invoice following the period of service. Therefore, a portion of unbilled Rate Schedule 1 revenues for December are billed and recovered in January of the subsequent year.

(3) Regulatory Assets and Liabilities

At December 31, 2014 and 2013, regulatory assets and liabilities consisted of the following:

		2014	2013
Regulatory assets:			
Funding for pension benefits	$	7,956,023	8,060,193
Funding for deferred charges		5,270,375	4,451,391
Voltage support service (reactive power) market		11,777	—
Total regulatory assets		13,238,175	12,511,584
Less current		(11,777)	—
Noncurrent regulatory assets	$	13,226,398	12,511,584
Regulatory liabilities:			
Funding for deferred charges	$	5,141,602	5,867,404
Rate Schedule 1 underspending		3,807,065	4,740,847
Rate Schedule 1 transactional volume over collections		1,976,147	2,451,526
Funding for postretirement benefits		4,704,018	1,362,613
Voltage support service (reactive power) market		—	390,579
Total regulatory liabilities		15,628,832	14,812,969
Less current		(5,783,212)	(7,582,953)
Noncurrent regulatory liabilities	$	9,845,620	7,230,016

(a) Funding for Pension and Postretirement Benefits

The pension and postretirement funding regulatory assets and liabilities reflect the unrecognized pension and postretirement benefit costs that would normally be recorded as a component of other comprehensive income or loss. Since these amounts represent costs or income that are expected to be included in future rates, they are recorded as deferred noncurrent regulatory assets or liabilities for accumulated actuarial losses or gains to be recognized in future periods.

(b) Funding for Deferred Charges

The NYISO recovers its annual employer cash contributions for both the pension and postretirement benefit plans via Rate Schedule 1. The amounts in funding for deferred charges represents the pension and postretirement benefit costs net of cash contributions.

(c) Rate Schedule 1 Underspending

To the extent that NYISO's spending does not exceed the annual Rate Schedule 1 revenue requirement, a regulatory liability is established for the underspending amounts.

(d) Rate Schedule 1 Overcollections

NYISO recovers its costs 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.

(e) Voltage Support Service

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 undercollections or overcollections are reflected as regulatory assets or liabilities. At December 31, 2014 and 2013, respectively, NYISO recognized a regulatory asset of $11,777 and a regulatory liability of $390,579, related to such timing differences.

(4) Property and Equipment

As of December 31, 2014 and 2013, property and equipment consisted of the following:

		2014	2013
Software developed for internal use	$	151,786,042	135,902,740
Building, building improvements, and leasehold improvements		96,539,980	93,511,255
Computer hardware and software		63,053,163	61,179,649
Work in progress		5,369,980	7,237,369
Machinery and equipment		6,616,077	6,875,962
Furniture and fixtures		3,085,848	3,085,848
Land and land improvements		2,785,146	2,091,376
		329,236,236	309,884,199
Accumulated depreciation and amortization		(207,625,884)	(184,987,342)
Property and equipment – net	$	121,610,352	124,896,857

Property and equipment includes interest of $51,500 and $968,870 capitalized during 2014 and 2013, respectively. Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was $26,697,078 and $22,707,964, respectively.

Total capitalized labor as of December 31, 2014 and 2013 was $7,800,737 and $6,365,999, respectively.

(5) Revolving Credit Facility

On July 21, 2010, NYISO entered into a $50.0 million Revolving Credit Facility that expired on December 31, 2013 and was replaced on October 22, 2013, with a new $50.0 million Revolving Credit Facility with an effective date of January 1, 2014 through December 31, 2017. The proceeds from this Revolving Credit Facility are to be used for working capital purposes. Interest on borrowings under the Revolving Credit Facility 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, 2014 and 2013, respectively, there were no amounts outstanding on the Revolving Credit Facility. During 2014 and 2013, $5.0 million and $4.0 million in borrowings were made under this credit agreement, respectively, at an average interest rate of 1.85%.

(6) Long-Term Debt

At December 31, 2014, the following amounts were outstanding on NYISO's long-term debt:

		2012 Infrastructure loan (iv)	2011–2013 Budget facility loan (i)	2014–2017 Budget facility loan (ii)	Mortgage (iii)	Renovations (iii)	Total
Outstanding balance	$	43,884,745	19,040,961	25,000,000	9,304,549	7,383,278	104,613,533
Less current portion		(2,646,316)	(10,974,294)	(7,638,889)	(647,050)	(428,412)	(22,334,961)
Long-term portion	$	41,238,429	8,066,667	17,361,111	8,657,499	6,954,866	82,278,572

At December 31, 2013, the following amounts were outstanding on NYISO's long-term debt:

		2012 Infrastructure loan (iv)	2011–2013 Budget facility loan (i)	Mortgage (iii)	Renovations (iii)	Total
Outstanding balance	$	38,738,352	49,233,333	9,914,795	7,786,630	105,673,110
Less current portion		(1,139,363)	(25,000,000)	(610,246)	(403,352)	(27,152,961)
Long-term portion	$	37,598,989	24,233,333	9,304,549	7,383,278	78,520,149

(i) 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 and 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 October 24, 2013, NYISO amended the interest rate on this credit facility to LIBOR plus 100 basis points. During 2011, $25.0 million was drawn on the 2011–2013 Budget Facility, which was converted to a term loan in January 2012 with monthly principal and interest payments payable from January 2012 through December 2014. At December 31, 2014, these borrowings were fully repaid. At December 31, 2013, the interest rate on $6.7 million was fixed at 2.530% and the remaining $1.6 million was at 1.165%. During 2012, an additional $25.8 million was drawn on the 2011–2013 Budget Facility, which was converted to a term loan in January 2013 with monthly principal and interest payments payable from January 2013 through December 2015. At December 31, 2014, the interest rate on the remaining $2.9 million was fixed at 3.330%. At December 31, 2013, the interest rate on $13.3 million was fixed at 3.330% and the remaining $3.4 million was at 1.165%. During 2013, an additional $24.2 million was drawn on the 2011–2013 Budget Facility, which was converted to a term loan in January 2014 with monthly principal and interest payments payable from January 2014 through December 2016. At December 31, 2014, the interest rate on $13.3 million was fixed at 4.023% and the remaining $2.8 million was at 1.156%. At December 31, 2013, the interest rate on $20.0 million was fixed at 4.023% and the remaining $4.2 million was at 1.165%.

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 the 2011–2013 Budget Facility. Under the swap agreements, NYISO will pay fixed interest rates ranging from 3.280% to

4.773%. On October 24, 2013, NYISO amended the interest rate on this credit facility to LIBOR plus 100 basis points. Due to this amendment, NYISO will pay fixed interest rates ranging from 2.530% and 4.023%. See additional information in note 7.

(ii) On October 22, 2013, NYISO entered into an unsecured $100.0 million line of credit facility (2014– 2017 Budget Facility), the proceeds of which could be drawn between January 1, 2014 through December 31, 2017 to fund capital purchases and the development of significant projects during 2014–2017. 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 95 basis points for borrowings, or the prime rate. Interest payments on borrowings are due monthly. As of December 31, 2014, $25.0 million was drawn on the 2014 – 2017 Budget Facility. At December 31, 2014 the interest rate on $20.0 million was fixed at 1.780% and the remaining $5.0 million was at 1.106%

On October 25, 2013, NYISO entered into four interest rate swap agreements to fix interest on $80.0 million of the $100.0 million available on the 2014–2017 Budget Facility. Under the swap agreements, NYISO will pay fixed interest rates ranging from 1.780% to 4.076%. See additional information in note 7.

(iii) On July 8, 2005, NYISO entered into two financing agreements to purchase and renovate a 140,000-square foot office building in Rensselaer, NY. 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 5.790%. 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 5.960%, beginning on January 1, 2007.

(iv) On July 18, 2012, NYISO entered into the 2012 Infrastructure Loan to renovate its facilities in Guilderland, NY and to perform construction at its facility in Rensselaer, NY. The agreement permits borrowings of up to $45.0 million through July 18, 2014. As of July 3, 2014 the full $45.0 million was drawn on the loan which was converted to a term loan on July 18, 2014. The NYISO is required to make interest only payments for up to 24 months, followed by 17 years of principal and interest payments. Interest on borrowings under the 2012 Infrastructure Loan is due monthly and is based on varying rates of interest tied to LIBOR plus 225 basis points. At December 31, 2014, the interest rate on $39.0 million was fixed at 4.149% and the remaining $4.9 million was at 2.405%. At December 31, 2013, the interest rate on $33.7 million was fixed at 4.149% and the remaining $5.0 million was at 2.419%.

On July 18, 2012, NYISO entered into an interest rate swap agreement to fix interest on $40.0 million of the $45.0 million available under the 2012 Infrastructure Loan. Under this swap agreement, NYISO will pay a fixed interest rate of 4.149%. See additional information in note 7.

At December 31, 2014, scheduled maturities of NYISO's long-term debt were as follows:

	2014 Infrastructure loan	2011–2013 Budget facility loan	2014–2017 Budget facility loan	Mortgage	Renovations	Total
2015	$ 2,646,316	10,974,294	7,638,889	647,050	428,412	22,334,961
2016	2,646,316	8,066,667	8,333,333	684,637	453,836	20,184,789
2017	2,646,316	—	8,333,334	727,364	483,225	12,190,239
2018	2,646,316	—	694,444	771,230	513,248	4,625,238
2019	2,646,316	—	—	817,743	545,136	4,009,195
Thereafter	30,653,165	—	—	5,656,525	4,959,421	41,269,111
Total	$ 43,884,745	19,040,961	25,000,000	9,304,549	7,383,278	104,613,533

(7) Derivatives and Hedging Activities

NYISO's derivative instruments are cash flow hedges used to manage its exposure related to changes in interest rates. The NYISO does not enter into derivative instruments for any purposes other than cash flow hedging. By using derivative instruments to hedge exposure to changes in interest rates, NYISO is exposed to credit and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the NYISO, which creates credit risk. When the fair value is negative, the NYISO owes the counterparty and, therefore, the NYISO is not exposed to the counterparty's credit risk in those circumstances. NYISO minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates.

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, 2014 and 2013, the fair value of these interest rate swap agreements was ($1,414,992) and ($1,415,734), respectively, for the Mortgage and ($1,529,143) and ($1,233,611), respectively, for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value loss of $294,790 and a fair value gain of $1,781,385, respectively, related to these two 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 from 3.280% to 4.7725% through December 2016. On October 24, 2013, NYISO amended the interest rate on this credit facility to LIBOR plus 100 basis points. Due to this amendment, NYISO will pay fixed interest rates ranging from 2.530% to 4.023%. As of December 31, 2014 and 2013, the fair value of these interest rate swap agreements was ($380,044) and ($1,031,225), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value gain of $651,181 and $678,262, respectively, related to these three swap agreements.

In July 2012, NYISO entered into a interest rate swap agreement with a commercial bank to fix interest rate payments on the 2012 Infrastructure Loan. The notional amount of debt on the swap agreements was $40,000,000. NYISO pays a fixed interest rate of 4.149% through July 2031. As of December 31, 2014 and 2013, the fair value of this interest rate swap agreement was $559,802 and $3,258,088, respectively, recorded in Other Noncurrent Assets. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value loss of $2,698,286 and a fair value gain of $3,088,659, respectively, related to this swap agreement.

In October 2013, NYISO entered into four interest rate swap agreements with a commercial bank to fix interest rate payments on the 2014–2017 Budget Facility. The notional amount of the debt on the swap agreements was $80,000,000. NYISO pays fixed interest rates ranging from 1.780% to 4.076% through December 2020. As of December 31, 2014 and 2013, the fair value of these interest rate swap agreements was ($442,443) recorded in Other Noncurrent Liabilities, and $461,647 recorded in Other Noncurrent Assets, respectively. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value loss of $904,090 and a fair value gain of $461,647, respectively, related to these four swap agreements.

		Notional amount at inception	Notional amount at December 31, 2014	Fair value at December 31, 2013	Fair value at December 31, 2014		2014 Gain (loss) on market value
Loan:							
2011 – 2013 Budget Facility	$	60,000,000	19,999,984	(1,031,225)	(380,044)		651,181
2014 – 2017 Budget Facility		80,000,000	32,000,000	461,647	(442,443)		(904,090)
2012 Infrastructure Loan		40,000,000	39,019,608	3,258,088	559,802		(2,698,286)
Mortgage		14,708,750	9,304,549	(1,415,734)	(1,414,992)		742
Renovations		10,000,000	7,383,278	(1,233,611)	(1,529,143)		(295,532)
Total						$	(3,245,985)

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

Interest rate swaps are included in Other Noncurrent Assets and Other Noncurrent Liabilities. The following table presents the carrying amounts and estimated fair values of NYISO's financial instruments at December 31, 2014 and 2013:

		2014		2013	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Interest rate swaps	$	559,802	559,802	3,719,735	3,719,735
Financial liabilities:					
Interest rate swaps	$	3,766,622	3,766,622	3,680,570	3,680,570

(8) Employee Benefit Plans

Defined Benefit Pension and Postretirement Plans

NYISO has a defined benefit pension plan covering certain employees upon their retirement. 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. During 2014 and 2013, NYISO contributed $0 and approximately $0.8 million, respectively to the pension plan. Effective December 1, 2009, NYISO adopted changes to its pension plan to end the accrual of future benefits for most employees. 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 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.

Pursuant to resolutions adopted by NYISO's Board of Directors, NYISO's Retirement Board is responsible for administration of NYISO's pension and postretirement plans, including recommending investment policy to the Board of Directors, and monitoring investment performance. The Retirement Board reports to NYISO's Board of Directors and currently consists of NYISO's Chief Financial Officer, General Counsel, Vice President of Human Resources, and Controller. The Retirement Board provides reports to the Commerce and Compensation Committee of the Board of Directors on at least an annual basis.

NYISO records the overfunded or underfunded position of a defined benefit pension and postretirement plan as an asset or liability, with any unrecognized prior service costs, transition obligations, or gains/losses reported as recoverable under ASC Topic 980 and recorded as a regulatory asset or liability.

For payment of benefits under the postretirement 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 $5,221,244 and $4,974,167 as of December 31, 2014 and 2013, respectively. As noted in the following table, 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, 2014 and 2013, and the change in benefit obligations for NYISO's pension and postretirement plans for the years ended December 31, 2014 and 2013.

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation – beginning of year	$ 31,533,009	34,065,465	8,062,072	9,276,793
Service cost	184,077	282,499	720,012	840,716
Interest cost	1,253,828	1,161,800	375,808	348,792
Actuarial gain	(14,383)	(1,980,119)	(3,281,940)	(2,322,931)
Participant contributions	—	—	138,995	118,185
Settlements	—	(1,565,578)	—	—
Benefits paid	(764,998)	(431,058)	(228,219)	(199,483)
Benefit obligation – end of year	32,191,533	31,533,009	5,786,728	8,062,072
Change in plan assets:				
Fair value of plan assets – beginning of year	29,502,890	29,033,537	4,974,167	4,248,809
Actual return on plan assets	982,720	1,912,248	389,766	853,573
Employer contributions	—	779,201	—	—
Participant contributions	—	—	138,995	118,185
Settlements	—	(1,565,578)	—	—
Benefits paid	(764,998)	(431,058)	(228,219)	(199,483)
Expenses paid	(180,830)	(225,460)	(53,465)	(46,917)
Fair value of plan assets – end of year	29,539,782	29,502,890	5,221,244	4,974,167
Funded status	$ 2,651,751	2,030,119	565,484	3,087,905

Amounts recognized in the 2014 and 2013 Statements of Financial Position consist of the following:

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Net actuarial loss (gain) recognized in regulatory assets (liabilities)	$ 7,956,023	8,060,193	(4,704,018)	(1,362,613)
Projected benefit obligation	$ (32,191,533)	(31,533,009)	(5,786,728)	(8,062,072)
Fair value of assets	29,539,782	29,502,890	5,221,244	4,974,167
Unfunded projected benefit obligation	$ (2,651,751)	(2,030,119)	(565,484)	(3,087,905)

Net periodic pension expense and other postretirement benefit costs include the following components:

		Pension plan		Postretirement plan	
		2014	2013	2014	2013
Service cost	$	184,077	282,499	720,012	840,716
Interest cost		1,253,828	1,161,800	375,808	348,792
Expected return on plan assets		(1,225,285)	(1,218,183)	(224,606)	(253,024)
Amortization of unrecognized prior service cost		1,955	1,955	—	—
Amortization of unrecognized (gain) loss		511,227	863,016	(52,230)	13,809
Settlement loss		—	399,699	—	—
Total	$	725,802	1,490,786	818,984	950,293

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 $32,107,694 and $31,329,863 at December 31, 2014 and 2013, respectively.

During 2013, the sum of all lump-sum benefits paid during the year exceeded the sum of the service and interest cost components of the net periodic benefit cost for the year, resulting in the recognition of a net settlement loss of $399,699.

The following table as of December 31, 2014 and 2013 shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Benefit obligations:				
Discount rate	3.65%	4.30%	3.90%	4.80%
Rate of compensation increases	3.00	3.00	N/A	N/A
Net cost or credit:				
Discount rate	4.30%	3.60%	4.80%	4.00%
Rate of compensation increases	3.00	3.00	N/A	N/A
Expected return on plan assets	4.60	4.60	4.60	6.10

NYISO's expected rate of return on plan assets reflects anticipated returns on the pension and postretirement plans' 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. The long-term investment objective for NYISO's 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. NYISO's pension and postretirement plan investments are composed of common stocks, mutual funds and commingled trust funds that are redeemable at net asset value (NAV) on a daily basis. Redemption of such investments generally requires 1 to 2 days written prior notice prior to the redemption date.

NYISO measured benefit obligations using the most recent RP-2014 mortality tables and MP-2014 mortality improvement scale in selecting mortality assumptions as of December 31, 2014.

The targeted allocation and actual investment mix of the pension plan's assets are as follows December 31:

	2014		2013	
Asset category	**Target**	**Actual**	**Target**	**Actual**
Fixed income	70%	65%	70%	65%
International and emerging equities	15	16	15	16
Large cap equities	8	10	8	10
Mid cap equities	5	6	5	6
Small cap equities	2	3	2	3
Total	100%	100%	100%	100%

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

	2014		2013	
Asset category	**Target**	**Actual**	**Target**	**Actual**
Domestic equities	50%	58%	50%	57%
Fixed income	35	28	35	28
International and emerging equities	15	14	15	15
Total	100%	100%	100%	100%

The actual rate of return for the pension plan's assets as of December 31, 2014 and 2013 is as follows:

Asset category	Annual returns December 31 2014	2013
Large cap equities	13.5%	32.7%
Mid cap equities	7.7	39.0
Fixed income	3.2	(0.1)
Small cap equities	3.0	37.1
International and emerging equities	(6.5)	9.0
Total portfolio weighted average	3.3%	6.6%

The actual rate of return for the VEBA Trust (postretirement) plan's assets as of December 31, 2014 and 2013 is as follows:

Asset category	Annual returns December 31 2014	2013
Domestic equities	10.3%	34.0%
Fixed income	5.2	(2.0)
International and emerging equities	(2.6)	17.2
Total portfolio weighted average	6.9%	19.4%

The fair values of the pension plan assets at December 31, 2014 and 2013 are presented below and on the following page:

	2014 Fair value Level 1	Level 2	Level 3	Total
Domestic investments:				
Equities:				
Small cap	$ —	906,996	—	906,996
Mid cap	—	1,712,197	—	1,712,197
Large cap	—	3,046,721	—	3,046,721
Total	—	5,665,914	—	5,665,914
Fixed income	5,717,718	13,556,850		19,274,568
Total	5,717,718	13,556,850	—	19,274,568
International and emerging equities	4,543,327	—	—	4,543,327
Total	4,543,327	—	—	4,543,327
Cash and cash equivalents	55,973	—	—	55,973
	$ 10,317,018	19,222,764	—	29,539,782

	2013 Fair value			
	Level 1	Level 2	Level 3	Total
Domestic investments:				
Equities:				
Small cap	$ —	943,608	—	943,608
Mid cap	—	1,705,446	—	1,705,446
Large cap	—	2,875,472	—	2,875,472
Total	—	5,524,526	—	5,524,526
Fixed income	5,743,247	13,358,245	—	19,101,492
Total	5,743,247	13,358,245	—	19,101,492
International and emerging equities	4,645,595	—	—	4,645,595
Total	4,645,595	—	—	4,645,595
Cash and cash equivalents	231,277	—	—	231,277
	$ 10,620,119	18,882,771	—	29,502,890

The fair values of the postretirement plan assets at December 31, 2014 and 2013 are presented below:

	2014 Fair value			
	Level 1	Level 2	Level 3	Total
Domestic equities	$ 2,693,474	—	—	2,693,474
Total	2,693,474	—	—	2,693,474
Fixed income:				
Fixed income securities	604,145	—	—	604,145
U.S. government obligations	580,132	—	—	580,132
Mortgage-backed securities	—	40,403	—	40,403
Corporate debt securities	—	189,437	—	189,437
Total	1,184,277	229,840	—	1,414,117
International and emerging equities	901,356	—	—	901,356
Total	901,356	—	—	901,356
Cash and cash equivalents	212,297	—	—	212,297
	$ 4,991,404	229,840	—	5,221,244

	2013 Fair value			
	Level 1	Level 2	Level 3	Total
Domestic equities	$ 2,563,485	—	—	2,563,485
Total	2,563,485	—	—	2,563,485
Fixed income:				
Fixed income securities	590,540	—	—	590,540
U.S. government obligations	468,740	—	—	468,740
Mortgage-backed securities	—	166,572	—	166,572
Corporate debt securities	—	114,504	—	114,504
Total	1,059,280	281,076	—	1,340,356
International and emerging equities	876,433	—	—	876,433
Total	876,433	—	—	876,433
Cash and cash equivalents	193,893	—	—	193,893
	$ 4,693,091	281,076	—	4,974,167

The assumed healthcare cost trend rates for the postretirement plan are 7.0% for 2015 decreasing to 5.0% in 2023, and 7.75% for 2014 decreasing to 5.0% in 2025. A one-percentage point change in the assumed healthcare cost trend rate would change the 2014 postretirement benefit obligation as follows:

	1% increase	1% decrease
Effect on postretirement benefit obligation	$ 251,000	(225,700)
Effect on total of service and interest cost components	73,500	(79,500)

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

	Pension plan	Postretirement plan
2015	$ 2,246,840	173,660
2016	2,339,819	191,003
2017	2,457,648	226,964
2018	2,128,295	253,569
2019	2,173,479	286,913
2020–2024	10,438,429	2,083,202

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 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 $5,102,526 and $4,965,476 for 2014 and 2013, respectively.

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 for the period January 1, 2010 through December 31, 2012, benefits will be paid in equal 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, 2014 and 2013, were $3,170,677 and $2,936,750, respectively. The short-term portion of such liability, included in Other Current Liabilities, at December 31, 2014 and 2013, was $1,326,391 and $1,365,759, respectively.

(9) 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 is required to make annual payments of approximately $194,000 for the first 10 years. The agreement is cancelable at the discretion of NYISO.

(10) Working Capital Reserve

At December 31, 2014 and 2013, the working capital reserve consisted of the following:

		2014	2013
Market participant contributions through Rate Schedule 1	$	33,000,000	33,000,000
Interest on market participant contributions		10,149	8,965
Total	$	33,010,149	33,008,965

(11) Deferred Revenue

Deferred revenue at December 31, 2014 and 2013 consisted of the following:

		2014	2013
Advance payments received on planning studies	$	3,421,822	3,919,098
Funds received for the enhancement of surveillance capabilities		465,325	851,278
Governance participation fees		434,300	439,200
Total	$	4,321,447	5,209,576

(12) 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.

(13) Smart Grid Investment Grant

The NYISO received a $37.8 million Smart Grid Investment Grant from the United States Department of Energy (DOE) partially funding the New York State Capacitor/Phasor Measurement Project for the period July 1, 2010 through June 30, 2015. The NYISO and the eight New York transmission owners (TOs) are responsible for contributing $37.9 million in nonfederal matching funds to fully fund the $75.7 million project. As the prime recipient of the funds, the NYISO is responsible for administering the overall project on behalf of itself and the TOs.

The NYISO and the TOs entered into a Subaward Agreement in 2010 that specifies the portion of the approved Federal grant funds that each entity is eligible to receive from the Government through reimbursement requests. Consistent with the requirements of the grant agreement with DOE, in order to receive its respective portion of the SGIG Award, each party must expend a matching amount. Under the Subaward Agreement, the NYISO's obligation to reimburse the TOs is limited to the amount that the NYISO receives from DOE in response to the TOs' requests for reimbursement. The NYISO and the TOs are eligible to receive reimbursement for allowable costs incurred from August 6, 2009–the approved pre-award period–through June 30, 2015.

As of December 31, 2014 and 2013, $4.4 million and $8.8 million, respectively, are recognized in NYISO's Statements of Activities in Grant revenue, which represents 50% reimbursement from DOE of NYISO's and the TO's allowable costs incurred during these respective years. Recorded in NYISO's Statements of Activities is the TO's 50% share of allowable costs incurred, as of December 31, 2014 and 2013, $3.8 million and $4.9 million, respectively, are classified as Grant expenses – New York Transmission Owners. As of December 31, 2014 and 2013, $0.4 million and $0.8 million, respectively, are recorded in NYISO's Statements of Financial Position included as Accounts receivable – net.

(14) Eastern Interconnection Planning Collaborative Grant

On December 18, 2009, the DOE announced that the Eastern Interconnection Planning Collaborative (EIPC) would receive $16.0 million (the EIPC 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 EIPC 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 agreement with DOE for the EIPC Award was executed on July 19, 2010 and the project obligations became effective on July 16, 2010. NYISO has a separate agreement with PJM and the other Participating Principal Investigators (the EIPC Agreement) which specifies the parties' obligations under the EIPC Award. During 2013, DOE issued an extension to this grant to cover expenditures related to a gas-electric coordination study, effective through June 2015. Consistent with the requirements of the DOE agreement, NYISO is eligible to receive reimbursement of $0.9 million from DOE for expenditures incurred from March 1, 2010. 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.

As of December 31, 2014 and 2013, NYISO recognized $0.2 million and $0.1 million, respectively, in NYISO's Statements of Activities as Grant revenue.

(15) 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. NYISO has evaluated subsequent events from the statement of financial position date through March 13, 2015, the date at which the financial statements were issued.

Attachment IV

STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2015 AND 2014
UNAUDITED

	09/30/15	09/30/14
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 45,478,765	$ 46,911,266
Restricted Cash	551,461,446	610,012,188
Marketable Securties	343,036	-
Accounts Receivable, net	95,059,987	15,545,960
Prepaid Expenses	7,569,306	8,218,326
Other Assets - current portion	34,337	22,217
Total Current Assets:	699,946,878	680,709,956
Long-Term Assets:		
Regulatory Assets - noncurrent portion	13,840,648	13,224,084
Property and Equipment, net	111,026,979	117,838,306
Other Noncurrent Assets	6,538,387	4,744,613
TOTAL ASSETS:	$ 831,352,891	$ 816,516,959
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 151,608,526	$ 55,518,945
Market Participant Security Deposits	488,364,646	561,493,228
Market Participant Prepayments	4,217,487	9,174,004
Short-Term Debt	2,000,000	5,000,000
Working Capital Reserve	33,007,654	33,008,307
Long-Term Debt - current portion	22,198,733	24,388,940
Regulatory Liabilities - current portion	13,530,625	9,802,503
Deferred Revenue - current portion	4,909,271	4,008,901
Other Current Liabilities	1,557,586	1,588,385
Total Current Liabilities:	721,394,528	703,983,212
Long-Term Liabilities:		
Pension and Postretirement Benefit Liabilities	4,375,238	6,648,024
Regulatory Liabilities - noncurrent portion	9,301,867	6,412,517
Other Noncurrent Liabilities	21,400,383	21,852,011
Long-Term Debt	74,880,875	77,621,194
TOTAL LIABILITIES:	$ 831,352,891	$ 816,516,959
UNRESTRICTED NET ASSETS:	-	-
TOTAL LIABILITIES AND NET ASSETS:	$ 831,352,891	$ 816,516,959

YTD STATEMENT OF ACTIVITIES

FOR THE PERIODS ENDING SEPTEMBER 30, 2015 AND 2014

UNAUDITED

	For the period 09/30/15	For the period 09/30/14
REVENUES:		
Rate Schedule 1 tariff charge	$ 128,458,474	$ 122,601,697
Planning studies revenue	3,116,203	2,445,051
Fees and services	1,065,811	1,008,768
Grant revenue	683,185	2,512,719
Investment income(loss)	(20,830)	-
Interest income	6,789	6,056
TOTAL REVENUES	$ 133,309,632	$ 128,574,291
OPERATING EXPENSES:		
Compensation and related benefits	$ 59,919,280	$ 56,249,322
Depreciation and Amortization	20,502,601	19,383,770
Professional fees and consultants	17,278,751	15,373,851
Maintenance, software licenses and facility costs	13,346,608	12,001,083
Federal Energy Regulatory Commission fees	7,784,381	8,842,006
Administrative and other expenses	3,292,012	3,258,343
Interest expense	2,824,019	3,086,730
Telecommunication expenses	2,733,140	2,742,880
Insurance expense	2,134,181	2,131,016
Training, travel, and meeting expenses	1,267,091	1,661,233
Grant expenses - New York Transmission Owners	426,249	1,983,832
Northeast Power Coordinating Council fees	195,735	188,459
Change in fair value of interest rate swaps and caps	1,605,583	1,671,765
TOTAL OPERATING EXPENSES	133,309,632	128,574,291
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 PERIODS ENDING SEPTEMBER 30, 2015 AND 2014

UNAUDITED

CASH FLOWS FROM OPERATING ACTIVITIES:	For the period 9/30/2015	For the period 9/30/2014
Change in net assets	$ -	$ -
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,502,601	19,383,770
(Gain)/loss on disposition of assets	35,502	-
Change in operating assets and liabilities:		
Restricted cash	(134,099,378)	(5,920,855)
Marketable Securties	(343,036)	-
Accounts receivable and prepaid expenses	(14,884,118)	93,363,902
Accounts payable and accrued expenses	9,714,484	(273,085,734)
Market participant prepayments and security deposits	124,331,281	174,333,646
Working capital reserve	(2,495)	(658)
Other assets	(2,132,855)	(110,704)
Other liabilities	6,278,419	2,190,391
Net cash (used in) provided by operating activities	$ 9,400,405	$ 10,153,759
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(9,954,730)	(12,325,219)
Net cash used in investing activities	$ (9,954,730)	$ (12,325,219)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from revolving credit facilities	7,000,000	5,000,000
Net proceeds from 2015 budget facility	13,000,000	-
Net proceeds from 2014 budget facility	-	13,000,000
Net proceeds from 2012 Infrastructure Loan	-	6,249,025
Repayment of revolving credit facilities	(5,000,000)	-
Repayment of 2014 budget facility	(5,555,556)	-
Repayment of 2013 budget facility	(9,286,031)	(6,050,000)
Repayment of 2012 budget facility	(2,907,627)	(9,417,070)
Repayment of 2011 budget facility	-	(6,250,000)
Repayment of 2011 Infrastructure Loan	(1,984,737)	(441,053)
Repayment of Mortgage & renovation loans	(799,974)	(753,880)
Net cash provided by (used in) financing activities	$ (5,533,925)	$ 1,337,023
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	$ (6,088,249)	$ (834,437)
Cash and Cash Equivalents, beginning of period	$ 51,567,015	$ 47,745,703
Cash and Cash Equivalents, end of period	$ 45,478,765	$ 46,911,266

Attachment V

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Petition of the New York Independent System Operator, Inc. for Authority to Incur Indebtedness for a Term in Excess of Twelve Months Pursuant to Section 69 of the Public Service Law	**Case 15-E-____**

VERIFICATION STATEMENT AND AFFIDAVIT

STATE OF NEW YORK)
)
COUNTY OF RENSSELAER)

Cheryl L. Hussey, being duly sworn, deposes and says:

1. I am the Vice President and Chief Financial Officer of the New York Independent System Operator, Inc. ("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. Since the effective date of such orders there have been no charges to asset accounts not in accordance therewith. All required credits to such asset accounts have been made for the amount and in the manner prescribed in such accounting orders.

3. I have read the foregoing Petition and know the contents thereof. All of the facts asserted in the Petition are true and accurate to the best of my knowledge.

Cheryl L. Hussey
Cheryl L. Hussey
Vice President and Chief Financial Officer

Subscribed and sworn to before me this
9th day of November, 2015

Diane L. Egan
Notary Public

DIANE L. EGAN
Notary Public, State of New York
Qualified in Schenectady County
No. 4924890
Commission Expires March 21, 20 18