

FINANCIALS

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Independent Auditors' Report

To the Board of Directors of
New York Independent System Operator, Inc.

We have audited the accompanying statement of financial position of New York Independent System Operator, Inc. ("NYISO") as of December 31, 2000, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NYISO as of and for the one-month period ended December 31, 1999 were audited by other auditors whose report, dated April 17, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements as of and for the year ended December 31, 2000 present fairly, in all material respects, the financial position of NYISO as of December 31, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Parsippany, New Jersey
March 19, 2001

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
STATEMENTS OF FINANCIAL POSITION

	Years ended December 31	
	2000	1999
ASSETS		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 37,769,733	\$ 7,977,848
Accounts receivable	10,470,302	18,717,929
Prepaid expenses	1,315,092	209,480
Restricted cash	68,303,306	4,897,815
Total current assets	117,858,433	31,803,072
<i>Noncurrent Assets:</i>		
Property and equipment, net (Note 3)	8,244,124	3,496,498
Transition asset, net (Note 2)	43,953,956	54,942,444
Other	1,517,572	135,000
Total noncurrent assets	53,715,652	58,573,942
Total Assets	\$ 171,574,085	\$ 90,377,014

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
STATEMENTS OF FINANCIAL POSITION

	Years ended December 31	
	2000	1999
LIABILITIES		
<i>Current Liabilities:</i>		
Accounts payable and accrued expenses	\$ 32,742,459	\$ 2,840,131
Market participant security deposits	19,910,870	5,032,835
Short-term debt	6,500,000	3,000,000
Long-term debt - current portion (Note 6)	10,160,070	-
Capitalized lease obligations - current portion (Note 5)	1,370,661	1,982,532
Working capital reserve	2,561,998	18,118,244
Deferred revenue	6,822,257	-
Note payable to NYPP Member Systems (Note 8)	-	54,942,444
Other current liabilities	42,445,916	1,815,889
Total current liabilities	122,514,231	87,732,075
<i>Noncurrent Liabilities:</i>		
Capitalized lease obligations (Note 5)	367,231	1,459,541
Accrued pension liability (Note 4)	2,607,585	106,527
Regulatory liabilities (Note 7)	10,277,008	1,078,871
Long-term debt (Note 6)	35,808,030	-
Total noncurrent liabilities	49,059,854	2,644,939
Commitments and Contingencies (Note 9)	-	-
Total Liabilities	\$ 171,574,085	\$ 90,377,014

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC. STATEMENTS OF ACTIVITIES

	Years ended December 31	
	2000	1999
<i>Revenues:</i>		
Rate Schedule 1 tariff charge	\$ 61,373,324	\$ 3,799,755
Fees and services	215,764	183,864
Interest income	3,434,406	20,568
Total revenues	65,023,494	4,004,187
<i>Operating Expenses:</i>		
Compensation and related benefits	19,207,583	1,550,570
Pension expense (Note 4)	1,274,665	106,527
Professional fees and consultants	16,510,000	1,152,260
Building, equipment leases and facility costs	3,659,441	179,548
Telecommunications	1,844,823	98,055
Training, travel and meeting expenses	1,367,223	79,118
Depreciation and amortization	2,423,493	163,421
Amortization of transition asset (Note 2)	10,988,488	-
Northeast Power Coordinating Council fees	1,377,522	-
Board, administrative and other expenses	1,324,735	268,891
Total operating expenses	59,977,973	3,598,390
Interest Expense	\$ 5,045,521	\$ 405,797
Net Results of Activities	\$ -	\$ -

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC. STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2000	1999
<i>Cash Flows from Operating Activities:</i>		
Net results of activities	\$ -	\$ -
Adjustments to reconcile net results of activities to net cash provided by operating activities:		
Depreciation and amortization	2,423,493	163,421
Amortization of transition asset	10,988,488	-
Change in operating assets and liabilities:		
Accounts receivable and prepaid expenses	7,142,015	(18,927,409)
Accounts payable and accrued expenses	29,902,328	2,840,131
Restricted cash	(63,405,491)	(4,897,815)
Working capital reserve	(15,556,246)	18,118,244
Other assets	(1,382,572)	(135,000)
Other liabilities	74,029,514	8,034,122
Net cash provided by operating activities	44,141,529	5,195,694
<i>Cash Flows from Investing Activities:</i>		
Acquisition of property and equipment	(7,171,119)	(55,263)
Net cash used by investing activities	(7,171,119)	(55,263)
<i>Cash Flows from Financing Activities:</i>		
Net proceeds from revolving credit facilities	3,500,000	3,000,000
Net proceeds from term loan	45,968,100	-
Payment of note to NYPP member companies	(54,942,444)	-
Decrease in capitalized lease obligations	(1,704,181)	(162,583)
Net cash (used) provided by financing activities	(7,178,525)	2,837,417
Net Increase in Cash and Cash Equivalents	29,791,885	7,977,848
Cash and Cash Equivalents, Beginning of Year	7,977,848	-
Cash and Cash Equivalents, End of Year	\$ 37,769,733	\$ 7,977,848
<i>Supplemental Disclosure of Cash Flow Information –</i>		
Cash paid during the year for interest	\$ 5,758,456	\$ 21,604

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC. YEARS ENDED DECEMBER 31, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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'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 more than 10,775 miles of high-voltage transmission lines and approximately 335 generators. NYISO's principal objective is to ensure the reliable, safe and efficient operation of the New York State transmission system and to administer an open, competitive and nondiscriminatory wholesale market for electricity in New York State.

NYISO is governed by an independent board of directors as well as a committee structure consisting of market participant representatives. NYISO is operated from a power control center near Albany, New York.

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

The 1999 financial statements present results of activities from December 1, 1999, the date NYISO commenced operations, through December 31, 1999. Prior to December 1, 1999, there was no financial activity.

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

The following amounts represent energy and energy-related products transacted in NYISO's markets during 2000:

Energy	\$	4.5 billion
Installed capacity (ICAP)		0.4 billion
Transmission Congestion Contracts (TCC)		0.3 billion
Total	\$	5.2 billion

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, 2000 are held in short-term repurchase agreements that invest in United States government obligations.

Restricted Cash - Restricted cash consists primarily of market participant security deposits held in escrow accounts, amounts due to market participants for over-collections on the voltage market, and amounts reserved for funding employee benefit plans.

Property, Equipment and Capital Leases - Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the assets' estimated useful lives of three to five years.

Costs incurred to acquire and develop computer software for internal use are capitalized and amortized using the straight-line method over three years.

Capital lease obligations are recorded at the present value of future minimum lease payments. Assets under capital leases are amortized on the straight-line method over the life of the leases, which approximates their useful lives of three to five years.

Working Capital Reserve - In order to maintain the liquidity and stability of NYISO's markets, NYISO accumulates a working capital fund through amounts charged to market participants under Rate Schedule 1. NYISO bills its estimated working capital needs monthly to market participants.

Deferred Revenue - Amounts collected from market participants through Rate Schedule 1 for capital purchases are deferred and recognized over the depreciable period of the assets' lives.

Fees for participation in the NYISO governance process are billed to market participants in advance of the year for which they apply and are amortized over the related governance period.

Regulation - NYISO's financial statements are prepared in accordance with generally accepted accounting principles for rate-regulated entities. Statement of Financial Accounting Standard ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*, requires an entity that is rate regulated on a cost-of-service basis, to recognize regulatory assets and liabilities for amounts which would otherwise be included in earnings, when authorized to do so by FERC.

Income Taxes - NYISO is not subject to income taxes because it is operating as a corporation described in Section 501(c)(3) of the Internal Revenue Code, exempt under Section 501(a) of the Internal Revenue Code.

Fair Value of Financial Instruments - The carrying amount of current assets and liabilities, and long-term debt approximates their fair values.

Concentration of Credit Risk - Financial instruments that subject NYISO to credit risk consist primarily of accounts receivable billings due from market participants. As provided in the OATT and Services Tariffs, market participants are required to maintain either approved credit ratings or post specified financial security in an amount sufficient to cover their outstanding liability to NYISO.

Use of Estimates - Generally accepted accounting principles require management to make estimates and assumptions that affect 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.

Reclassifications - Certain reclassifications of prior period data have been made to conform with the current year presentation.

New Accounting Pronouncements - SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS No. 133"), is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. NYISO adopted SFAS No. 133 effective January 1, 2001. There was no effect of adopting SFAS No. 133 on the financial statements.

2. TRANSITION ASSET

The transition asset represents costs incurred and paid by the member companies of the NYPP to prepare NYISO for initial operations. In accordance with NYISO's tariffs, such costs are recovered from market participants through Rate Schedule 1, and are amortized over five years, beginning in January 2000.

At December 31, 2000 and 1999, the transition asset was comprised of:

	2000	1999
Computer and software development	\$ 24,363,819	\$ 24,363,819
Administrative and organizational development	29,356,643	29,356,643
Power control center building and land	1,221,982	1,221,982
	54,942,444	54,942,444
Accumulated amortization	(10,988,488)	-
Transition asset, net	\$ 43,953,956	\$ 54,942,444

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2000 and 1999 consisted of the following:

	2000	1999
Assets under capital leases	\$ 3,678,460	\$ 3,604,656
Computer hardware, software and accessories	3,041,235	30,183
Software developed for internal use	1,803,887	-
Furniture and fixtures	1,111,532	-
Machinery and equipment	436,134	-
Building and leasehold improvements	546,952	-
Construction work in progress	212,838	25,080
	10,831,038	3,659,919
Accumulated depreciation and amortization	(2,586,914)	(163,421)
Property and equipment, net	\$ 8,244,124	\$ 3,496,498

4. EMPLOYEE BENEFIT PLANS

Pension Plan - NYISO has a defined benefit pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by an NYPP member company. Employees become vested in pension benefits after five years of creditable service.

	2000	1999
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 3,625,621	\$ 3,757,863
Service cost	674,994	59,895
Interest cost	303,776	21,974
Actuarial (gain) loss	536,451	(214,111)
Benefits paid	(14,728)	-
Benefit obligation, end of year	\$ 5,126,114	\$ 3,625,621
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	15,728	-
Benefits paid	(14,728)	-
Fair value of plan assets, end of year	\$ 1,000	\$ -
Funded status	\$ (5,125,114)	\$ (3,625,621)
Unrecognized prior cost	3,437,310	3,733,205
Unrecognized (gain) loss	322,340	(214,111)
Additional minimum pension cost	(1,242,121)	-
Total accrued pension liability	\$ (2,607,585)	\$ (106,527)

Amounts recognized in the statement of financial position consist of:

Benefit obligation	\$ (2,607,585)	\$ (106,527)
Intangible asset	1,242,121	-

The components of net periodic pension cost are as follows:

Service cost	\$ 674,994	\$ 59,895
Interest cost	303,776	21,974
Amortization of unrecognized prior service cost	295,895	24,658
Total	\$ 1,274,665	\$ 106,527

The following table shows the assumptions used to calculate the pension benefit obligations as of December 31, 2000 and 1999:

	2000	1999
Discount rate	7.50 %	8.00 %
Rate of compensation increases	5.80	5.80
Expected return on plan assets	n/a	n/a

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. Employees are immediately vested in NYISO's matching contributions, which were \$487,975 and \$59,092 for 2000 and 1999, respectively.

Postretirement Plan - NYISO has committed to sponsor a defined benefit postretirement medical and life insurance plan for eligible employees and their beneficiaries. The plan is expected to be in place during 2001 or 2002. During 2000, NYISO recovered \$671,040 through Rate Schedule 1 for such postretirement benefits. This amount is included in Regulatory Liabilities at December 31, 2000. See additional information in Note 7.

Trust Share Option Agreement - During 2000, NYISO established a supplemental compensation program, which grants eligible employees options to acquire debt and equity securities held by NYISO in a trust for an amount equal to 25% of the fair value of such securities. At December 31, 2000, securities held by the trust had a fair value of \$275,451. Options outstanding at December 31, 2000 expire on November 16, 2009. Compensation expense is recorded over the vesting period of the options.

5. LEASE COMMITMENTS

Operating Leases - NYISO has obligations under lease agreements primarily for rental of office space in Altamont, NY and Albany, NY. The lease of the Altamont facility expires in February 2002, and has an option to renew the lease for ten additional years at current market rates. The Albany facility expires in January 2006, but NYISO has the option to renew this lease for two additional five-year periods at the current lease rate. The future minimum lease payments under these operating leases at December 31, 2000 were as follows:

2001	\$ 691,746
2002	525,885
2003	484,636
2004	484,636
2005	484,636
Thereafter	40,386
Total	\$ 2,711,925

Capital Leases - Certain lease obligations assumed from NYPP for computers, furniture and fixtures include provisions which at the termination of the lease either transfer ownership of the leased property to NYISO or allow NYISO the option to purchase the leased equipment for a nominal cost. Accordingly, these agreements have been recorded as capital leases.

Future minimum capital lease payments were as follows at December 31, 2000:

2001	\$ 1,370,661
2002	262,899
2003	104,332
Total minimum lease payments	1,737,892
Less: current maturities	(1,370,661)
Long-term obligation	\$ 367,231

6. REVOLVING CREDIT AND TERM LOAN AGREEMENTS

On October 26, 1999, NYISO entered into a \$66 million Credit Agreement, consisting of a \$54 million Term Credit Loan Commitment and a \$12 million Revolving Credit Facility. On December 6, 2000, the Revolving Credit Facility portion of the credit agreement was increased to \$50 million.

The Revolving Credit Facility is a six-year commitment that expires on October 26, 2005. The proceeds from this facility are to be used for general working capital purposes. Interest on borrowings under this agreement is based on NYISO's option of varying rates of interest tied to either the prime rate or the London Interbank Offering Rate (LIBOR). At December 31, 2000, \$6.5 million was outstanding on the Revolving Credit Facility, with interest payable monthly at 7.3% per annum on the outstanding principal amount.

The Term Credit Loan is for a five-year period commencing January 1, 2000 and ending December 31, 2004. After obtaining FERC approval on transition expenses, NYISO borrowed \$48,460,444 from the Term Credit Loan on September 8, 2000. The proceeds of the Term Credit Loan were used to reimburse NYPP member companies for their investment in the transition of the NYPP to the NYISO, and for the purchase of certain NYPP assets. Principal and interest payments are due monthly through December 2004. Interest on the Term Credit Loan is variable based on the 30-day LIBOR plus 125 basis points. The interest rate on the Term Credit Loan at December 31, 2000 was 7.87%.

At December 31, 2000, the following amounts were outstanding on the Term Credit Loan:

Outstanding balance	\$	45,968,100
Less current portion		(10,160,070)
Long-term portion	\$	35,808,030

At December 31, 2000, scheduled maturities of the Term Credit Loan are as follows:

2001	\$	10,160,070
2002		11,001,087
2003		11,911,721
2004		12,895,222
Total	\$	45,968,100

On January 10, 2001, NYISO entered into an interest rate swap agreement with a third party which locks the interest rate on the Term Credit Loan at 6.99%. The fixed interest rate applies to payments from February 1, 2001 through December 2004, and is based on the outstanding principal amount of the Term Credit Loan. The notional amount of the Term Credit Loan was \$45,157,860 on the date of the interest rate swap agreement.

7. REGULATORY LIABILITIES

Certain amounts recovered under NYISO's rate-making mechanisms are based on estimates. The difference between actual results and these estimates result in overcollections or undercollections. Such amounts are deferred as regulatory assets or liabilities and are amortized as such amounts are included in future rates. At December 31, 2000 and 1999, respectively, NYISO recorded the following amounts as regulatory liabilities:

	2000	1999
Energy market	\$ 6,825,131	\$ 1,078,871
ICAP market	1,735,600	-
Voltage market	1,045,237	-
Future funding of post-retirement plan	671,040	-
Total	\$ 10,277,008	\$ 1,078,871

8. NOTE PAYABLE TO NYPP MEMBER COMPANIES

On December 2, 1999, NYISO entered into a promissory note with the NYPP member companies for the amount of the transition costs incurred and paid by NYPP member companies to prepare NYISO for initial operations, including interest based on the FERC refund rate. Using proceeds from its Term Credit Loan, NYISO repaid the NYPP member companies in September 2000.

9. 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, if any, on the financial position, results of operations or liquidity of NYISO.

On the Cover

Shown is the display board in NYISO's power control center. This board provides operators with critical information about the bulk power transmission system, using continuous analog data and bursts of millions of bits of digital data.

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