Financial Statements

New York Independent System Operator, Inc.

Contents

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of New York Independent System Operator, Inc. ("NYISO") as of December 31, 2002 and 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 18, 2003

	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 33,552,160	$ 51,744,667
Accounts receivable, net (Note 2)	31,678,822	16,747,398
Prepaid expenses	5,289,445	2,387,963
Restricted cash	107,301,025	48,442,287
Total current assets	177,821,452	119,322,315
Noncurrent Assets:		
Regulatory transition asset, net (Note 3)	21,976,978	32,965,466
Property and equipment, net (Note 4)	29,549,070	14,023,962
Other noncurrent assets	2,685,976	1,554,087
Total noncurrent assets	54,212,024	48,543,515
Total Assets	$ 232,033,476	$ 167,865,830

See notes to financial statements.

	2002	2001
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$ 16,306,479	$ 16,825,805
Market participant security deposits	82,303,164	35,126,966
Long-term debt - current portion (Note 6)	15,299,241	11,618,351
Capital lease obligations - current portion (Note 9)	116,602	287,391
Working capital reserve (Note 10)	48,422,459	47,668,383
Deferred revenue - current portion (Note 11)	17,664,042	1,232,000
Regulatory liabilities - current portion (Note 12)	6,827,565	13,962,072
Other current liabilities	2,088,223	1,685,682
Total current liabilities	189,027,775	128,406,650
Noncurrent Liabilities:		
Capital lease obligations (Note 9)	-	104,333
Accrued pension liability (Note 8)	1,260,094	478,422
Deferred revenue (Note 11)	19,955,431	11,094,354
Regulatory liabilities (Note 12)	2,704,815	1,601,209
Other noncurrent liabilities (Note 8)	595,067	574,660
Long-term debt (Note 6)	18,490,294	25,606,202
Total noncurrent liabilities	43,005,701	39,459,180
Commitments and Contingencies (Note 13)	-	-
Total Liabilities	$ 232,033,476	$ 167,865,830

See notes to financial statements.

	2002	2001
Revenues:		
Rate Schedule 1 tariff charge	$ 98,379,113	$ 87,048,756
Fees and services	839,089	1,842,693
Interest income	192,729	1,152,507
Total revenues	99,410,931	90,043,956
Operating Expenses:		
Compensation and related benefits	28,867,814	25,211,177
Pension expense (Note 8)	1,713,107	1,604,907
Professional fees and consultants	20,564,584	18,560,605
Rent, equipment leases and other facility costs	12,502,943	16,948,038
Telecommunications	2,236,580	2,009,198
Training, travel and meeting expenses	2,574,766	2,239,703
Depreciation and amortization	8,420,385	4,781,676
Amortization of regulatory transition asset (Note 3)	10,988,489	10,988,488
Northeast Power Coordinating Council fees	1,374,043	1,503,343
Federal Energy Regulatory Commission fees	6,234,908	-
Administrative and other expenses	1,705,233	3,204,983
Total operating expenses	97,182,852	87,052,118
Interest Expense	$ 2,228,079	$ 2,991,838
Net Results of Activities	$ -	$ -

See notes to financial statements.

Statements of Cash Flows

	2002	2001
Cash Flows from Operating Activities:		
Net results of activities	$ -	$ -
Adjustments to reconcile net results of activities to net cash provided by operating activities:		
Depreciation and amortization	8,420,385	4,781,676
Amortization of regulatory transition asset	10,988,489	10,988,490
Change in operating assets and liabilities:		
Accounts receivable and prepaid expenses	(17,832,906)	(7,349,967)
Accounts payable and accrued expenses	(519,328)	(15,916,654)
Restricted cash	(58,858,738)	19,861,019
Working capital reserve	754,076	45,106,385
Other assets	(1,131,889)	(30,620)
Market participant security deposits, deferred revenue and other liabilities	67,643,037	(16,308,271)
Net cash provided by operating activities	9,463,126	41,132,058
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(23,945,493)	(10,567,408)
Net cash used by investing activities	(23,945,493)	(10,567,408)
Cash Flows from Financing Activities:		
Net repayment of revolving credit facilities	-	(6,500,000)
Repayment of term loan	(11,018,351)	(10,493,548)
Proceeds from equipment term notes	8,700,000	1,800,000
Repayment of equipment term notes	(1,116,667)	(50,000)
Decrease in capital lease obligations	(275,122)	(1,346,168)
Net cash used in financing activities	(3,710,140)	(16,589,716)
Net (Decrease) Increase in Cash and Cash Equivalents	(18,192,507)	13,974,934
Cash and Cash Equivalents, Beginning of Year	51,744,667	37,769,733
Cash and Cash Equivalents, End of Year	$ 33,552,160	$ 51,744,667
Supplemental Disclosure of Cash Flow Information –		
Cash paid during the year for interest	$ 2,266,334	$ 3,104,922

See notes to financial statements.

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 serves approximately 180 market participants.

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 facilitates fair and open competition in the wholesale power market and creates an electricity commodity market in which power is purchased and sold on the basis of competitive bidding. NYISO utilizes a bid process for electricity and transmission usage, which enables New York State's utilities and other market participants, to offer electricity at competitive prices, rather than regulated rates. Billing invoices are issued to each market participant by NYISO each month to settle transactions occurring in the previous month.

NYISO is governed by an independent board of directors as well as a committee structure consisting of market participant representatives.

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

Revenue Recognition - Monthly settlements of market participants' energy transactions are not reflected in NYISO's Statement of Activities since they do not represent revenues or expenses of NYISO as NYISO merely acts as an intermediary in the settlement process. In this role, NYISO receives and disburses funds to/from market participants in the month following the month transactions occurred. See Note 15 for a summary of transactional volume occurring in 2001 and 2002.

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 charges in the subsequent month.

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, 2002 and 2001 were held in short-term United States government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve and for general operating purposes.

Restricted Cash - Restricted cash consists primarily of market participant security deposits held in escrow accounts, amounts prepaid by market participants in advance of settlements billing dates, amounts retained by NYISO pursuant to setoff, amounts due to market participants for overcollections on the voltage market, and amounts reserved for funding employee benefit plans.

Property, Equipment and Capital Leases - Property and equipment are recorded at cost. NYISO capitalizes property and equipment additions in excess of $1,000 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. Building improvements are depreciated on a straight-line basis over forty 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 income for the period. Repairs and maintenance costs are charged to expense when incurred.

In accordance with Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use,* labor, overhead, 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.

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.

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 December 31, 2002.

Working Capital Reserve - In order to maintain the liquidity and stability of NYISO's markets, NYISO has accumulated a working capital fund through amounts charged to market participants under Rate Schedule 1. Any additional working capital needs would be billed to market participants in future Rate Schedule 1 charges.

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. Such amounts are included in deferred revenue - long term.

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, and amounts retained by NYISO pursuant to setoff are recorded as deferred revenue.

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 Standards ("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. See additional details in Note 7.

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 Tariff, market participants are required to either maintain 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. In 2002, certain NYISO market participants experienced a deterioration of their credit standing, thereby requiring these market participants to post financial security or prepay their obligations to NYISO. NYISO also mitigates credit risk by procuring credit insurance on receivables for certain market participants.

NYISO's tariffs establish a two-year period for the adjustment of settlement invoices as originally billed to market participants. Beginning with the October 2002 invoice, this settlement adjustment period will be reduced from two years to one year. Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed to market participants. After all true-up invoices are issued during the settlement adjustment period, market participants have one year to challenge the amounts billed for a particular service month. If NYISO agrees with the provisions of the challenge, a final invoice is issued for that service month. As a result, NYISO is exposed to credit risk until all settlement adjustment and final invoices for each service month are finalized and liquidated. However, Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from remaining market participants in future billings.

Use of Estimates - Accounting principles generally accepted in the United States of America 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.

Derivative Financial Instruments - On January 1, 2001, NYISO adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended ("SFAS No. 133"). 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. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities, measured at fair value. The accounting for changes in fair value of derivatives (i.e. gains or losses) depends on the intended use of the derivative and the corresponding designation. NYISO did not have a transition adjustment upon adoption of SFAS No. 133. In January 2001, NYISO entered into a derivative instrument. See additional details in Note 7.

Recently Issued Accounting Pronouncements - In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). SFAS No. 144 supercedes SFAS No. 121, but retains SFAS No. 121's fundamental provisions for: (a) recognition and measurement of impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. Effective January 1, 2002, NYISO adopted SFAS No. 144, which adoption had no effect on its results of operations.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* which requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. This statement also established that fair value is the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002.

2. ACCOUNTS RECEIVABLE

NYISO's accounts receivable at December 31, 2002 and 2001 consisted of the following:

	2002	2001
Billed:		
Past due settlement invoices	**$ 11,390,024**	$ 1,962,600
Miscellaneous billings	**401,380**	475,827
Reserve for doubtful accounts - past due settlement invoices	**(11,305,465)**	-
	$ 485,939	$ 2,438,427
Unbilled:		
Bad debt loss recoverable from market participants	**$ 11,305,465**	$ -
Other unbilled receivables	**10,675,327**	2,480,586
Operating expenses for December	**9,212,091**	7,968,333
Working capital reserve	**-**	3,860,052
	31,192,883	14,308,971
Total	**$ 31,678,822**	$ 16,747,398

In 2002, NYISO recorded a reserve for doubtful accounts of $11,305,465 against past due receivables on settlement invoices, primarily from two subsidiaries of Enron Corporation. 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. At December 31, 2002, NYISO had not recovered any amounts for bad debt losses. As such, NYISO recorded an unbilled receivable of $11,305,465 at December 31, 2002 to reflect the amount recoverable from remaining market participants in connection with such bad debt losses.

Other unbilled receivables relate to payments made by NYISO out of the working capital reserve primarily for interest on true-up invoices and timing differences on the recovery of certain transmission service agreements. These unbilled receivables are recoverable from market participants via future Rate Schedule 1 charges.

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

3. REGULATORY TRANSITION ASSET

The regulatory 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 over a five-year period, and are amortized over such same period, beginning in January 2000.

At December 31, 2002 and 2001, the regulatory transition asset was comprised of:

	2002	2001
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	**(32,965,466)**	(21,976,978)
Regulatory transition asset, net	**$21,976,978**	$ 32,965,466

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2002 and 2001 consisted of the following:

	2002	2001
Computer hardware, software and accessories	**$24,477,631**	$ 11,051,301
Software developed for internal use	**13,243,636**	3,906,644
Assets under capital leases	**3,636,205**	3,646,775
Furniture and fixtures	**1,521,742**	1,351,172
Machinery and equipment	**1,271,117**	650,696
Building and leasehold improvements	**1,187,065**	785,315
	45,337,396	21,391,903
Accumulated depreciation and amortization	**(15,788,326)**	(7,367,941)
Property and equipment, net	**$29,549,070**	$ 14,023,962

5. SHORT-TERM DEBT

NYISO has a $50 million Revolving Credit Facility that expires on October 26, 2005. The proceeds from this facility are to be used for 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, 2002 and 2001, respectively, there were no amounts outstanding on the Revolving Credit Facility.

6. LONG-TERM DEBT

On September 8, 2000, NYISO borrowed $48,460,444 under a Term Credit Loan 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 until December 2004. Under the Term Credit Loan, interest is variable based on the 30-day LIBOR plus 125 basis points. The interest rate on the Term Credit Loan at December 31, 2002 and 2001 was 2.63% and 3.39%, respectively. In January 2001, NYISO entered into an interest rate swap agreement on the Term Credit Loan, which fixed the interest rate on this loan at 6.99%. See additional information in Note 7.

On November 1, 2001, NYISO entered into a $6.5 million line of credit facility to be utilized for the purchase of information technology equipment. This facility was subsequently increased to $10.5 million on November 8, 2002. Borrowings against this facility are converted into Equipment Term Notes with principal and interest payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to either the prime rate or LIBOR. As of December 31, 2002, the entire $10.5 million on the line of credit facility was drawn and converted into Equipment Term Notes, with interest varying based on the 30-day LIBOR plus 125 basis points. At December 31, 2002 and 2001, the interest rate on the Equipment Term Notes ranged from 2.63% to 2.69% and 3.39%, respectively. Computer hardware, software and accessories with a book value of $10.5 million was pledged as collateral for the Equipment Term Notes.

At December 31, 2002, the following amounts were outstanding on the Term Credit Loan and the Equipment Term Notes, respectively:

	Term Credit Loan	Equipment Term Notes	Total
Outstanding balance	$ 24,456,202	$ 9,333,333	$ 33,789,535
Less: Current portion	11,799,241	3,500,000	15,299,241
Long-term portion	$ 12,656,961	$ 5,833,333	$ 18,490,294

At December 31, 2002, scheduled maturities of the Term Credit Loan and the Equipment Term Notes are as follows:

	Term Credit Loan	Equipment Term Notes	Total
2003	$ 11,799,241	$ 3,500,000	$ 15,299,241
2004	12,656,961	3,450,000	16,106,961
2005	-	2,383,333	2,383,333
Total	$ 24,456,202	$ 9,333,333	$ 33,789,535

7. DERIVATIVES AND HEDGING ACTIVITIES

On January 10, 2001, NYISO entered into an interest rate swap agreement with a commercial bank to fix the interest payments on its variable rate Term Credit Loan. The notional amount of the swap on the date of the agreement was $45,157,860. Under the swap agreement, NYISO pays a fixed interest rate of 6.99% on the outstanding principal amount of the Term Credit Loan on payments from February 2001 through December 2004. NYISO is exposed to credit loss in the event of nonperformance by the commercial bank. However, NYISO does not anticipate nonperformance by the commercial bank.

The fair value of derivative instruments is quoted by an external source. As of December 31, 2002, NYISO recorded a liability of $1,096,388 to reflect the fair value adjustment of the interest rate swap. For the years ended December 31, 2002 and 2001, respectively, NYISO recorded revenue/(expense) of $250,806 and ($1,347,794) related to this derivative instrument. Due to NYISO's regulated rates, regulatory liabilities are adjusted to offset this increase in expense.

8. 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.

The schedules that follow show the benefit obligations, the plan assets, and the funded status as of December 31, 2002 and 2001, and the change in benefit obligations and the components of net periodic pension costs for the years ended December 31, 2002 and 2001.

For the year ended December 31,	2002	2001
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 7,509,131	$ 5,126,114
Service cost	1,213,271	979,118
Interest cost	553,360	440,211
Actuarial loss	1,077,321	1,010,947
Benefits paid	-	(47,259)
Benefit obligation, end of year	$10,353,083	$ 7,509,131
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 3,570,159	$ 1,000
Actual return on plan assets	(302,808)	35,362
Employer contributions	1,868,638	3,594,710
Benefits paid	-	(47,259)
Expenses paid	(41,594)	(13,654)
Fair value of plan assets, end of year	$ 5,094,395	$ 3,570,159

Funded status	$ (5,258,688)	$ (3,938,972)
Unrecognized prior service cost	2,846,089	3,141,415
Unrecognized loss	3,192,478	1,421,905
Additional minimum pension cost	(2,039,973)	(1,102,770)
Total accrued pension liability	$ (1,260,094)	$ (478,422)

Amounts recognized in the Statement of Financial Position consist of:

	2002	2001
Benefit obligation	$ (1,260,094)	$ (478,422)
Intangible asset	2,039,973	1,102,770

The components of net periodic pension cost are as follows:

Service cost	$ 1,213,271	$ 979,118
Interest cost	553,360	440,211
Expected return on plan assets	(402,303)	(149,439)
Amortization of unrecognized prior service cost	295,326	295,895
Amortization of unrecognized loss	53,453	39,122
Total	$ 1,713,107	$ 1,604,907

The following table shows the assumptions used to calculate the pension benefit obligations as of December 31, 2002 and 2001:

	2002	2001
Discount rate	6.50%	7.25%
Rate of compensation increases	5.56%	5.56%
Expected return on plan assets	9.00%	9.00%

Postretirement Plan - NYISO has committed to sponsor a defined benefit postretirement medical and life insurance plan for eligible employees and their beneficiaries. The terms of the plan have not been finalized yet. However, the plan is expected to be finalized during 2003. NYISO recovered $1,103,606 and $930,169 through Rate Schedule 1 for postretirement benefits during 2002 and 2001, respectively. These amounts are included in Regulatory Liabilities on the Statement of Financial Position, pending plan formation and approval. See additional information on Regulatory Liabilities in Note 12.

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 $849,523 and $761,544 for 2002 and 2001, respectively.

Long Term Incentive Plan - In 2001, the NYISO Long Term Incentive Plan was adopted to provide certain members of senior management with deferred compensation benefits. The amount of benefits deferred for each performance year of a three-year performance cycle are based upon the achievement of performance goals established by the Board of Directors. Participants become fully vested in these deferred amounts after the completion of a three-year performance cycle. Distributions from the Plan are payable in the year following the completion of each three-year performance cycle. The first performance cycle is retroactive to 2000, with annual distributions beginning in 2003. Accrued Long Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2002 and 2001, respectively, were $595,067 and $574,660. The short-term portion of such liability at December 31, 2002 was $507,333.

Trust Share Option Agreement - NYISO has entered into a nonqualified share option agreement with a key officer whereby NYISO has granted to such officer the right 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. The options are immediately vested and are subject to certain restrictions of transferability. At December 31, 2002 and 2001, respectively, the fair market value of securities held by the trust was $646,003 and $451,317. Options outstanding at December 31, 2002 expire from November 16, 2009 through February 19, 2012. NYISO records compensation expense for 75% of the fair value of the options granted at the date of grant. A corresponding liability is established until such time as the options are exercised. No options were exercised as of December 31, 2002. In 2002 and 2001, respectively, NYISO recorded compensation expense of $146,014 and $131,900 in connection with this agreement.

9. LEASE COMMITMENTS

Operating Leases - NYISO has obligations under operating lease agreements primarily for rental of office space in Altamont, NY and Albany, NY. The lease agreements for the Altamont and Albany facilities expire in February 2006 and January 2006, respectively. NYISO has the option to renew both leases for two additional five-year periods at the current lease rate. Rent expense amounted to $727,144 and $706,460 in 2002 and 2001, respectively. The future minimum lease payments under these operating leases at December 31, 2002 are as follows:

2003	$ 734,236
2004	$ 734,236
2005	$ 734,236
2006	$ 81,986
Total	$ 2,284,694

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, the cost of these agreements has been recorded as capital leases.

At December 31, 2002, the future minimum capital lease payment for these agreements, which end in 2003, is $116,602.

10. WORKING CAPITAL RESERVE

At December 31, 2002 and 2001, the working capital reserve consisted of:

	2002	2001
Market participant contributions through Rate Schedule 1	**$46,446,627**	$ 46,475,169
Interest on market participant contributions	**1,975,832**	1,193,214
Total	**$48,422,459**	$ 47,668,383

Market participants are entitled to interest on their principal contributions to the working capital reserve. Each market participant is allocated interest based on the ratio share of each market participant's principal contributions to the total working capital fund.

11. DEFERRED REVENUE

Deferred revenue at December 31, 2002 and 2001 consisted of the following:

	2002	2001
Amounts collected from market participants, for capital purchases, net	**$19,955,431**	$ 11,094,354
Payments received from market participants	**17,316,742**	900,000
Governance participation fees	**347,300**	332,000
Total	**37,619,473**	12,326,354
Less: current portion	**(17,664,042)**	(1,232,000)
Long-term portion	**$19,955,431**	$ 11,094,354

12. REGULATORY LIABILITIES

Certain amounts recovered under NYISO's ratemaking mechanisms are based on estimates. The difference between actual results and such estimates result in over collections or under collections and are reflected as due from/to market participants. In 2002 and 2001, respectively, NYISO refunded approximately $2.9 million and $1.9 million to market participants. At December 31, 2002 and 2001, respectively, NYISO recorded the following amounts as regulatory liabilities:

	2002	2001
Due to market participants - Rate Schedule 1	**$ 4,820,370**	$ 7,085,976
Future funding of post-retirement plan	**2,704,815**	1,601,209
Voltage (reactive power) market	**2,007,195**	6,584,664
Installed capacity market	**-**	291,432
Total	**9,532,380**	15,563,281
Less: current portion	**(6,827,565)**	(13,962,072)
Long-term portion	**$ 2,704,815**	$ 1,601,209

13. COMMITMENTS AND CONTINGENCIES

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

The most significant legal proceeding affecting the NYISO is a civil suit, filed by New York State Electric and Gas, seeking recovery of $6.6 million in compensatory damages and unspecified punitive damages, associated with alleged excessive payments for reserves of electricity during the period January to March 2000.

14. SUBSEQUENT EVENT

On February 13, 2003, NYISO entered into an unsecured $59.3 million line of credit facility the proceeds of which may be drawn until February 29, 2004, to fund the development of significant information technology projects. Principal repayment of borrowings under this facility will be made over four years, beginning in March 2004. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to either the prime rate or LIBOR. Interest payments on borrowings are due quarterly during the draw period, and monthly thereafter.

15. MARKET ACTIVITY (UNAUDITED)

The following amounts represent the transactional volume of energy and energy-related products in NYISO's markets during the years ended December 31, 2002 and 2001 (in $ billions).

	2002	2001
Energy	**$ 4.5**	$ 4.6
Installed capacity	**0.6**	0.7
Transmission Congestion Contracts	**0.1**	0.1
Total	**$ 5.2**	$ 5.4