Financial Statements

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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" or "the Company") as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2007 and 2006, 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.

As discussed in Note 8 to the financial statements, effective December 31, 2007, the Company adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)," related to the requirement to recognize the funded status of a benefit plan.

Deloitte & Touche LLP

New York, New York
March 31, 2008

Member of
Deloitte Touche Tohmatsu

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 55,379,447	$ 58,461,867
Restricted cash	277,012,904	189,299,217
Accounts receivable—net (Note 2)	13,645,777	11,947,742
Prepaid expenses	4,359,549	4,128,694
Regulatory assets—current portion (Note 3)	4,563,047	265,387
Other current assets	378,620	490,099
Total current assets	355,339,344	264,593,006
NONCURRENT ASSETS:		
Regulatory assets (Note 3)	4,271,929	7,392,723
Property and equipment—net (Note 4)	56,667,750	71,251,476
Other noncurrent assets	15,485,932	19,854,539
Total noncurrent assets	76,425,611	98,498,738
TOTAL	$ 431,764,955	$ 363,091,744
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 14,522,691	$ 18,557,423
Market participant prepayments	61,665,345	31,437,099
Market participant security deposits	210,012,026	152,089,995
Long-term debt—current portion (Note 6)	24,187,642	30,903,198
Working capital reserve (Note 10)	51,938,872	51,270,034
Deferred revenue (Note 11)	4,642,381	5,466,556
Regulatory liabilities—current portion (Note 12)	8,062,882	9,109,217
Other current liabilities	963,227	1,032,733
Total current liabilities	375,995,066	299,866,255
NONCURRENT LIABILITIES:		
Accrued pension liability (Note 8)	4,002,678	1,973,731
Accrued postretirement liability (Note 8)	4,548,507	4,106,206
Regulatory liabilities (Note 12)	150,108	604,179
Other noncurrent liabilities (Notes 7 and 8)	2,860,099	1,189,900
Long-term debt (Note 6)	44,208,497	55,351,473
Total noncurrent liabilities	55,769,889	63,225,489
COMMITMENTS AND CONTINGENCIES (Note 13)	-	-
TOTAL	$ 431,764,955	$ 363,091,744

See notes to financial statements.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
REVENUES:		
Rate Schedule 1 tariff charge	$ 146,892,009	$ 142,353,676
Interconnection studies revenue	3,261,406	1,572,392
Fees and services	652,614	591,819
Lease income (Note 9)	-	635,806
Total revenues	150,806,029	145,153,693
OPERATING EXPENSES:		
Compensation and related benefits (Note 8)	49,529,995	47,093,969
Professional fees and consultants	32,879,042	24,898,495
Depreciation and amortization	28,352,679	32,036,649
Maintenance, software licenses and facility costs	17,247,444	19,144,002
Federal Energy Regulatory Commission fees	7,744,646	7,754,555
Telecommunication expenses	4,228,646	4,376,256
Administrative and other expenses	5,208,760	4,823,001
Training, travel, and meeting expenses	2,153,666	2,261,939
Northeast Power Coordinating Council fees	530,048	1,724,639
Total operating expenses	147,874,926	144,113,505
Interest expense	$ 6,696,591	$ 3,763,399
Interest income	(3,765,488)	(2,723,211)
Interest expense - net	2,931,103	1,040,188
NET RESULTS OF ACTIVITIES	$ -	$ -

See notes to financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
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	28,352,679	32,036,649
Loss on disposal of fixed asset	86,632	341,577
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable and prepaid expenses	(1,901,033)	717,474
(Increase) decrease in restricted cash	(87,713,687)	63,579,017
(Increase) decrease in regulatory assets	(1,176,866)	4,582,033
Decrease (increase) in other assets	4,647,229	(4,025,496)
Increase (decrease) in accounts payable and accrued expenses	862,705	(1,299,405)
Increase (decrease) in market participant prepayments	30,228,246	(55,538,285)
Increase (decrease) in market participant security deposits	57,922,031	(9,100,029)
Increase in working capital reserve	668,838	1,569,898
(Decrease) in regulatory liabilities	(1,500,406)	(9,080,222)
Increase in deferred revenue and other liabilities	3,247,766	949,991
Net cash provided by operating activities	33,724,134	24,733,202
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment (including capitalized interest)	(19,086,522)	(23,264,773)
Proceeds from sale of assets	333,500	93,600
Net cash (used in) investing activities	(18,753,022)	(23,171,173)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from 2007–2010 budget facility loan	15,000,000	-
Proceeds from renovation loan	-	10,000,000
Proceeds from 2004–2006 budget facility loan	-	15,500,000
Payment of financing costs for 2007–2010 budget facility loan	(195,000)	-
Repayment of mortgage and renovations loan	(278,198)	(30,525)
Repayment of 2004–2006 budget facility loan	(18,872,000)	(15,000,000)
Repayment of 2003 budget facility loan	(13,708,334)	(11,750,000)
Net cash (used in) financing activities	(18,053,532)	(1,280,525)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,082,420)	281,504
CASH AND CASH EQUIVALENTS—Beginning of year	58,461,867	58,180,363
CASH AND CASH EQUIVALENTS—End of year	$ 55,379,447	$ 58,461,867
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for interest	$ 3,904,758	$ 3,812,327
NONCASH INVESTING ACTIVITIES:		
Property and equipment additions which were accrued but not paid	$ 1,448,615	$ 6,346,053
Property and equipment additions previously accrued which were paid	$ 6,346,053	$ 2,024,733

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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 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 more than 10,775 miles of high-voltage transmission lines and serves approximately 340 market participants.

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

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

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 of America ("generally accepted accounting principles").

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.

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

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

NYISO's Rate Schedule 1 includes a timing mechanism that effectively meets the requirements of an alternative revenue program set forth in Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force Issue No. 92-7, *Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs*. 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 Asset of $11,728,390 and $15,003,195, respectively, in the accompanying 2007 and 2006 Statements of Financial Position in connection with this rate-making recovery mechanism.

Revenues recorded as interconnection studies revenues arise from billing and collection services in the interconnection service agreement process performed by NYISO. These revenues are offset by the corresponding interconnection expenses, recorded in operating expenses, which were incurred in performing such studies.

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, 2007 and 2006, were held in money market accounts invested primarily in short-term U.S. government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve, amounts due to market participants for overcollections on the voltage market, amounts collected for Transmission Congestion Contract ("TCC") auctions, amounts for funding employee benefit plans, and for general operating purposes.

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 deposited for interconnection studies, and amounts retained by NYISO pursuant to setoff agreements. The Company presents changes in restricted cash in the operating activities section of the statement of cash flows instead of in the investing activities section. NYISO has determined that this classification is more suitable to the nature of the Company's operations.

Other Assets—Other assets consist primarily of timing differences on certain rate-making recoveries, the fair value of securities held by the Trust Share Option Agreement, interest receivable, the fair value of interest rate cap and swap agreements, and other deferred charges. At December 31, 2006, the intangible asset related to NYISO's pension plan was also reflected in Other Noncurrent Assets. Upon NYISO's adoption of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"), no intangible asset exists as of December 31, 2007.

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

In accordance with Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*, labor, overhead, interest, consulting, and related costs incurred to acquire and develop computer software for internal use are capitalized and amortized using the straight-line method over three years. Costs incurred prior to the determination of feasibility of developed software and following the in-service date of developed software are expensed.

Long-lived assets are recorded at cost, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is not aware of any events or changes in circumstances that would necessitate a review of any long-lived assets as of the years ended December 31, 2007 and 2006.

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

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.

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

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

Fair Value of Financial Instruments—The carrying amounts of current assets and liabilities approximate their fair values. Long-term debt rates currently available to NYISO for debt with similar terms and remaining maturities are used to estimate the fair value for debt issues that are not quoted on an exchange. See additional details in Note 7, with respect to derivatives.

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

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

For original invoices issued prior to October 2002, settlement invoices could be adjusted up to two years after the date of original issuance, and these invoices could be challenged for an additional one year after the issuance of all settlement adjustment invoices. Effective with the October 2002 settlement invoice, these periods were shortened to one year for adjustments and an additional four months for invoice challenges. Beginning with the January 2007 settlement invoice, these periods have been further shortened to six months for adjustments and an additional one month for invoice challenges. As of December 31, 2007, the adjustments and true-ups of all settlement invoices through December 2005, as well as February through April 2006 and January 2007 were completed.

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.

Derivative Financial Instruments—NYISO records derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS No. 133”). SFAS No. 133 requires that all derivative financial instruments be recognized as either assets or liabilities, measured at fair value. The accounting for changes in fair value of derivatives (i.e. gains and losses) depends on the intended use of the derivative and the corresponding designation. The fair values of NYISO’s derivative instruments are quoted by external sources. The changes in the fair value of these derivatives are recorded as interest expense. Due to NYISO’s regulated rates, the offset to the changes in fair value of these derivatives is recorded as other assets. See additional details in Note 7.

Recently Issued Accounting Pronouncements—In September 2006, the FASB issued SFAS No. 157, *“Fair Value Measurements.”* This Standard establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have any effect on NYISO’s financial statements.

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*.” This Standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB’s long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to have any effect on NYISO’s financial statements.

2. ACCOUNTS RECEIVABLE

NYISO’s accounts receivable at December 31, 2007 and 2006, consisted of the following:

	2007	2006
Billed:		
Past due settlement invoices	$ 3,476,670	$ 5,294,963
Miscellaneous billed receivables	424,000	258,575
Reserve for doubtful accounts—past due settlement invoices	(3,442,407)	(4,980,394)
	458,263	573,144
Unbilled:		
Operating expenses for December	12,523,317	11,158,491
Miscellaneous unbilled receivables	339,425	21,922
Bad debt losses recoverable from market participants	286,271	194,185
Replenishments of working capital reserve	38,501	-
	13,187,514	11,374,598
Total	$ 13,645,777	$ 11,947,742

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's reserve for doubtful accounts at December 31, 2007 and 2006, results primarily from past due settlement invoices related to a subsidiary of Enron Corporation. The bad debt losses were recovered from market participants in accordance with the OATT and any amounts recovered from the Enron bankruptcy proceedings are refundable to these market participants. All amounts recovered from the Enron bankruptcy proceedings through December 31, 2007, were refunded to market participants in 2007. As of December 31, 2007 and 2006, NYISO recorded unbilled receivables of $286,271 and $194,185, respectively, to reflect amounts yet to be recovered from remaining market participants in connection with other bad debt losses.

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

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

3. REGULATORY ASSETS

At December 31, 2007 and 2006, regulatory assets were comprised of the following:

	2007	2006
Asset related to recognition of SFAS No. 158 for pension plan	$ 4,232,525	$ -
Voltage support service (reactive power) market	3,021,124	265,387
Replenishment of working capital reserve	1,541,923	7,392,723
Funding for deferred charges	39,404	-
Total	8,834,976	7,658,110
Less: Current portion	(4,563,047)	(265,387)
Long-term portion	$ 4,271,929	$ 7,392,723

The adoption of SFAS No. 158 at December 31, 2007 required NYISO to recognize the unfunded balance of the pension plan as a liability in the Statement of Financial Position. The recognition of this unfunded status created a Noncurrent Regulatory Asset of $4,232,525 for pension costs to be recovered in future rates.

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 are reflected as regulatory assets. At December 31, 2007 and 2006, respectively, NYISO recognized a regulatory asset of $3,021,124 and $265,387 related to such timing differences.

During 2004, NYISO entered into a settlement agreement with its market participants to resolve a billing issue in NYISO's Transmission Congestion Contracts market. As of December 31, 2007 and 2006, respectively, NYISO's working capital fund has been temporarily depleted by $1,541,923 and $7,392,723, respectively, as a result of this settlement. NYISO is replenishing this temporary draw on the working capital reserve via a FERC-approved surcharge assessed to certain future transmission congestion contracts. The timing of the replenishments via this surcharge is dependent upon the amount and timing of activity in the transmission congestion contracts market. NYISO anticipates full replenishment of the working capital reserve related to this settlement will occur during 2008. As such, the regulatory asset associated with this settlement is reflected as a current regulatory asset as of December 31, 2007.

4. PROPERTY AND EQUIPMENT

Property and equipment includes interest of $186,066 and $51,646 capitalized during 2007 and 2006, respectively. As of December 31, 2007 and 2006, property and equipment consisted of the following:

	2007	2006
Software developed for internal use	$ 80,295,603	$ 73,099,841
Computer hardware and software	53,267,924	73,155,073
Building, building improvements, and leasehold improvements	30,129,552	23,429,098
Machinery and equipment	3,272,366	3,794,357
Furniture and fixtures	2,757,115	2,920,164
Land and land improvements	2,065,571	2,042,929
Work in progress	3,433,444	11,797,113
	175,221,575	190,238,575
Accumulated depreciation and amortization	(118,553,825)	(118,987,099)
Property and equipment—net	$ 56,667,750	$ 71,251,476

Depreciation expense for the years ended December 31, 2007 and 2006 was $ 28,352,679 and $32,036,649, respectively.

5. SHORT-TERM DEBT

On July 21, 2005, NYISO entered into a $50 million Revolving Credit Facility that expires on July 21, 2010. 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 Inter Bank Offer Rate ("LIBOR"). At December 31, 2007 and 2006, respectively, there were no amounts outstanding on the Revolving Credit Facility.

6. LONG-TERM DEBT

On February 13, 2003, NYISO entered into a $59.3 million unsecured line of credit facility ("2003 Budget Facility"), the proceeds of which could be drawn until February 29, 2004, to fund the 2003 development of significant information technology projects. By December 31, 2003, $47.0 million was borrowed on the 2003 Budget Facility, with principal and interest payments payable over four years, beginning in March 2004. In October 2007, the 2003 Budget Facility was fully repaid, with $3.9 million representing voluntary prepayments against this debt. Interest on borrowings under this facility was based on NYISO's option of varying rates of interest tied to either LIBOR plus 137.5 basis points or the prime rate. On April 8, 2005, this loan was refinanced to lower the LIBOR interest rate spread from 137.5 basis points to 65.0 basis points. NYISO has also entered into an interest rate cap agreement on this debt, effective January 2, 2004, which capped the maximum interest rate at 5.375% (4.65% after April 8, 2005, refinancing). At December 31, 2006, the interest rates on these borrowings were at the 4.65% cap level. See additional information in Note 7.

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

At December 31, 2004, $42.0 million was drawn on the 2004–2006 Budget Facility, which was converted to a term loan in February 2005 with monthly principal and interest payments payable from March 2005 through December 2008. At December 31, 2007 and 2006, respectively, the interest rate on these borrowings was at the cap level of 4.80%. During 2005, an additional $18.0 million was drawn on the 2004–2006 Budget Facility, which was converted to a term loan in February 2006 with monthly principal and interest payments payable from March 2006 through December 2009. At December 31, 2007 and 2006, the interest rate on these borrowings was at the cap level of 4.80%. During 2006, an additional $15.5 million was drawn on the 2004–2006 Budget Facility, which was converted to a term loan in March 2007 with monthly principal and interest payments payable through December 2010. At December 31, 2007 and 2006, the interest rate on these borrowings was at the cap level of 4.80% and 4.525%, respectively.

On January 22, 2007, NYISO entered into an unsecured $80 million line of credit facility, ("2007–2010 Budget Facility"), the proceeds of which may be drawn until January 2011 to fund capital purchases and the development of significant information technology projects during 2007–2010. NYISO must convert each year's annual borrowings to term loans, with principal and interest payments payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to either LIBOR plus 40 basis points for borrowings during the draw periods, LIBOR plus 65 basis points for borrowings converted to term loans, or the prime rate. Interest payments on borrowings are due monthly. At December 31, 2007, $15.0 million was drawn on the 2007–2010 Budget Facility, which was converted to a term loan in January 2008 with monthly principal and interest payments payable from January 2008 through December 2010.

On January 23, 2007, NYISO entered into four interest rate swap agreements to fix interest payments on $60 million of the $80 million available on this line of credit facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions. See additional information in Note 7.

On July 8, 2005, NYISO entered into two financing agreements to purchase and renovate a 140,000- square foot office building. The first agreement is a $14.7 million mortgage to finance the building purchase ("Mortgage"), and the second agreement represents a $10.0 million line of credit for renovations during an 18-month period, beginning in July 2005 ("Renovations Loan"). The Mortgage has principal and interest payments payable over 20 years, beginning September 2005. Principal and interest payments on borrowings made during the Renovations Loan draw period are payable over 20 years, beginning in January 2007. During the year ended December 31, 2006, $14.7 million was borrowed on the Mortgage, and $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 fixes the interest rate on this loan at 5.79%. On February 15, 2005, NYISO also entered into an interest rate swap agreement on the Renovations Loan, which fixes the interest rate on these borrowings at 5.96%, beginning on January 1, 2007.

At December 31, 2007, the following amounts were outstanding on NYISO's long-term debt:

	2004–2006 Budget Facility Loan	2007–2010 Budget Facility Loan	Mortgage	Renovations	Total
Outstanding balance	$ 31,128,000	$ 15,000,000	$ 12,513,971	$ 9,754,168	$ 68,396,139
Less: Current portion	(18,876,000)	(5,000,000)	(32,215)	(279,427)	(24,187,642)
Long-term portion	$ 12,252,000	$ 10,000,000	$ 12,481,756	$ 9,474,741	$ 44,208,497

At December 31, 2006, the following amounts were outstanding on NYISO's long-term debt:

	2003 Budget Facility Loan	2004–2006 Budget Facility Loan	Mortgage	Renovations	Total
Outstanding balance	$ 13,708,334	$ 50,000,000	$ 12,546,337	$ 10,000,000	$ 86,254,671
Less current portion	(11,750,000)	(18,875,000)	(32,366)	(245,832)	(30,903,198)
Long-term portion	$ 1,958,334	$ 31,125,000	$ 12,513,971	$ 9,754,168	$ 55,351,473

At December 31, 2007, scheduled maturities of NYISO's long-term debt were as follows:

	2004–2006 Budget Facility Loan	2007–2010 Budget Facility Loan	Mortgage	Renovations	Total
2008	$ 18,876,000	$ 5,000,000	$ 32,215	$ 279,427	$ 24,187,642
2009	8,376,000	5,000,000	455,434	298,470	14,129,904
2010	3,876,000	5,000,000	482,901	317,013	9,675,914
2011	-	-	512,025	336,709	848,734
2012	-	-	541,065	356,162	897,227
Thereafter	-	-	10,490,331	8,166,387	18,656,718
Total	$ 31,128,000	$ 15,000,000	$ 12,513,971	$ 9,754,168	$ 68,396,139

7. DERIVATIVES AND HEDGING ACTIVITIES

The fair values of NYISO's derivative instruments, which are free-standing agreements, are quoted by external sources. The changes in the fair value of these derivatives are recorded in Interest Expense.

In December 2003, NYISO entered into an interest rate cap agreement with a commercial bank to cap interest payments at 5.375% (4.65% after refinancing on April 8, 2005) on its 2003 Budget Facility. The notional amount of the debt on the date of the cap agreement was $47,000,000. Under the cap agreement, NYISO pays a variable interest rate tied to LIBOR on the outstanding principal amount of the 2003 Budget Facility from January 2004 through February 2008; however, this variable interest rate cannot exceed 5.375% (4.65% after refinancing). As of December 31, 2007 and 2006, the fair value of the interest rate cap was $2,512 and $108,514, and is recorded in Other Current and Noncurrent Assets respectively. For the years ended December 31, 2007 and 2006, NYISO recorded interest expense of $18,329 and ($115), respectively, related to this derivative instrument.

In March 2004, NYISO entered into interest rate cap agreements with a commercial bank to cap interest payments at 4.60% for draws and 5.00% for term loans (4.525% and 4.80% after refinancing on April 8, 2005) on its 2004–2006 Budget Facility. The notional amount of the debt on the date of the cap agreements was $82,000,000. Under the cap agreements, NYISO pays a variable interest rate tied to LIBOR on the draws and term loans of the 2004–2006 Budget Facility from March 2005 through December 2010; however, this variable interest rate cannot exceed 4.525% for draws or 4.80% for term loans. As of December 31, 2007 and 2006, the fair value of the interest rate cap was $115,557 and $928,590, and is recorded in Other Current and Noncurrent Assets, respectively. For the years ended December 31, 2007 and 2006, NYISO recorded interest expense of $512,277 and ($21,207), respectively, related to this derivative instrument.

In February 2005, NYISO entered into two interest rate swap agreements with a commercial bank to fix interest rate payments on the financing of a new office building purchase. The notional amount of debt on the swap agreement for the Mortgage was $14,708,750, and NYISO pays a fixed interest rate of 5.79% on the outstanding principal amount of this financing on payments from August 2005 through August 2025. The notional amount of debt on the swap agreement for the Renovations Loan was $10,000,000, and NYISO pays a fixed interest rate of 5.96% on payments from January 2007 through January 2027. As of December 31, 2007 and 2006, the fair value of these interest rate swap agreements was ($177,095) and $333,440 for the Mortgage and ($252,713) and $132,710 for the Renovations Loan, recorded in Other Noncurrent Liabilities and Other Noncurrent Assets, respectively. For the years ended December 31, 2007 and 2006, NYISO recorded interest expense of $895,958 and ($419,004), respectively, related to these two swap agreements.

In January 2007, NYISO entered into four interest rate swap agreements with a commercial bank to fix interest rate payments on the 2007–2010 Budget Facility. The notional amount of debt on the swap agreements was $60,000,000. NYISO pays fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions from March 2007 through December 2013. As of December 31, 2007 the fair value of these interest rate swap agreements was ($1,058,110), recorded in Other Noncurrent Liabilities. For the year ended December 31, 2007, NYISO recorded interest expense of $1,058,110, related to these four swap agreements.

Summary of Derivatives

Loan	Notional Amount at inception	Notional Amount at 12/31/07	Fair value at 12/31/2006	Fair value at 12/31/2007	2007 Gain/(loss) on market value	Location of gain/loss
2003 Budget Facility	$ 47,000,000	$ 1,958,334	$ 108,514	$ 2,512	$ (106,002)	interest expense
2004-2006 Budget Facility	82,000,000	37,208,334	928,590	115,557	(813,033)	interest expense
2007-2010 Budget Facility	60,000,000	15,000,000	-	(1,058,110)	(1,058,110)	interest expense
Mortgage	14,708,750	12,513,971	333,440	(177,095)	(510,535)	interest expense
Renovations	10,000,000	9,754,168	132,710	(252,713)	(385,423)	interest expense

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

8. EMPLOYEE BENEFIT PLANS

Pension and Postretirement Plans—NYISO has a defined benefit qualified pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by NYPP member companies. Employees become vested in pension benefits after five years of credited service. Effective January 1, 2008, the vesting period will be reduced from five years to three years of credited service to conform with requirements of the Pension Protection Act of 2006. NYISO expects to contribute $2.5 million to the qualified pension plan in 2008.

NYISO sponsors a defined benefit postretirement plan to provide medical and life insurance benefits for eligible retirees and their dependents. Substantially all employees who retire from NYISO become eligible for these benefits provided they have been credited with at least five years of NYISO service (10 years of NYISO service for those employees hired on or following January 1, 2005). The benefits are contributory based upon years of service, with NYISO paying up to 50% of costs for retired employees and up to 25% for their dependents (subject to specified dollar limits). Medical coverage becomes secondary upon Medicare eligibility and life insurance coverage is reduced upon reaching age 65.

The schedules that follow show the benefit obligations, the plan assets, and the funded status as of December 31, 2007 and 2006, and the change in benefit obligations for NYISO's qualified pension and postretirement plans for the years ended December 31, 2007 and 2006.

	Pension Plan		Postretirement Plan	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 20,971,282	$ 19,941,334	$ 4,715,194	$ 4,619,446
Service cost	1,948,970	2,006,348	443,059	437,776
Interest cost	1,151,467	1,110,475	291,626	235,221
Actuarial (gain)/loss	(967,051)	961,149	(725,108)	(562,902)
Participant contributions	-	-	73,611	30,922
Terminated plan/plan amendment	-	107,856	-	-
Benefits paid	(2,119,519)	(3,155,880)	(109,759)	(45,269)
Benefit obligation—end of year	$ 20,985,149	$ 20,971,282	$ 4,688,623	$ 4,715,194
Change in plan assets:				
Fair value of plan assets—beginning of year	$ 15,493,064	$ 12,966,846	$ -	$ -
Actual return on plan assets	1,221,406	1,611,189	-	-
Employer contributions	2,500,004	4,166,671	36,148	14,347
Participant contributions	-	-	73,611	30,922

	Pension Plan		Postretirement Plan	
	2007	2006	2007	2006
Benefits paid	(2,119,519)	(3,155,880)	(109,759)	(45,269)
Expenses paid	(112,484)	(95,762)	-	-
Fair value of plan assets—end of year	$ 16,982,471	$ 15,493,064	$ -	$ -
Funded status	$ (4,002,678)	$ (5,478,218)	$ (4,688,623)	$ (4,715,194)
Unrecognized prior service cost	-	1,785,461	-	-
Unrecognized loss	-	5,411,481	-	608,988
Additional minimum pension cost	-	(3,692,455)	-	-
Total accrued liability	$ (4,002,678)	$ (1,973,731)	$ (4,688,623)	$ (4,106,206)

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit or postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur. Additional minimum pension liabilities and related intangible assets are also no longer recognized upon adoption of the new standard. NYISO adopted SFAS 158 effective December 31, 2007. The following table summarizes the effect of the required changes due to the adoption of the new standard.

	Pension Plan			Post Retirement Plan		
	Before application of SFAS 158	Adjustments	After application of SFAS 158	Before application of SFAS 158	Adjustments	After application of SFAS 158
Accrued liability	$ (1,250,790)	$ (2,751,888)	$ (4,002,678)	$ (4,838,731)	$ 150,108	$ (4,688,623)
Intangible asset	$ 1,480,637	$ (1,480,637)	$ -	$ -	$ -	$ -
Other noncurrent asset/(liability)	$ -	$ 4,232,525	$ 4,232,525	$ -	$ (150,108)	$ (150,108)

Amounts recognized in the 2007 Statement of Financial Position consist of:

	Pension Plan	Postretirement Plan
	2007	2007
Benefit obligation	$ (4,002,678)	$ (4,688,623)
Intangible asset	-	-
Other noncurrent asset or liability	4,232,525	(150,108)
Projected benefit obligation	(20,985,149)	(4,688,623)
Fair value of assets	16,982,471	-
Unfunded Projected Benefit obligation	$ (4,002,678)	$ (4,688,623)

The unfunded projected benefit obligation for the postretirement plan at December 31, 2007 is recorded as $140,116 in Other Current Liabilities and $4,548,507 in Accrued Postretirement Liability.

Amounts recognized in the 2006 Statement of Financial Position consist of:

	Pension Plan	Postretirement Plan
	2006	2006
Benefit obligation	$ (1,973,731)	$ (4,106,206)
Intangible asset	1,785,461	-

Amounts recognized in the Statements of Activities consist of:

	Pension Plan		Postretirement Plan	
	2007	2006	2007	2006
The components of net periodic pension and postretirement cost are as follows:				
Service cost	$ 1,948,970	$ 2,006,348	$ 443,059	$ 437,776
Interest cost	1,151,467	1,110,475	291,626	235,221
Expected return on plan assets	(1,179,837)	(1,041,759)	-	-
Amortization of unrecognized prior service cost	304,824	296,835	-	-
Amortization of unrecognized loss	224,568	226,207	33,988	22,285
Total	$ 2,449,992	$ 2,598,106	$ 768,673	$ 695,282

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 $18,233,261 and $17,466,795 at December 31, 2007 and 2006, respectively.

The following table as of December 31, 2007 and 2006, shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension Plans		Postretirement Plan	
	2007	2006	2007	2006
Benefit obligations:				
Discount rate	6.00 %	6.00 %	6.00 %	6.00 %
Rate of compensation increases	4.00	4.00	4.00	4.00
Net cost or credit:				
Discount rate	6.00	5.75	6.00	5.75
Rate of compensation increases	4.00	4.50	4.00	4.50
Expected return on plan assets	7.75	7.75	n/a	n/a

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

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

	Target Allocation	December 31, 2007	2006
Cash equivalents	-%	- %	4 %
Equity securities	60	59	59
Debt securities	40	41	37
Total	100 %	100 %	100 %

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

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

The assumed health care cost trend rates for the postretirement plan are 9% for 2007 decreasing to 5% in 2013, and 9% for 2006 decreasing to 5% in 2013. A one-percentage point change in the assumed health care cost trend rate would change the 2007 postretirement benefit obligation as follows:

	1% increase	1% decrease
Effect on postretirement benefit obligation	$ 296,800	$ (275,400)
Effect on total of service and interest cost components	43,800	(39,500)

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

	Pension Plan	Postretirement Plan
2008	$ 858,991	$ 144,258
2009	950,856	188,328
2010	1,336,946	246,013
2011	1,463,758	311,568
2012	1,534,521	342,423
2013–2017	11,195,311	2,257,037

401(k) Plan—NYISO has a 401(k) Retirement and Savings Plan open to all non-temporary 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 $1,347,709 and $1,390,915 for 2007 and 2006, 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 in these deferred amounts after the completion of the third year. For the first three performance cycles (2000–2002, 2001–2004, and 2002–2005), annual distributions were payable in the year following completion of the cycle. In 2005, there was a one-year performance cycle, payable in 2006. After 2005, distributions are payable after the completion of each three-year cycle. Accrued Long-Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2007 and 2006, respectively, were $645,761 and $0. The short-term portion of such liability, included in Other Current Liabilities, at December 31, 2007 and 2006, was $160,903 and $987,616, respectively.

Trust Share Option Agreement—NYISO has entered into a nonqualified share option agreement with a key former officer whereby NYISO has granted to such former 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, 2007 and 2006, respectively, the fair market value of securities held by the trust was $968,560 and $899,887. Options outstanding at December 31, 2007, 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 have been exercised as of December 31, 2007.

9. LEASE COMMITMENTS

Operating Leases—NYISO had obligations under three operating lease agreements primarily for rental of office space. One lease agreement for property in Albany, New York, expired in January 2006. Another lease agreement for property in Altamont, New York, expired in February 2006, and was extended on a month-to-month basis until terminating in March 2008. The third lease agreement for property in Albany, New York, expires in April 2008, but is cancelable after April 2006 and was cancelled in September 2007.

Rent expense related to these leases in 2007 and 2006 was as follows:

	2007	2006
Minimum lease payments	$ -	$ 180,422
Additional lease payments	-	1,387
Total	$ -	$ 181,809

There are no future minimum lease payments remaining under these operating leases at December 31, 2007.

On July 8, 2005, NYISO purchased an office building to relocate NYISO's alternate control center and to consolidate employees located in leased facilities. On this date, NYISO also executed an agreement to lease certain office space within the building to the previous owner of this building for a period of one year. The lease agreement allowed the lessee to terminate the lease after 10 months or to extend the lease for two months. In December 2005, the lessee gave notice to terminate the lease after 10 months, and the lease was terminated in May 2006. Monthly minimum lease payments were $89,546, plus reimbursements for a percentage of operating, maintenance, real estate taxes, and insurance costs. A security deposit of $281,521 was applied to the last two months' rent and expenses. On January 16, 2006, NYISO amended the lease terms to reduce the square footage rented and to lower rent and expense reimbursements by 9.8%. The minimum lease income recorded in 2006 was $327,217, plus additional rent income of $308,589.

In connection with the purchase, management entered into a Payment in Lieu of Taxes ("PILOT") Agreement with the Rensselaer County Industrial Development Agency ("RCIDA") to achieve certain benefits. Per the terms of this agreement, NYISO will be required to make annual payments of approximately $175,000 for the first 10 years. The agreement is cancelable at the discretion of NYISO.

10. WORKING CAPITAL RESERVE

At December 31, 2007 and 2006, the working capital reserve consisted of:

	2007	2006
Market participant contributions through Rate Schedule 1	$ 46,440,345	$ 46,440,345
Interest on market participant contributions	5,498,527	4,829,689
Total	$ 51,938,872	$ 51,270,034

11. DEFERRED REVENUE

Deferred revenue at December 31, 2007 and 2006, consisted of the following:

	2007	2006
Advance payments received on interconnection studies	$ 2,907,510	$ 3,754,248
Amounts collected for self-insurance reserve	1,346,971	1,351,408
Governance participation fees	387,900	360,900
Total	4,642,381	5,466,556
Less: current portion	(4,642,381)	(5,466,556)
Long-term portion	$ -	$ -

12. REGULATORY LIABILITIES

At December 31, 2007 and 2006, NYISO recorded the following amounts as regulatory liabilities:

	2007	2006
Rate Schedule 1 transactional volume overcollections	$ 6,319,291	$ 3,514,537
Rate Schedule 1 underspending	1,743,591	5,594,680
Funding for deferred charges	-	604,179
Liability related to recognition of SFAS No. 158 for postretirement plan	150,108	-
Total	8,212,990	9,713,396
Less: current portion	(8,062,882)	(9,109,217)
Long-term portion	$ 150,108	$ 604,179

NYISO recovers its operating expenses through a surcharge assessed to market participants via Rate Schedule 1 of the OATT and Services Tariff. To the extent that transactional volumes billed under Rate Schedule 1 exceed the amount expected when the Rate Schedule 1 surcharge is established, NYISO reflects a regulatory liability for the overcollection amounts. Additionally, to the extent that NYISO's spending does not exceed the annual Rate Schedule 1 revenue requirement, a regulatory liability is also established for the underspending amounts. The regulatory liabilities resulting from Rate Schedule 1 transactional volume overcollections and underspending at December 31, 2007 and 2006, respectively, are applied toward reduction of long-term debt.

SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit or postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur. This recognition created a noncurrent regulatory liability of $150,108 for accumulated actuarial gains to be recognized in future periods.

13. COMMITMENTS AND CONTINGENCIES

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

The most significant legal proceeding affecting 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. This case, which is pending in the U.S. District Court for the Northern District of New York ("Northern District"), has been stayed pending the outcome of related proceedings at the FERC and the D.C. Circuit Court of Appeals. The D.C. Circuit Court of Appeals rendered a decision affirming FERC's determination to deny refunds on December 18, 2007, and no further related appellate or regulatory proceedings are anticipated. The civil suit remains stayed and on inactive status, pending further action by the parties or the Northern District seeking to reopen the action.

NYISO is also defending a civil suit, filed by a former employee, seeking reinstatement, as well as compensatory and punitive damages totaling $5 million, as relief for certain events alleged to have occurred during this individual's NYISO employment. On September 24, 2007, the court granted, in part, a motion to dismiss the complaint and dismissed all claims asserted directly against the NYISO, leaving in place a single claim against a NYISO employee, the plaintiff's former supervisor. The plaintiff has served notice of its intention to appeal the court's decision, but has not yet taken steps to perfect the appeal.

NYISO is also a defendant in a civil suit, pending in United States District Court for the Southern District of New York, commenced by 330 Fund I, L.P. In the suit, the plaintiff alleges that NYISO failed to timely post certain information regarding transmission system changes and outages on NYISO's Open Access Same-Time Information System, in violation of NYISO's OATT, which allegedly resulted in plaintiff incurring unspecified losses in connection with several transmission congestion contracts. By mutual agreement, the suit has been stayed pending the completion of administrative proceedings that were simultaneously filed by plaintiff with FERC and involve the same subject matter. On October 1, 2007, FERC denied the plaintiff's complaint, and the plaintiff has filed a petition for rehearing which NYISO has opposed.