FINANCIAL STATEMENTS

I certify that:

1. I have reviewed this report of the NYISO for the year ended December 31, 2008;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the NYISO as of, and for, the periods presented in this report;

4. The NYISO's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for NYISO and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the NYISO is made known to us by others within the NYISO, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the NYISO's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the NYISO's internal control over financial reporting that occurred during the NYISO's most recent fiscal quarter (the NYISO's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the NYISO's internal control over financial reporting; and

5. The NYISO's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the NYISO's auditors and the audit committee of NYISO's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the NYISO's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the NYISO's internal control over financial reporting.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2008. The reporting process is designed to ensure that information required to be disclosed by the NYISO is recorded, processed, summarized and reported within the appropriate time periods. Based on that evaluation, we have concluded that the NYISO disclosure controls and procedures are functioning effectively to provide reasonable assurance that the NYISO can meet its disclosure obligations.

Management's Report of Internal Control over Financial Reporting

We have evaluated any change in our internal control over financial reporting that occurred during the fourth quarter of 2008, and have concluded that there was no change during the fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Date: March 16, 2009

Mary McGarvey

Mary McGarvey
Vice President & Chief Financial Officer

KPMG LLP
515 Broadway
Albany, NY 12207

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of New York Independent System Operator, Inc. (NYISO or the Company) as of December 31, 2008, and the related statement of activities and statement of cash flows for the year then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NYISO as of December 31, 2007, were audited by other auditors whose report dated March 31, 2008 expressed an unqualified opinion on those statements.

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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, effective January 1, 2008, NYISO adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, related to the fair value measurements of financial assets and financial liabilities.

KPMG LLP

March 16, 2009

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

Assets		**2008**	**2007**
Current assets:			
Cash and cash equivalents	$	56,529,694	55,379,447
Restricted cash		285,476,866	277,012,904
Accounts receivable – net (note 2)		16,206,343	13,645,777
Prepaid expenses		6,051,561	4,359,549
Regulatory assets – current portion (note 3)		—	4,563,047
Other current assets		3,166	378,620
Total current assets		364,267,630	355,339,344
Noncurrent assets:			
Regulatory assets (note 3)		11,604,891	4,271,929
Property and equipment – net (note 4)		55,991,406	56,667,750
Other noncurrent assets		13,760,670	15,485,932
Total noncurrent assets		81,356,967	76,425,611
Total assets	$	445,624,597	431,764,955
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$	16,331,310	14,522,691
Market participant prepayments		15,238,741	61,665,345
Market participant security deposits		263,728,426	210,012,026
Long-term debt – current portion (note 6)		19,696,570	24,187,642
Working capital reserve (note 10)		48,941,193	51,938,872
Deferred revenue (note 11)		4,556,769	3,295,410
Regulatory liabilities – current portion (note 12)		10,281,089	8,062,882
Other current liabilities		1,589,811	2,310,198
Total current liabilities		380,363,909	375,995,066
Noncurrent liabilities:			
Accrued pension liability (note 8)		6,506,665	4,002,678
Accrued postretirement liability (note 8)		5,616,569	4,548,507
Regulatory liabilities (note 12)		2,857,999	150,108
Other noncurrent liabilities (notes 7 and 8)		9,067,528	2,860,099
Long-term debt (note 6)		41,211,927	44,208,497
Total noncurrent liabilities		65,260,688	55,769,889
Commitments and contingencies (note 13)		—	—
Total liabilities		445,624,597	431,764,955
Unrestricted net assets		—	—
Total liabilities and net assets	$	445,624,597	431,764,955

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007

		2008	2007
Revenues:			
Rate Schedule 1 tariff charge	$	140,644,871	146,892,009
Interconnection studies revenue		1,807,610	3,261,406
Interest income		1,488,580	3,765,488
Fees and services		749,849	652,614
Total revenues		144,690,910	154,571,517
Operating expenses:			
Compensation and related benefits (note 8)		53,124,882	49,529,995
Professional fees and consultants		29,396,356	32,879,042
Depreciation and amortization		16,803,549	28,352,679
Maintenance, software licenses and facility costs		16,240,772	17,247,444
Interest expense		9,316,934	6,696,591
Federal Energy Regulatory Commission fees		8,854,182	7,744,646
Administrative and other expenses		4,834,767	5,208,760
Telecommunication expenses		3,981,689	4,228,646
Training, travel, and meeting expenses		1,975,850	2,153,666
Northeast Power Coordinating Council fees		161,929	530,048
Total operating expenses		144,690,910	154,571,517
Change in unrestricted net assets		—	—
Unrestricted net assets, beginning of year		—	—
Unrestricted net assets, end of year	$	—	—

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

		2008	2007
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		16,803,549	28,352,679
Loss on disposal of fixed asset		35,242	86,632
Change in operating assets and liabilities:			
Increase in accounts receivable and prepaid expenses		(4,252,578)	(1,901,033)
Increase in restricted cash		(8,463,962)	(87,713,687)
Increase in regulatory assets		(2,769,915)	(1,176,866)
Decrease in other assets		2,100,716	4,647,229
Increase in accounts payable and accrued expenses		2,725,298	862,705
(Decrease) increase in market participant prepayments		(46,426,604)	30,228,246
Increase in market participant security deposits		53,716,400	57,922,031
(Decrease) increase in working capital reserve		(2,997,679)	668,838
Increase (decrease) in regulatory liabilities		4,926,098	(1,500,406)
Increase in deferred revenue and other liabilities		10,320,450	3,247,766
Net cash provided by operating activities		25,717,015	33,724,134
Cash flows from investing activities:			
Acquisition of property and equipment (including capitalized interest)		(17,088,126)	(19,086,522)
Proceeds from sale of assets		9,000	333,500
Net cash used in investing activities		(17,079,126)	(18,753,022)
Cash flows from financing activities:			
Proceeds from 2007 – 2010 budget facility loan		16,700,000	15,000,000
Payment of financing costs for 2007 – 2010 budget facility loan		—	(195,000)
Repayment of mortgage and renovations loan		(311,642)	(278,198)
Repayment of 2004 – 2006 budget facility loan		(18,876,000)	(18,872,000)
Repayment of 2007 – 2010 budget facility loan		(5,000,000)	—
Repayment of 2003 budget facility loan		—	(13,708,334)
Net cash used in financing activities		(7,487,642)	(18,053,532)
Net increase (decrease) in cash and cash equivalents		1,150,247	(3,082,420)
Cash and cash equivalents – beginning of year		55,379,447	58,461,867
Cash and cash equivalents – end of year	$	56,529,694	55,379,447

STATEMENTS OF CASH FLOWS (continued)

		2008	2007
Supplemental disclosure of cash flow:			
Information – cash paid during the year for interest net of capitalized interest	$	3,354,557	3,904,758
Noncash investing activities:			
Property and equipment additions which were accrued but not paid	$	531,936	1,448,615
Property and equipment additions previously accrued which were paid		1,448,615	6,346,053

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Business Description

The New York Independent System Operator, Inc. (NYISO) was formed in April 1997 and commenced operations on December 1, 1999. NYISO is incorporated in the state of New York as a not-for-profit organization. NYISO assumed the responsibilities of its predecessor, the New York Power Pool (NYPP), which had coordinated the reliability of New York State's electric power grid for more than 30 years. Formed as a result of Federal Energy Regulatory Commission (FERC) policies, NYISO monitors a network of 10,904 miles of high-voltage transmission lines and serves over 400 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.

(b) Basis of Accounting

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

(c) Regulation

NYISO's financial statements are prepared in accordance with generally accepted accounting principles for rate-regulated entities. Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. As such, regulators may permit specific incurred costs, typically treated as expenses by unregulated entities, to be deferred and expensed in future periods when it is probable that such costs will be recovered in customer rates. Incurred costs are deferred as regulatory assets when NYISO concludes that it is probable future revenues will be provided to permit recovery of the previously incurred cost. A regulatory liability is recorded when amounts that have been recorded by NYISO are likely to be refunded to customers through the rate-setting process.

(d) Revenue Recognition

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

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

NYISO's Rate Schedule 1 includes a timing mechanism that effectively meets the requirements of an alternative revenue program set forth in 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 $4,917,092 and $11,728,390, respectively, in the accompanying 2008 and 2007 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.

(e) 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, 2008 and 2007 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.

(f) Restricted Cash

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

(g) 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.

(h) 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, 2008 and 2007.

(i) 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.

(j) 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.

(k) Deferred Revenue

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

(l) 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.

(m) Fair Value of Financial Instruments

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). NYISO adopted the provisions of SFAS No. 157 on January 1, 2008, for fair value measurements of financial assets and financial liabilities. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

On January 1, 2009, NYISO will be required to apply the provisions of SFAS No. 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. NYISO does not expect the adoption of these provisions to have any effect on its financial statements.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

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

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

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

The following table presents the carrying amounts and estimated fair values of NYISO's financial instruments at December 31, 2008 and 2007:

		2008		2007	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Interest rate caps	$	2,075	2,075	115,557	115,557
Financial liabilities:					
Interest rate swaps	$	7,428,686	7,428,686	1,487,918	1,487,918

Interest rate caps are included in other current assets and the interest rate swaps are included in noncurrent liabilities.

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* (SFAS No. 159). 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 did not have any effect on NYISO's financial statements.

(n) 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 were further shortened to six months for adjustments and an additional one month for invoice challenges. Beginning with the January 2009 settlement invoice, the adjustment period has been further shortened to four months. As of December 31, 2008, the adjustments and true-ups of all settlement invoices through January 2008 were completed.

(o) Use of Estimates

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

(p) Reclassifications

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

(q) 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 noncurrent assets. See additional details in note 7.

(r) New Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 amends SFAS No. 133 requiring enhanced disclosures about an entity's derivative and hedging activities thereby improving the transparency of financial reporting. SFAS No. 161's disclosures provide additional information on how and why derivative instruments are being used. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. NYISO does not anticipate that the adoption of this pronouncement will have a material effect on its financial statements.

In 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This statement is effective for NYISO for the fiscal year beginning January 1, 2009.

In 2008, the FASB issued Financial Accounting Standards Board (FASB) Statement of Position 48-1 a definition of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FAS 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The Statement of Position requires certain nonpublic enterprises to adopt FIN 48 for fiscal periods beginning after December 15, 2008. FIN 48 is effective for NYISO for the fiscal year beginning January 1, 2009 and it is not expected to have an impact on the financial statements.

(2) **Accounts Receivable**

NYISO's accounts receivable at December 31, 2008 and 2007, consisted of the following:

		2008	2007
Billed:			
Past due settlement invoices	$	5,068,261	3,476,670
Miscellaneous billed receivables		368,076	424,000
Reserve for doubtful accounts – past due settlement invoices		(1,134,187)	(3,442,407)
		4,302,150	458,263
Unbilled:			
Operating expenses for December		11,538,473	12,523,317
Miscellaneous unbilled receivables		339,511	339,425
Bad debt losses recoverable from market participants		25,903	286,271
Replenishments of working capital reserve		306	38,501
		11,904,193	13,187,514
Total	$	16,206,343	13,645,777

Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from market participants and provides guidance on the provisions of such recoveries. NYlSO's reserve for doubtful accounts at December 31, 2008 and 2007, 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, 2008, were refunded to market participants as of December 31, 2008. As of December 31, 2008 and 2007, NYISO recorded unbilled receivables of $25,903 and $286,271, 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, 2008 and 2007, regulatory assets were comprised of the following:

		2008	2007
Asset related to recognition of SFAS No. 158 for pension plan	$	9,527,335	4,232,525
Asset related to recognition of SFAS No. 158 for postretirement plan		366,920	—
Funding for deferred charges		1,710,636	39,404
Voltage support service (reactive power) market		—	3,021,124
Replenishment of working capital reserve		—	1,541,923
Total		11,604,891	8,834,976
Less current portion		—	(4,563,047)
Long-term portion	$	11,604,891	4,271,929

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 Statements 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 at December 31, 2007.

In order to maintain acceptable transmission voltages on the New York State transmission system, certain market participants within the New York Control Area produce or absorb voltage support service (reactive power). Payments to market participants supplying voltage support service and recoveries from other market participants are assessed via Rate Schedule 2 of the OATT and Services Tariff. Differences between the timing of recoveries and payments for voltage support service that result in under collections are reflected as regulatory assets. At December 31, 2008 and 2007, respectively, NYISO recognized a regulatory liability of $2,314,198 and a regulatory asset of $3,021,124 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 2007, NYISO's working capital fund has been temporarily depleted by $1,541,923 as a result of this settlement. NYISO replenished this temporary draw on the working capital reserve via a FERC-approved surcharge assessed to certain future transmission congestion contracts. The full replenishment of the working capital reserve related to this settlement was completed in 2008.

(4) Property and Equipment

Property and equipment includes interest of $25,574 and $186,066 capitalized during 2008 and 2007, respectively. As of December 31, 2008 and 2007, property and equipment consisted of the following:

		2008	2007
Software developed for internal use	$	88,554,051	80,295,603
Computer hardware and software		55,917,646	53,267,924
Building, building improvements, and leasehold improvements		32,392,758	30,129,552
Machinery and equipment		3,692,980	3,272,366
Furniture and fixtures		2,763,214	2,757,115
Land and land improvements		2,065,571	2,065,571
Work in progress		4,431,779	3,433,444
		189,817,999	175,221,575
Accumulated depreciation and amortization		(133,826,593)	(118,553,825)
Property and equipment – net	$	55,991,406	56,667,750

Depreciation expense for the years ended December 31, 2008 and 2007 was $16,803,549 and $28,352,679, respectively.

(5) Short-Term Debt

On July 21, 2005, NYISO entered into a $50.0 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, 2008 and 2007, 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. 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, with principal repayments made over four years. Interest on borrowings under this facility is due monthly and is based on NYISO's option of varying rates of interest tied to either LIBOR plus 60 basis points for borrowings during the draw period not yet converted to term loans, LIBOR plus 100 basis points for borrowings converted to term loans, or the prime rate. On April 8, 2005, this facility was refinanced to lower the LIBOR interest rate spread to 52.5 basis points for borrowings during the draw period and 80 basis points for borrowings converted to term loans. NYISO entered into interest rate cap agreements on $82.0 million of this debt, which caps the maximum interest rate at 4.60% for borrowings during the draw periods not yet converted to term loans (4.525% after April 8, 2005, refinancing) and 5.00% for borrowings converted to term loans (4.80% after April 8, 2005, refinancing). See additional information in note 7.

At December 31, 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 beginning March 2005. As of December 31, 2008, these borrowings were fully repaid, with $3.1 million representing voluntary prepayments against this debt. At December 31, 2007 the interest rate on these borrowings was at the cap level of 4.8%. 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, 2008 and 2007, the interest rate on these borrowings was 2.23% and 4.80%, respectively. 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, 2008 and 2007, the interest rate on these borrowings was 2.23% and 4.80%, 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. During 2007, $15.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2008 with monthly principal and interest payments payable from January 2008 through December 2010. At December 31, 2008 and 2007, the interest rate on these borrowings was fixed at 5.726% and 5.476%, respectively. During 2008, an additional $16.7 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2009 with monthly principal and interest payments payable from January 2009 through December 2011. At December 31, 2008, the interest rate on $15 million of these borrowings was fixed at 5.392% and the remaining $1.7 million was at 1.831%.

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 2005, $14.7 million was borrowed on the Mortgage, and during 2006, $10.0 million was drawn on the Renovations Loan. Both agreements are secured by liens on the building and subsequent capitalized renovations. Interest on borrowings under both facilities is due monthly and is based on varying rates of interest tied to LIBOR plus 100 basis points. On February 15, 2005, NYISO entered into an interest rate swap agreement on the Mortgage, which fixed the interest rate on this loan at 5.79%. On February 15, 2005, NYISO also entered into an interest rate swap agreement on the Renovations Loan, which fixed the interest rate on these borrowings at 5.96%, beginning on January 1, 2007.

At December 31, 2008, 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	$	12,252,000	26,700,000	12,481,756	9,474,741	60,908,497
Less current portion		(8,376,000)	(10,566,667)	(455,434)	(298,469)	(19,696,570)
Long-term portion	$	3,876,000	16,133,333	12,026,322	9,176,272	41,211,927

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, 2008, scheduled maturities of NYISO's long-term debt were as follows:

		2004 – 2006 Budget Facility loan	2007 – 2010 Budget Facility loan	Mortgage	Renovations	Total
2009	$	8,376,000	10,566,667	455,434	298,469	19,696,570
2010		3,876,000	10,566,667	482,901	317,013	15,242,581
2011		—	5,566,666	512,025	336,709	6,415,400
2012		—	—	541,065	356,162	897,227
2013		—	—	575,536	379,757	955,293
Thereafter		—	—	9,914,795	7,786,631	17,701,426
Total	$	12,252,000	26,700,000	12,481,756	9,474,741	60,908,497

(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, the fair value of the interest rate cap was $2,512 and was recorded in Other Current Assets. For the years ended December 31, 2008 and 2007, NYISO recorded interest income of $4,795 and interest expense of $18,329, 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, 2008 and 2007, the fair value of the interest rate cap was $2,075 and $115,557, and is recorded in Other Current Assets. For the years ended December 31, 2008 and 2007, NYISO recorded interest income of $187,274 and interest expense of $512,277, 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, 2008 and 2007, the fair value of these interest rate swap agreements was ($2,375,734) and ($177,095) for the Mortgage and ($2,068,308) and ($252,713) for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2008 and 2007, NYISO recorded interest expense of $4,014,234 and $895,958, 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, 2008 and 2007, the fair value of these interest rate swap agreements was ($2,984,644) and ($1,058,110), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2008 and 2007, NYISO recorded interest expense of $1,926,534, and $1,058,110 related to these four swap agreements.

	Notional amount at inception	Notional amount at December 31, 2008	Fair value at December 31, 2007	Fair value at December 31, 2008	2008 Loss on market value	Location of gain/loss
Loan:						
2003 Budget Facility	$ 47,000,000	—	2,512	—	(2,512)	Interest expense
2004-2006 Budget Facility	82,000,000	16,708,334	115,557	2,075	(113,482)	Interest expense
2007-2010 Budget Facility	60,000,000	32,500,000	(1,058,110)	(2,984,644)	(1,926,534)	Interest expense
Mortgage	14,708,750	12,481,756	(177,095)	(2,375,734)	(2,198,639)	Interest expense
Renovations	10,000,000	9,474,742	(252,713)	(2,068,308)	(1,815,595)	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

(a) Pension and Postretirement Plans

NYISO has a defined benefit qualified pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by NYPP member companies. Employees become vested in pension benefits after five years of credited service. Effective January 1, 2008, the vesting period was reduced from five years to three years of credited service to conform to requirements of the Pension Protection Act of 2006. NYISO expects to contribute $2.5 million to the qualified pension plan in 2009. In 2008, NYISO adopted changes to its pension plan to end the accrual of future benefits for most employees, effective December 1, 2009. Certain grandfathered employees will continue to accrue benefits until attaining age 55. NYISO plans to replace the defined benefit accruals with equivalent contributions to employee 401(k) plan accounts after December 1, 2009. As a result of the amendment to stop most accruals for future benefits, NYISO recorded a curtailment gain of $1,368,980.

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, 2008 and 2007, and the change in benefit obligations for NYlSO's qualified pension and postretirement plans for the years ended December 31, 2008 and 2007.

		Pension plan		**Postretirement plan**	
		2008	**2007**	**2008**	**2007**
Change in benefit obligation:					
Benefit obligation – beginning of year	$	20,985,149	20,971,282	4,688,623	4,715,194
Service cost		1,894,157	1,948,970	408,135	443,059
Interest cost		1,257,442	1,151,467	281,201	291,626
Actuarial (gain) loss		1,490,415	(967,051)	482,540	(725,108)
Participant contributions		—	—	96,333	73,611
Terminated plan/plan amendment		(1,368,980)	—	—	—
Benefits paid		(1,113,862)	(2,119,519)	(147,125)	(109,759)
Benefit obligation – end of year	$	23,144,321	20,985,149	5,809,707	4,688,623
Change in plan assets:					
Fair value of plan assets – beginning of year	$	16,982,471	15,493,064	—	—
Actual return on plan assets		(3,621,163)	1,221,406	—	—
Employer contributions		4,500,000	2,500,004	50,792	36,148
Participant contributions		—	—	96,333	73,611
Benefits paid		(1,113,862)	(2,119,519)	(147,125)	(109,759)
Expenses paid		(109,790)	(112,484)	—	—
Fair value of plan assets – end of year	$	16,637,656	16,982,471	—	—
Funded status	$	(6,506,665)	(4,002,678)	(5,809,707)	(4,688,623)

Amounts recognized in the 2008 and 2007 statements of financial position consist of:

	Pension plan		Postretirement plan	
	2008	2007	2008	2007
Benefit obligation	$ (6,506,665)	(4,002,678)	(5,809,707)	(4,688,623)
Other noncurrent asset or liability	9,527,335	4,232,525	366,920	(150,108)
Projected benefit obligation	$ (23,144,321)	(20,985,149)	(5,809,707)	(4,688,623)
Fair value of assets	16,637,656	16,982,471	—	—
Unfunded projected benefit obligation	$ (6,506,665)	(4,002,678)	(5,809,707)	(4,688,623)

The unfunded projected benefit obligation for the postretirement plan at December 31, 2008 and 2007 is recorded as $193,138 and $140,116, respectively, in Other Current Liabilities and $5,616,569 and $4,548,507, respectively, in Accrued Postretirement Liability.

Amounts recognized in the statements of activities consist of:

	Pension plan		Postretirement plan	
	2008	2007	2008	2007
The components of net periodic pension and postretirement cost are as follows:				
Service cost	$ 1,894,157	1,948,970	408,135	443,059
Interest cost	1,257,442	1,151,467	281,201	291,626
Recognized loss due to curtailments	1,125,270	—	—	—
Expected return on plan assets	(1,347,956)	(1,179,837)	—	—
Amortization of unrecognized prior service cost	157,007	304,824	—	—
Amortization of unrecognized loss	162,146	224,568	(34,488)	33,988
Total	$ 3,248,066	2,449,992	654,848	768,673

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 $21,933,275 and $18,233,261 at December 31, 2008 and 2007, respectively.

The following table as of December 31, 2008 and 2007, shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension plan		**Postretirement plan**	
	2008	**2007**	**2008**	**2007**
Benefit obligations:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Rate of compensation increases	4.00	4.00	4.00	4.00
Net cost or credit:				
Discount rate	6.29%	6.00%	6.00%	6.00%
Rate of compensation increases	4.00	4.00	4.00	4.00
Expected return on plan assets	7.75	7.75	N/A	N/A

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

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

	Target allocation	**December 31**	
		2008	**2007**
Cash equivalents	—%	3%	—%
Equity securities	60	51	59
Debt securities	40	46	41
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 Commerce and Compensation Committee of the Board of Directors on at least an annual basis.

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

The assumed health care cost trend rates for the postretirement plan are 9% for 2008 decreasing to 4.75% in 2018, and 9% for 2007 decreasing to 5% in 2014. A one-percentage point change in the assumed health care cost trend rate would change the 2008 postretirement benefit obligation as follows:

		1% increase	1% decrease
Effect on postretirement benefit obligation	$	375,100	(344,000)
Effect on total of service and interest cost components		55,900	(50,200)

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

		Pension plan	Postretirement plan
2009	$	1,509,538	198,613
2010		1,668,497	259,924
2011		1,751,669	334,419
2012		1,829,377	376,604
2013		1,933,471	413,153
2014 – 2018		10,577,199	2,741,566

(b) 401(k)Plan

NYISO has a 401(k) Retirement and Savings Plan open to all nontemporary employees. This plan provides for employee contributions up to specified limits. NYISO matches 100% of the first 3% of employee contributions, and 50% of the next 2% of employee contributions. Employees are immediately vested in NYISO's matching contributions, which were $1,424,834 and $1,347,709 for 2008 and 2007, respectively.

(c) Long-Term Incentive Plan

NYISO's Long-Term Incentive Plan provides certain members of senior management with deferred compensation benefits. Benefits are based upon the achievement of three-year performance goals established by the Board of Directors, with participants becoming fully vested and distributions payable for these deferred amounts after the completion of the third year. Accrued Long-Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2008 and 2007, were $1,585,340 and $645,761, respectively. The short-term portion of such liability, included in Other Current Liabilities, at December 31, 2008 and 2007, was $0 and $160,903, respectively.

(d) 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. All options were exercised in December 2008. At December 31, 2008 and 2007, the fair market value of securities held by the trust was $114 and $968,560, respectively. The remaining balance will be disbursed in 2009.

(9) Lease and Other Commitments

Operating Leases

During 2008, NYISO entered into obligations under two operating lease agreements for the use of computer hardware.

Expenses related to these leases totaled $1,066,500 in 2008. The remaining obligations of the NYISO with respect to these leases are as follows:

2009	$	2,991,277
2010		3,194,640
2011		2,928,420
Total	$	9,114,337

Other Commitments

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

(10) Working Capital Reserve

At December 31, 2008 and 2007, the working capital reserve consisted of:

		2008	2007
Market participant contributions through Rate Schedule 1	$	46,440,345	46,440,345
Interest on market participant contributions		2,500,848	5,498,527
Total	$	48,941,193	51,938,872

(11) Deferred Revenue

Deferred revenue at December 31, 2008 and 2007, consisted of the following:

		2008	2007
Advance payments received on interconnection studies	$	4,163,169	2,907,510
Governance participation fees		393,600	387,900
Total	$	4,556,769	3,295,410

(12) Regulatory Liabilities

At December 31, 2008 and 2007, NYISO recorded the following amounts as regulatory liabilities:

		2008	2007
Rate Schedule 1 transactional volume overcollections	$	6,461,676	6,319,291
Voltage support service (reactive power) market		2,314,198	—
Rate Schedule 1 underspending		1,505,215	1,743,591
Funding for deferred charges		2,857,999	—
Liability related to recognition of SFAS No. 158 for postretirement plan		—	150,108
Total		13,139,088	8,212,990
Less current portion		(10,281,089)	(8,062,882)
Long-term portion	$	2,857,999	150,108

NYISO recovers its operating expenses through a surcharge assessed to market participants via Rate Schedule 1 of the OATT and Services Tariff. To the extent that transactional volumes billed under Rate Schedule 1 exceed the amount expected when the Rate Schedule 1 surcharge is established, NYISO reflects a regulatory liability for the overcollection amounts. Additionally, to the extent that NYlSO's spending does not exceed the annual Rate Schedule 1 revenue requirement, a regulatory liability is also established for the underspending amounts. The regulatory liabilities resulting from Rate Schedule 1 transactional volume overcollections and underspending at December 31, 2008 and 2007, respectively, are applied toward reduction of long-term debt.

SFAS No. 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 creates a noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2008 and 2007 the amounts were $366,920 and ($150,108), respectively.

(13) Commitments and Contingencies

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

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 that is pending in New York State Supreme Court, Albany County. The suit, which named the NYISO and two individuals as defendants, was filed by a former employee, seeking reinstatement, as well as compensatory and punitive damages totaling $5 million, as relief for certain events alleged to have occurred during this individual's NYISO employment. On September 24, 2007, the Supreme Court granted, in part, a motion to dismiss the complaint and dismissed all claims asserted directly against the NYISO, leaving in place a single claim against a NYISO employee, the plaintiff's former supervisor. On December 31, 2008, the Third Department of the New York State Appellate Division reversed the Supreme Court's dismissal of some of the causes of action against the NYISO and the other defendants. No trial date has been set.

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 had 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 on February 20, 2009, FERC denied plaintiff's rehearing request. Plaintiff has sixty days from the date FERC denied its rehearing request to file a petition for review with a federal court of appeals.

FINANCIAL STATEMENTS