FINANCIAL STATEMENTS 2010

I certify that:

1. I have reviewed this report of the NYISO for the year ended December 31, 2010;
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, 2010. 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 2010, and have concluded that there was no change during the fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Date: March 17, 2011

Stephen G. Whitley
President & Chief Executive Officer

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 statements of position of the New York Independent System Operator, Inc. (NYISO or the Company) as of December 31, 2010 and 2009, 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, the financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 17, 2011

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

		2010	2009
Assets			
Current assets:			
Cash and cash equivalents	$	58,873,571	53,582,089
Restricted cash		380,667,961	371,162,251
Accounts receivable – net (note 2)		17,568,728	12,799,522
Prepaid expenses		6,212,066	4,180,713
Regulatory assets – current portion (note 3)		—	5,469,179
Other current assets		426,640	580,800
Total current assets		463,748,966	447,774,554
Noncurrent assets:			
Regulatory assets (note 3)		11,214,653	10,555,399
Property and equipment – net (note 4)		65,474,278	57,174,512
Other noncurrent assets (note 7)		2,896,739	6,870,581
Total noncurrent assets		79,585,670	74,600,492
Total	$	543,334,636	522,375,046
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$	33,585,951	23,633,450
Market participant security deposits		316,858,130	341,578,621
Market participant prepayments		60,756,846	24,982,564
Working capital reserve (note 10)		46,491,807	46,543,644
Long-term debt – current portion (note 6)		19,743,972	21,342,581
Regulatory liabilities – current portion (note 12)		4,825,418	1,074,704
Deferred revenue (note 11)		2,565,555	3,243,681
Other current liabilities (note 8)		668,224	3,996,295
Total current liabilities		485,495,903	466,395,540
Noncurrent liabilities:			
Accrued pension liability (note 8)		2,937,267	4,084,576
Accrued postretirement liability (note 8)		3,043,887	5,900,528
Regulatory liabilities (note 12)		5,069,954	3,905,605
Other noncurrent liabilities (notes 7 and 8)		5,362,251	3,919,451
Long-term debt (note 6)		41,425,374	38,169,346
Total noncurrent liabilities		57,838,733	55,979,506
Commitments and contingencies (note 13)			
Total liabilities		543,334,636	522,375,046
Unrestricted net assets		—	—
Total liabilities and net assets	$	543,334,636	522,375,046

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

		2010	2009
Revenues:			
Rate Schedule 1 tariff charge	$	142,885,022	135,410,542
Interconnection studies revenue		3,026,064	2,928,825
Grant revenue (notes 1e, 14 and 15)		2,554,777	—
Fees and services		859,571	883,788
Interest income		26,830	49,863
Total revenues		149,352,264	139,273,018
Operating expenses:			
Compensation and related benefits (note 8)		58,871,226	57,429,618
Professional fees and consultants		26,962,191	26,742,719
Maintenance, software licenses and facility costs		19,268,508	17,993,618
Depreciation and amortization		17,103,275	16,712,438
Federal Energy Regulatory Commission Fees		12,020,191	9,980,421
Telecommunication expenses		3,587,445	3,531,688
Administrative and other expenses		3,654,657	3,148,969
Interest expense		3,092,557	3,131,547
Insurance expense		2,806,660	2,801,008
Training, travel, and meeting expenses		1,609,729	1,256,716
Northeast Power Coordinating Council fees		286,771	251,976
Change in fair value of interest rate swaps and caps		89,054	(3,707,700)
Total operating expenses		149,352,264	139,273,018
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, 2010 AND 2009

		2010	2009
Cash flows from operating activities:			
Change in unrestricted net assets	$	—	—
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:			
Depreciation and amortization		17,103,275	16,712,438
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable and prepaid expenses		(6,800,559)	5,277,669
Increase in restricted cash		(9,505,710)	(85,685,385)
Decrease (increase) in regulatory assets		4,809,925	(4,419,687)
Decrease in other assets		4,128,002	6,312,455
Increase in accounts payable and accrued expenses		9,952,501	3,013,317
Increase in market participant prepayments		35,774,282	9,743,823
(Decrease) increase in market participant security deposits		(24,720,491)	77,850,195
Decrease in working capital reserve		(51,837)	(2,397,549)
Increase (decrease) in regulatory liabilities		4,915,063	(8,158,779)
Decrease in deferred revenue and other liabilities		(6,567,347)	(6,192,811)
Net cash provided by operating activities		29,037,104	12,055,686
Cash flows from investing activities:			
Acquisition of property and equipment (including capitalized interest)		(25,403,041)	(13,606,721)
Net cash used in investing activities		(25,403,041)	(13,606,721)
Cash flows from financing activities:			
Proceeds from 2007 – 2010 budget facility loan		23,000,000	18,300,000
Repayment of mortgage and renovations loan		(799,915)	(753,903)
Repayment of 2004 – 2006 budget facility loan		(3,876,000)	(8,376,000)
Repayment of 2007 – 2010 budget facility loan		(16,666,666)	(10,566,667)
Net cash provided by (used in) financing activities		1,657,419	(1,396,570)
Net increase (decrease) in cash and cash equivalents		5,291,482	(2,947,605)
Cash and cash equivalents – beginning of year		53,582,089	56,529,694
Cash and cash equivalents – end of year	$	58,873,571	53,582,089
Supplemental disclosure of cash flow:			
Information – cash paid during the year for interest net of capitalized interest	$	2,985,859	2,948,240
Noncash investing activities:			
Property and equipment additions which were accrued but not paid	$	4,140,689	4,820,759
Property and equipment additions previously accrued which were paid		4,820,759	531,936

See accompanying notes to financial statements.

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 10,877 miles of high-voltage transmission lines and serves approximately 425 market participants.

NYISO's mission, in collaboration with its stakeholders, is to serve the public interest and provide benefit to consumers by maintaining and enhancing regional reliability, operating open, fair and competitive wholesale electricity markets, planning the power system for the future, and providing factual information to policy makers, stakeholders and investors in the power system. 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, FASB ASC Topic 980, *Regulated Operations*. As such, regulators may permit specific incurred costs, typically treated as expenses by unregulated entities, to be deferred and expensed in future periods when it is probable that such costs will be recovered in customer rates. Incurred costs are deferred as regulatory assets when NYISO concludes that it is probable future revenues will be provided to permit recovery of the previously incurred cost. A regulatory liability is recorded when amounts that have been recorded by NYISO are likely to be refunded to customers through the rate-setting process.

d. Revenue Recognition

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 ASC Topic 980, *Regulated Operations*, Subtopic 602, *Revenue Recognition*. Accordingly, revenue is recognized for net financing obligations and capital costs incurred during the reporting period based on the revenue requirement formula in the tariffs. NYISO has recorded an Other Noncurrent Liability of ($4,304,947) and an Other Noncurrent Asset of $2,337,415, respectively, in the accompanying 2010 and 2009 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. Effective January 1, 2010, a portion of the deposit related to feasibility studies are nonrefundable and recorded as revenue when received.

e. Government Grants

NYISO recognizes government grants when there is reasonable assurance that NYISO will comply with the conditions attached to the grant arrangement and the grant will be received. Government grants are recognized in the Statements of Activities in the period in which NYISO recognizes the related costs for which the government grant is intended to compensate.

f. Cash and Cash Equivalents

NYISO considers short-term marketable securities with original maturities of three months or less to be cash equivalents. The cash equivalents at December 31, 2010 and 2009 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. In accordance with certain loan agreements, NYISO is required to maintain compensating balances.

g. 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. Security deposits are invested at the market participant's choice in money market funds or short-or intermediate-term bond funds. NYISO presents changes in restricted cash in the operating activities section of the statements of cash flows instead of in the investing activities section. NYISO has determined that this classification is more suitable to the nature of the Company's operations.

h. Other Assets

Other assets consist primarily of timing differences on certain rate-making recoveries, the fair value of interest rate cap and swap agreements, noncurrent prepaid expenses, and miscellaneous receivables.

i. Property and Equipment

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

In accordance with ASC topic 350, *Intangibles – Goodwill and Other*, Subtopic 40, *Internal Use Software*, 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, 2010 and 2009.

j. Working Capital Reserve

In order to maintain the liquidity and stability of NYISO's markets, NYISO has accumulated a working capital fund through amounts charged to market participants under 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.

k. Market Participant Prepayments

Amounts received from certain market participants who do not provide an alternate form of financial assurance and must prepay their obligations to NYISO in advance of settlements billing dates are recorded as market participant prepayments.

l. 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.

m. 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.

n. Fair Value of Financial Instruments

NYISO adopted the provisions of ASC Topic 820 (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. The adoption of these provisions did not have any effect on NYISO's financial statements.

ASC Topic 820 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, 2010 and 2009:

		2010		2009	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:					
Interest rate caps/swaps	$	46,099	46,099	291	291
Financial liabilities:					
Interest rate swaps	$	4,168,817	4,168,817	3,919,451	3,919,451

Interest rate caps are included in Other Noncurrent Assets and the interest rate swaps are included in Noncurrent Liabilities.

o. *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. Settlement invoices can be adjusted for up to four months after the date of original issuance, and these invoices can be challenged for an additional one month after the issuance of all settlement adjustment invoices. Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed. After all true-up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service 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. As of December 31, 2010, the adjustments and true-ups of all settlement invoices through March 2010 were completed. However, Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from remaining market participants in future billings.

p. *Derivative Financial Instruments*

NYISO records derivative financial instruments in accordance with ASC Topic 815, *Derivatives and Hedging*. ASC Topic 815 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 change in fair value of interest rate swaps and caps. Due to NYISO's regulated rates, the offset to the changes in fair value of these derivatives is recorded as either Other Current Assets or Other Noncurrent Assets. See additional details in note 7.

q. *Use of Estimates*

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

2. Accounts Receivable

NYISO's accounts receivable at December 31, 2010 and 2009, consisted of the following:

		2010	2009
Billed:			
Past due settlement invoices	$	1,063,604	1,081,672
Miscellaneous billed receivables		450,766	289,097
Grants billed receivables		43,924	—
Reserve for doubtful accounts – past due settlement invoices		(1,058,204)	(1,072,539)
		500,090	298,230
Unbilled:			
Operating expenses for December		13,805,658	11,928,715
Grants unbilled receivables		2,428,163	—
Miscellaneous unbilled receivables		808,608	546,368
Bad debt losses recoverable from market participants		25,903	25,903
Replenishments of working capital reserve		306	306
		17,068,638	12,501,292
Total	$	17,568,728	12,799,522

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, 2010 and 2009, results primarily from past due settlement invoices related to a subsidiary of Enron Corporation. As of December 31, 2010 and 2009, NYISO recorded unbilled receivables of $25,903 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, 2010 and 2009, regulatory assets were comprised of the following:

		2010	2009
Deferred pension plan asset	$	7,951,665	8,127,363
Voltage support service (reactive power) market		—	5,469,179
Funding for deferred charges		3,262,988	2,428,036
Total		11,214,653	16,024,578
Less current portion		—	(5,469,179)
Long-term portion	$	11,214,653	10,555,399

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, 2010 and 2009, respectively, NYISO recognized a regulatory liability of $2,951,407, and a regulatory asset of $5,469,179, related to such timing differences.

ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined pension 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. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2010 and 2009, the amounts were $7,951,665 and $8,127,363, for the NYISO defined benefit pension plan.

4. **Property and Equipment**

As of December 31, 2010 and 2009, property and equipment consisted of the following:

		2010	2009
Software developed for internal use	$	109,145,427	99,917,173
Computer hardware and software		67,906,249	59,343,272
Building, building improvements, and leasehold improvements		34,521,326	32,642,392
Work in progress		8,680,524	4,358,910
Machinery and equipment		4,356,445	4,221,036
Furniture and fixtures		3,150,467	2,846,672
Land and land improvements		2,091,376	2,091,376
		229,851,814	205,420,831
Accumulated depreciation and amortization		(164,377,536)	(148,246,319)
Property and equipment – net	$	65,474,278	57,174,512

Property and equipment includes interest of $81,437 and $80,730 capitalized during 2010 and 2009, respectively. Depreciation and amortization expense for the years ended December 31, 2010 and 2009 was $17,103,275 and $16,712,438, respectively.

5. Short-Term Debt

On July 21, 2005, NYISO entered into a $50.0 million Revolving Credit Facility that expired on July 21, 2010 and was replaced on July 21, 2010, with a new $50.0 million Revolving Credit Facility that expires on December 31, 2013. The proceeds from these Revolving Credit Facilities are to be used for working capital purposes. Interest on borrowings under the Revolving Credit Facilities is based on NYISO's option of varying rates of interest tied to either the prime rate or the London Interbank Offered Rate (LIBOR). At December 31, 2010 and 2009, respectively, there were no amounts outstanding on the Revolving Credit Facilities.

6. Long-Term Debt

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 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, 2005, $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. As of December 31, 2009, these borrowings were fully repaid. 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. As of December 31, 2010, these borrowings were fully repaid. At December 31 2009, the interest rate on these borrowings was 1.04%.

On January 22, 2007, NYISO entered into an unsecured $80.0 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 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 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.

On January 23, 2007, NYISO entered into four interest rate swap agreements to fix interest payments on $60.0 million of the $80.0 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.

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, 2010 these borrowings were fully repaid. At December 31 2009, the interest rate on these borrowings was fixed at 5.726%. 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, 2010, the interest rate on $5 million of these borrowings was fixed at 5.642% and the remaining $0.6 million was at 0.907%. At December 31, 2009, the interest rate on $10.0 million of these borrowings was fixed at 5.642% and the remaining $1.1 million was at 0.885%. During 2009, an additional $18.3 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2010 with monthly principal and interest payments payable from February 2010 through December 2012. At December 31, 2010, the interest rate on $10.0 million was fixed at 5.696% and the remaining $2.2 million was at 0.907%. At December 31, 2009, the interest rate on $15 million of these borrowings was fixed at 5.446% and the remaining $3.3 million was at 0.635%. During 2010, an additional $23.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2011 with monthly principal and interest payments payable from February 2011 through December 2013. At December 31, 2010, the interest rate on $15.0 million of these borrowings was fixed at 5.515% and the remaining $8.0 million was at 0.66%.

On July 21, 2010, NYISO entered into an unsecured $75.0 million line of credit facility (2011 – 2013 Budget Facility), the proceeds of which may be drawn between January 1, 2011 thru December 31, 2013 to fund capital purchases and the development of significant projects during 2011 – 2013. NYISO must convert each year's annual borrowings to term loans, with principal and interest payments payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to LIBOR plus 175 basis points for borrowings, or the prime rate. Interest payments on borrowings are due monthly.

On July 23, 2010, NYISO entered into three interest rate swap agreements to fix interest payments on $60.0 million of the $75.0 million available on this line of credit facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 3.28% to 4.7725%. 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, 2010, the following amounts were outstanding on NYISO's long-term debt:

		2007 – 2010 Budget facility loan	Mortgage	Renovations	Total
Outstanding balance	$	40,766,668	11,543,420	8,859,258	61,169,346
Less current portion		(18,895,238)	(512,025)	(336,709)	(19,743,972)
Long-term portion	$	21,871,430	11,031,395	8,522,549	41,425,374

At December 31, 2009, 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	$	3,876,000	34,433,334	12,026,321	9,176,272	59,511,927
Less current portion		(3,876,000)	(16,666,667)	(482,901)	(317,013)	(21,342,581)
Long-term portion	$	—	17,766,667	11,543,420	8,859,259	38,169,346

At December 31, 2010, scheduled maturities of NYISO's long-term debt were as follows:

		2007 – 2010 Budget facility loan	Mortgage	Renovations	Total
2011	$	18,895,238	512,025	336,709	19,743,972
2012		13,985,716	541,065	356,162	14,882,943
2013		7,885,714	575,536	379,757	8,841,007
2014		—	610,246	403,352	1,013,598
2015		—	647,050	428,412	1,075,462
Thereafter		—	8,657,498	6,954,866	15,612,364
Total	$	40,766,668	11,543,420	8,859,258	61,169,346

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 the Statement of Activities as a change in fair value of interest rate swaps and caps. 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. This agreement expired in December 2010. As of December 31, 2010 and 2009, the fair value of the interest rate cap was $0 and $291, respectively, and was recorded in Other Current Assets. For the years ended December 31, 2010 and 2009, NYISO recorded interest income of $114,213 and $198,466, 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, 2010 and 2009, the fair value of these interest rate swap agreements was ($1,429,380) and ($924,922) for the Mortgage, respectively, and ($1,226,662) and ($818,738), respectively, for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2010 and 2009, NYISO recorded interest expense of $912,382 and interest income of $2,700,382, 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, 2010 and 2009, the fair value of these interest rate swap agreements was ($1,512,775) and ($2,175,791), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2010 and 2009, NYISO recorded interest income of $663,016 and $808,853, respectively, related to these four swap agreements.

In July 2010, NYISO entered into three interest rate swap agreements with a commercial bank to fix interest rate payments on the 2011 – 2013 Budget Facility. The notional amount of debt on the swap agreements was $60,000,000. NYISO pays fixed interest rates ranging between 3.280% to 4.7725% through December 2016. As of December 31, 2010 the fair value of these interest rate swap agreements was $46,099, recorded in Other Noncurrent Assets. For the year ended December 31, 2010, NYISO recorded interest income of $46,099, related to these four swap agreements. Gains and losses on market values are recorded in the Statements of Activities as change in fair value of interest rate swaps and caps.

		Notional amount at inception	Notional amount at December 31, 2010	Fair value at December 31, 2009	Fair value at December 31, 2010	2010 Gain (loss) on market value
Loan:						
2004 – 2006 Budget Facility	$	82,000,000	—	291	—	(291)
2007 – 2010 Budget Facility		60,000,000	30,000,000	(2,175,791)	(1,512,775)	663,016
2011 – 2013 Budget Facility		60,000,000	—	—	46,099	46,099
Mortgage		14,708,750	11,543,420	(924,922)	(1,429,380)	(504,458)
Renovations		10,000,000	8,859,258	(818,738)	(1,226,662)	(407,924)

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 three years of credited service. NYISO expects to contribute $1.6 million to the qualified pension plan in 2011. Effective December 1, 2009, 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 replaced the defined benefit accruals with equivalent contributions to employee 401(k) plan accounts after December 1, 2009.

NYISO sponsors a defined benefit postretirement plan to provide medical 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 ten years of NYISO service (5 years of NYISO service for those employees hired before January 1, 2005). The benefits are contributory based upon years of service, with NYISO paying up to 50% of costs for retired employees and up to 25% for their dependents (subject to specified dollar limits). Medical coverage becomes secondary upon Medicare eligibility and life insurance coverage is reduced upon reaching age 65.

For payment of benefits under the plan, as noted above, the NYISO established a Voluntary Employee Benefit Association (VEBA) trust in January 2010. The assets held in the VEBA trust reduce the accumulated postretirement benefit obligation as reported on the NYISO's statements of financial position. The VEBA trust held assets of $4,048,651 as of December 31, 2010. As noted in the table below, current obligations are assumed to be paid out of the trust assets, with the remaining unfunded obligation to be reflected as a noncurrent liability.

The schedules that follow show the benefit obligations, the plan assets, and the funded status as of December 31, 2010 and 2009, and the change in benefit obligations for NYISO's qualified pension and postretirement plans for the years ended December 31, 2010 and 2009.

		Pension plan		Postretirement plan	
		2010	2009	2010	2009
Change in benefit obligation:					
Benefit obligation – beginning of year	$	26,078,728	23,144,321	6,134,698	5,809,707
Service cost		306,668	1,953,821	531,682	485,532
Interest cost		1,414,440	1,301,037	351,867	321,037
Actuarial (gain) loss		1,100,931	882,665	133,316	(412,275)
Participant contributions		—	—	110,592	110,966
Benefits paid		(600,601)	(1,203,116)	(169,617)	(180,269)
Benefit obligation – end of year		28,300,166	26,078,728	7,092,538	6,134,698
Change in plan assets:					
Fair value of plan assets – beginning of year		21,994,152	16,637,656	—	—
Actual return on plan assets		2,783,665	3,652,088	406,283	—
Employer contributions		1,338,600	3,035,294	3,733,024	69,303
Participant contributions		—	—	110,592	110,966
Benefits paid		(600,601)	(1,203,116)	(169,617)	(180,269)
Expenses paid		(152,917)	(127,770)	(31,631)	—
Fair value of plan assets – end of year		25,362,899	21,994,152	4,048,651	—
Funded status	$	(2,937,267)	(4,084,576)	(3,043,887)	(6,134,698)

Amounts recognized in the 2010 and 2009 statements of financial position consist of:

		Pension plan		Postretirement plan	
		2010	2009	2010	2009
Benefit obligation	$	(2,937,267)	(4,084,576)	(3,043,887)	(6,134,698)
Regulatory asset or (liability)		7,951,665	8,127,363	(218,227)	(25,489)
Projected benefit obligation	$	(28,300,166)	(26,078,728)	(7,092,538)	(6,134,698)
Fair value of assets		25,362,899	21,994,152	4,048,651	—
Unfunded projected benefit obligation	$	(2,937,267)	(4,084,576)	(3,043,887)	(6,134,698)

The unfunded projected benefit obligation for the postretirement plan at December 31, 2010 and 2009 is recorded as $0 and $234,170, respectively, in Other Current Liabilities and $3,043,887 and $5,900,528, respectively, in accrued postretirement liability.

Amounts recognized in the statements of activities consist of:

		Pension plan		Postretirement plan	
		2010	2009	2010	2009
The components of net periodic pension and postretirement cost are as follows:					
Service cost	$	306,668	1,953,821	531,682	485,532
Interest cost		1,414,440	1,301,037	351,867	321,037
Expected return on plan assets		(1,739,610)	(1,594,489)	—	—
Amortization of unrecognized prior service cost		51,424	51,424	—	—
Amortization of unrecognized loss		334,067	301,384	(48,598)	(19,866)
Total	$	366,989	2,013,177	834,951	786,703

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 $27,644,552 and $25,110,241 at December 31, 2010 and 2009, respectively.

The following table as of December 31, 2010 and 2009, shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension plan		Postretirement plan	
	2010	2009	2010	2009
Benefit obligations:				
Discount rate	5.20%	5.70%	5.50%	5.95%
Rate of compensation increases	3.00	4.00	3.00	4.00
Net cost or credit:				
Discount rate	5.70%	5.75%	5.95%	5.75%
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:

Category	Target allocation	December 31 2010	December 31 2009
Fixed income	40%	38%	39%
Large cap equities	22	23	23
International and emerging equities	22	22	22
Mid cap equities	10	11	10
Small cap equities	6	6	6
Total	100%	100%	100%

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

Category	Target allocation	December 31 2010
Domestic equities	50%	53%
International and emerging equities	15	15
Fixed income	35	32
Total	100%	100%

The actual rate of return for the pension plan's assets as of December 31, 2010 and 2009 were:

	Annual returns December 31	
Category	2010	2009
Small cap equities	31.9%	40.7%
Mid cap equities	23.3	39.3
Large cap equities	15.3	26.1
Fixed income	8.1	9.4
International and emerging equities	5.0	19.7
Cash equivalents	0.1	0.1
Total portfolio weighted average	12.5%	21.3%

The actual rate of return for the VEBA Trust (postretirement) plan's assets as of December 31, 2010 was:

Category	Annual returns December 31, 2010
Equity	15.7%
International and emerging equities	12.8
Fixed income	4.3
Cash equivalents	0.2
Total portfolio weighted average	9.9%

NYISO's retirement plan assets are reported at fair value and are categorized using the fair value hierarchy discussed in note 1 (n) Fair Value of Financial Instruments.

NYISO's pension plan assets were considered to have Level 2 inputs with a fair value of $25,362,899 and $21,994,152 as of December 31, 2010 and 2009, respectively. NYISO funded a VEBA Trust for its postretirement plan during the year ended December 31, 2010. The VEBA Trust assets were considered to have Level 1 inputs with a fair value of $4,048,651 and $0 as of December 31, 2010 and 2009, respectively.

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 Enterprise Services, 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 8.5% for 2010 decreasing to 5.0% in 2018, and 9% for 2009 decreasing to 4.75% in 2019. A one-percentage point change in the assumed health care cost trend rate would change the 2010 postretirement benefit obligation as follows:

		1% increase	1% decrease
Effect on postretirement benefit obligation	$	465,600	(417,800)
Effect on total of service and interest cost components		72,300	(63,500)

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

		Pension plan	Postretirement plan
2011	$	2,003,231	270,506
2012		1,962,267	306,901
2013		2,061,831	341,368
2014		2,125,402	398,381
2015		2,375,919	447,078
2016 – 2020		10,418,390	3,090,033

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. Beginning December 1, 2009, NYISO also contributes funds to employee 401(k) plan accounts equivalent to defined benefit accruals formerly earned in the qualified pension plan.

Employees are immediately vested in NYISO's matching contributions and become vested in other employer contributions after three years of credited service. The total NYISO contributions to the 401(k) plan were $3,650,614 and $1,993,192 for 2010 and 2009, 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 audited financial statements for the third year. Beginning with the long-term incentive cycle starting January 1, 2010, benefits will be paid in installments over three years following the completion of the three year cycle. Accrued Long-Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2010 and 2009, were $1,193,434 and $0, respectively. The short-term portion of such liability, included in other current liabilities, at December 31, 2010 and 2009, was $0 and $2,484,980, respectively.

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 $3,194,640 and $2,991,277 in 2010 and 2009, respectively. The NYISO's remaining obligation with respect to these leases for 2011 is $2,928,420.

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, 2010 and 2009, the working capital reserve consisted of:

		2010	2009
Market participant contributions through Rate Schedule 1	$	46,440,349	46,440,347
Interest on market participant contributions		51,458	103,297
Total	$	46,491,807	46,543,644

11. Deferred Revenue

Deferred revenue at December 31, 2010 and 2009, consisted of the following:

		2010	2009
Advance payments received on interconnection studies	$	2,167,255	2,859,981
Governance participation fees		398,300	383,700
Total	$	2,565,555	3,243,681

12. Regulatory Liabilities

At December 31, 2010 and 2009, NYISO recorded the following amounts as regulatory liabilities:

		2010	2009
Funding for deferred charges	$	4,851,726	3,880,116
Voltage support service (reactive power) market		2,951,407	—
Rate Schedule 1 transactional volume overcollections		1,365,530	—
Rate Schedule 1 underspending		508,482	1,074,704
Deferred postretirement plan liability		218,227	25,489
Total		9,895,372	4,980,309
Less current portion		(4,825,418)	(1,074,704)
Long-term portion	$	5,069,954	3,905,605

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.

ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined benefit 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. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2010 and 2009 the amounts were $218,227 and $25,489, 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.

NYISO defended a civil suit that had been 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, 2009, 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.

On May 14, 2009, the same former employee filed a second suit against the NYISO, alleging that, after the employee left NYISO in 2005, the employee sought re-employment in 2006 and was being considered for a new position, but that NYISO refused to rehire the former employee after learning about the first lawsuit (described above). The former employee claimed that the alleged refusal to rehire was in retaliation for asserting a claim of disability discrimination in the first lawsuit.

By stipulations dated July 16, 2010, both proceedings were discontinued with prejudice.

14. Smart Grid Investment Grant

On October 27, 2009, the U.S. Department of Energy (DOE) announced that New York State will receive $37.8 million (the DOE Award) in federal stimulus funding to deploy advanced metering, new customer service enhancements and grid automation. As the prime recipient of New York's smart grid stimulus application, NYISO is responsible for administering the overall project on behalf of itself and the New York State transmission owners (NYTOs). The agreement with DOE includes provisions for funding and other requirements. The agreement with DOE was executed on May 5, 2010 and the project obligations became effective on July 1, 2010. NYISO has a separate agreement with the NYTOs which specifies the portion of the total DOE Award for which each party is eligible. Consistent with the requirements of the DOE agreement, in order to receive its respective portion of the DOE Award, each party must expend a matching amount. NYISO is eligible to receive reimbursement of $15.0 million from DOE, which is 50% of its portion of project costs. NYISO is eligible to receive reimbursement for expenditures incurred from August 6, 2009. Through December 31, 2010, NYISO incurred $4.6 million of expenses, and has invoiced $0. Subsequent to December 31, 2010, NYISO has submitted requests for reimbursement totaling $2.2 million, and has received $2.2 million to date. Under the NYISO agreement with the NYTOs, the NYISO's obligation to reimburse the NYTOs is only for the amount the NYISO receives from DOE in respect of an NYTO's request for reimbursement.

15. Eastern Interconnection Planning Collaborative Grant

On December 18, 2009, the U.S. Department of Energy (DOE) announced that the Eastern Interconnection Planning Collaborative would receive $16 million (the DOE Award) in federal stimulus funding to promote collaborative long-term analysis and planning for the Eastern electricity interconnection, which will help states, utilities, grid operators, and others prepare for future growth in energy demand, renewable energy sources, and Smart Grid technologies. As the prime recipient of the DOE Award, PJM Interconnection, L.L.C. (PJM), is responsible for administering the overall project on behalf of itself and seven other "Participating Principal Investigators" including the NYISO. The Cooperative Agreement with DOE includes provisions for funding and other requirements. The agreement with DOE was executed on July 20, 2010 and the project obligations became effective on July 15, 2010. NYISO has a separate agreement with PJM and the other Participating Principal Investigators (the EIPC Agreement) which specifies the parties' obligations under the DOE Award. Consistent with the requirements of the DOE Cooperative Agreement, NYISO is eligible to receive reimbursement of $868,000 from DOE for expenditures incurred from March 1, 2010. Through December 31, 2010, NYISO incurred $154,000 of expenses, and has invoiced $127,000. Under the PJM agreement with the Participating Principal Investigators, PJM's obligation to reimburse the NYISO is only for the amount that PJM receives from DOE in respect of NYISO's request for reimbursement.

16. Subsequent Events

NYISO considers events and transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on March 17, 2011 and subsequent events have been evaluated through that date.