FINANCIAL STATEMENTS 2011

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I certify that:

1. I have reviewed this report of the NYISO for the year ended December 31, 2011;
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.

<u>Disclosure Controls and Procedures</u>

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, 2011. 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.

<u>Management's Report of Internal Control over Financial Reporting</u>

We have evaluated any change in our internal control over financial reporting that occurred during the fourth quarter of 2011, and have concluded that there was no change during the fourth quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Date: XXX, 2012

Stephen G. Whitley	Mary McGarvey
President & Chief Executive Officer	Vice President & Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

KPMG LLP
515 Broadway
Albany, NY 12207

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, 2011 and 2010, 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, 2011 and 2010, 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 19, 2012

Statements of Financial Position
December 31, 2011 and 2010

Assets		2011	2010
Current assets:			
Cash and cash equivalents	$	41,060,857	47,665,177
Restricted cash		349,255,168	391,876,355
Accounts receivable – net (note 2)		5,060,630	17,568,728
Prepaid expenses		5,371,658	6,212,066
Other current assets		40,257	426,640
Total current assets		400,788,570	463,748,966
Noncurrent assets:			
Regulatory assets (note 3)		15,581,749	11,214,653
Property and equipment – net (note 4)		79,701,455	65,474,278
Other noncurrent assets (note 7)		8,838,152	7,201,685
Total noncurrent assets		104,121,356	83,890,616
Total	$	504,909,926	547,639,582
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$	95,512,918	33,585,951
Market participant security deposits		267,412,535	316,858,130
Market participant prepayments		1,298,539	60,756,846
Working capital reserve (note 10)		33,025,562	46,491,807
Long-term debt – current portion (note 6)		25,116,275	19,743,972
Deferred revenue (note 11)		3,373,015	2,565,555
Regulatory liabilities – current portion (note 12)		2,579,060	4,825,418
Other current liabilities (note 8)		567,790	668,224
Total current liabilities		428,885,694	485,495,903
Noncurrent liabilities:			
Accrued pension liability (note 8)		4,702,434	2,937,267
Accrued postretirement liability (note 8)		4,479,953	3,043,887
Regulatory liabilities (note 12)		6,235,818	5,069,954
Other noncurrent liabilities (notes 7 and 8)		11,756,697	9,667,197
Long-term debt (note 6)		48,849,330	41,425,374
Total noncurrent liabilities		76,024,232	62,143,679
Commitments and contingencies (note 13)			
Total liabilities		504,909,926	547,639,582
Unrestricted net assets		—	—
Total liabilities and net assets	$	504,909,926	547,639,582

See accompanying notes to financial statements.

Statements of Activities
Years ended December 31, 2011 and 2010

		2011	2010
Revenues:			
Rate Schedule 1 tariff charge	$	147,799,883	142,885,022
Grant revenue (notes 14 and 15)		3,861,203	2,554,777
Planning studies revenue		2,144,776	3,026,064
Fees and services		858,688	859,571
Interest income		7,652	26,830
Total revenues		154,672,202	149,352,264
Operating expenses:			
Compensation and related benefits (note 8)		63,852,206	58,871,226
Professional fees and consultants		24,614,700	26,962,191
Depreciation and amortization		18,911,245	17,103,275
Maintenance, software licenses and facility costs		18,451,821	19,268,508
Federal Energy Regulatory Commission fees		11,291,541	12,020,191
Telecommunication expenses		4,001,117	3,587,445
Administrative and other expenses		3,221,646	3,654,657
Interest expense		2,953,357	3,092,557
Insurance expense		2,720,834	2,806,660
Change in fair value of interest rate swaps and caps (note 7)		2,383,299	89,054
Training, travel, and meeting expenses		1,611,569	1,609,729
Grant expenses – New York Transmission Owners (note 14)		570,633	—
Northeast Power Coordinating Council fees		88,234	286,771
Total operating expenses		154,672,202	149,352,264
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, 2011 and 2010

		2011	2010
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		18,911,245	17,103,275
Change in operating assets and liabilities:			
Decrease (increase) in accounts receivable and prepaid expenses		13,348,506	(6,800,559)
Decrease (increase) in restricted cash		42,621,187	(15,267,032)
Decrease in regulatory assets		553,627	4,634,227
Increase in other assets		(1,250,086)	(176,944)
Increase in accounts payable and accrued expenses		62,531,914	10,632,571
(Decrease) increase in market participant prepayments		(59,458,307)	35,774,282
Decrease in market participant security deposits		(49,445,595)	(24,720,491)
Decrease in working capital reserve		(13,466,245)	(51,837)
(Decrease) increase in regulatory liabilities		(862,266)	4,722,326
Increase (decrease) in deferred revenue and other liabilities		858,809	(1,893,966)
Net cash provided by operating activities		14,342,789	23,955,852
Cash flows from investing activities:			
Acquisition of property and equipment (including capitalized interest)		(33,743,369)	(26,083,111)
Net cash used in investing activities		(33,743,369)	(26,083,111)
Cash flows from financing activities:			
Proceeds from revolving credit facility loan		8,500,000	16,000,000
Repayment of revolving credit facility loan		(8,500,000)	(16,000,000)
Proceeds from 2007 – 2010 budget facility loan		7,000,000	23,000,000
Proceeds from 2011 – 2013 budget facility loan		25,000,000	—
Proceeds from 2011 Infrastructure Loan		3,240,232	—
Repayment of Mortgage and Renovations loans		(848,734)	(799,915)
Repayment of 2004 – 2006 budget facility loan		—	(3,876,000)
Repayment of 2007 – 2010 budget facility loan		(21,595,238)	(16,666,666)
Net cash provided by financing activities		12,796,260	1,657,419
Net decrease in cash and cash equivalents		(6,604,320)	(469,840)
Cash and cash equivalents – beginning of year		47,665,177	48,135,017
Cash and cash equivalents – end of year	$	41,060,857	47,665,177
Supplemental disclosure of cash flow:			
Information – cash paid during the year for interest, net of capitalized interest	$	2,978,396	2,985,859
Noncash investing activities:			
Property and equipment additions which were accrued but not paid	$	3,535,742	4,140,689
Property and equipment additions previously accrued which were paid		4,140,689	4,820,759
Change in pension and postretirement liabilities		5,138,950	(368,436)

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 11,000 miles of high-voltage transmission lines and serves approximately 400 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 by NYISO to each market participant to settle transactions occurring in the NYISO markets.

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 and Presentation

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

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 and liabilities, the valuation of derivatives, compensation, and liabilities for employee benefit obligations.

c. Regulatory Accounting

NYISO's financial statements are prepared in accordance with generally accepted accounting principles for rate-regulated entities, Financial Accounting Standards Board Accounting Standards Codification (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

Prior to October 2011, NYISO issued settlement invoices to market participants each month for transactions occurring in the previous month. In October 2011, NYISO began invoicing market participants each week for transactions occurring in the previous week as well as issuing a monthly invoice consisting of remaining uninvoiced days within that month and a "true-up" of the weekly invoices in that given month.

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 for each settlement period.

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, operating expenses and debt service costs 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 settlement period's invoice.

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 $3,222,136 and $4,304,947, respectively, in the accompanying 2011 and 2010 Statements of Financial Position in connection with this rate-making recovery mechanism.

Revenues recorded as planning studies revenues arise from billing and collection services in the study service agreement process performed by NYISO. These revenues are offset by the corresponding study expenses, recorded in operating expenses, which were incurred in performing such studies. A portion of the deposits related to planning 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 be cash equivalents. The cash equivalents at December 31, 2011 and 2010 were held in certificates of deposit and 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 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 settlement billing dates, amounts collected on settlement invoices, amounts due to market participants for overcollections on the voltage market, amounts collected for Transmission Congestion Contract (TCC) auctions, and amounts deposited for planning 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 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.

In accordance with ASC topic 835, *Interest*, Subtopic 20, *Capitalization of Interest*, NYISO capitalizes the interest cost as part of the historical cost of acquiring certain assets.

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, 2011 and 2010.

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 change to NYISO's 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 planning 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

The organization has been recognized by the Internal Revenue Service as an organization described in Internal Revenue Code (The Code) Section 501(c)(3) and is generally exempt from income taxes under Section 501(a) of the Code. During the calendar years 2011 and 2010, no unrelated business taxable income was generated by NYISO, and therefore no disclosure is made for federal or state income taxes.

n. Fair Value

In accordance with ASC Topic 820, *Fair Value Measurement*, NYISO utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Fair value is determined based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between the observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that NYISO has the ability to access at the measurement date.
- Level 2 inputs: Other than quoted prices included within Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for a situation in which there is little, if any, market activity for the asset or liability at the measurement date.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is available for that particular financial instrument.

NYISO's financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses, short-term debt, long-term debt and plan assets. The carrying value of long-term debt approximates fair value. The fair value of derivative financial instruments and pension assets are discussed in notes 7 and 8, respectively.

o. Pension and Other Postretirement Benefit Plans

NYISO has a defined benefit pension plan covering certain of its employees. The benefits are based on years of service and employee's compensation during the five years before retirement. NYISO also sponsors a defined benefit health care plan for retired employees and their dependents. NYISO records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare costs and trend rates. Assumptions are reviewed on an annual basis and modifications are made to the assumptions based on current rates and trends. The effect of modifications made to those assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

The net periodic costs are recognized as employees render the services necessary to earn the pension and postretirement benefits. Unamortized amounts that are expected to be recovered in rates in future years are recorded as a regulatory asset or liability. See note 8 for additional information.

p. Concentration of Credit Risk

Financial instruments that subject NYISO to credit risk consist primarily of market settlement invoices 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 and for market participant challenges to amounts billed for a particular service period. Settlement invoices can be adjusted for up to four months after the date of the monthly invoice 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 period. If NYISO agrees with the provisions of the challenge, a final invoice is issued for that service period. As a result, NYISO is exposed to credit risk until all settlement adjustment and final invoices for each service period are finalized and liquidated. As of December 31, 2011, the adjustments and true-ups of all settlement invoices through March 2011 were completed. However, in the event of a market participant default and bad debt loss, Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from all remaining market participants on future invoices.

q. 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 in the Statement of Activities. 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.

NYISO uses derivative instruments primarily to hedge the cash flow effects of fluctuations in its interest rate costs. NYISO is exposed to credit loss in the event of nonperformance by the commercial banks under the interest rate swap agreements. However, NYISO does not anticipate nonperformance by the commercial banks. See note 7 for additional information.

r. Reclassifications

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

2. Accounts Receivable

NYISO's accounts receivable at December 31, 2011 and 2010, consisted of the following:

		2011	2010
Billed:			
Past due settlement invoices	$	998,673	1,063,604
Miscellaneous billed receivables		405,425	450,766
Grants billed receivables		28,036	43,924
Reserve for doubtful accounts – past due settlement invoices		(996,979)	(1,058,204)
		435,155	500,090
Unbilled:			
Rate Schedule 1 revenue for December		2,989,782	13,805,658
Miscellaneous unbilled receivables		821,230	808,608
Grants unbilled receivables		813,644	2,428,163
Bad debt losses recoverable from market participants		513	25,903
Replenishments of working capital reserve		306	306
		4,625,475	17,068,638
Total	$	5,060,630	17,568,728

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, 2011 and 2010, results primarily from past due settlement invoices related to a subsidiary of Enron Corporation. As of December 31, 2011 and 2010, NYISO recorded unbilled receivables of $513 and $25,903, respectively, to reflect amounts yet to be recovered from remaining market participants in connection with other bad debt losses.

NYISO recovers its Rate Schedule 1 revenue in the invoice following the period of service. Therefore, a portion of unbilled Rate Schedule 1 revenues for December are billed and recovered in January of the subsequent year. At December 31, 2010, the unbilled Rate Schedule 1 revenue for December represented the entire month of December. Due to the initiation of weekly invoicing in October 2011, the unbilled Rate Schedule 1 revenue for December at December 31, 2011 represents only the week from December 24, 2011 to December 31, 2011.

3. Regulatory Assets

At December 31, 2011 and 2010, regulatory assets were comprised of the following:

		2011	2010
Deferred pension plan asset	$	11,100,923	7,951,665
Funding for deferred charges		2,709,361	3,262,988
Deferred postretirement plan asset		1,771,465	–
Total	$	15,581,749	11,214,653

ASC Topic 715, *Compensation – Retirement Benefits*, 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, 2011 and 2010, the amounts were $11,100,923 and $7,951,665, respectively, for the NYISO defined benefit pension plan and $1,771,465 and ($218,227), respectively, for the NYISO defined benefit postretirement plan.

4. Property and Equipment

As of December 31, 2011 and 2010, property and equipment consisted of the following:

		2011	2010
Software developed for internal use	$	116,582,122	109,145,427
Computer hardware and software		67,062,892	67,906,249
Building, building improvements, and leasehold improvements		34,734,833	34,521,326
Work in progress		24,714,344	8,680,524
Machinery and equipment		4,491,407	4,356,445
Furniture and fixtures		3,429,648	3,150,467
Land and land improvements		2,091,376	2,091,376
		253,106,622	229,851,814
Accumulated depreciation and amortization		(173,405,167)	(164,377,536)
Property and equipment – net	$	79,701,455	65,474,278

Property and equipment includes interest of $53,028 and $81,437 capitalized during 2011 and 2010, respectively. Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was $18,911,245 and $17,103,275, 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, 2011 and 2010, 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.

During 2006, $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.

On January 22, 2007, NYISO entered into an unsecured $80.0 million line of credit facility (2007 – 2010 Budget Facility), the proceeds of which could 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. 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, 2011, these borrowings were fully repaid. At December 31, 2010, the interest rate on $5.0 million of these borrowings was fixed at 5.642% and the remaining $0.6 million was at 0.907%. 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, 2011, the interest rate on $5.0 million of these borrowings was fixed at 5.696% and the remaining $0.6 million was at 0.920%. At December 31, 2010, the interest rate on $10.0 million of these borrowings was fixed at 5.696% and the remaining $2.2 million was at 0.907%. During 2010, an additional $23.0 million was drawn on the 2007 – 2010 Budget Facility and in January 2011, the remaining $7.0 million was drawn on the 2007 – 2010 Budget Facility. The $30.0 million in 2010 – 2011 borrowings were converted to a term loan in February 2011 with monthly principal and interest payments payable from February 2011 through December 2013. At December 31, 2011, the interest rate on $10.0 million was fixed at 5.765% and the remaining $10.6 million was at 0.920%. At December 31, 2010, the interest rate on $15.0 million 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 through 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. During 2011, $25.0 million was drawn on 2011 – 2013 Budget Facility, which was converted to a term loan in January 2012 with monthly principal and interest payments payable from January 2012 through December 2014. At December 31, 2011, the interest rate on $20.0 million was fixed at 3.28% and the remaining $5.0 million was at 2.043%.

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 the 2011 – 2013 Budget 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 in Rensselaer, NY. 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.

On July 8, 2011, NYISO entered into a financing agreement (2011 Infrastructure Loan) to renovate its facility in Guilderland, NY and to perform construction at its facility in Rensselaer, NY. The agreement permits borrowings of up to $45.0 million through July 7, 2014. The NYISO is required to make interest only payments through July 7, 2014, followed by 17 years of principal and interest payments on borrowings made during the 2011 Infrastructure Loan draw period, beginning in July 2014. Interest on borrowings under the 2011 Infrastructure Loan is due monthly and is based on varying rates of interest tied to LIBOR plus 325 basis points. The 2011 Infrastructure Loan is secured by a limited mortgage lien of $8.0 million on the NYISO's Guilderland facility. As of December 31, 2011, there was $3.2 million outstanding on the 2011 Infrastructure Loan.

At December 31, 2011, the following amounts were outstanding on NYISO's long-term debt:

		2011 Infrastructure loan	2011 – 2013 Budget facility loan	2007 – 2010 Budget facility loan	Mortgage	Renovations	Total
Outstanding balance	$	3,240,232	25,000,000	26,171,428	11,031,396	8,522,549	73,965,605
Less current portion		—	(8,333,333)	(15,885,715)	(541,065)	(356,162)	(25,116,275)
Long-term portion	$	3,240,232	16,666,667	10,285,713	10,490,331	8,166,387	48,849,330

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, 2011, scheduled maturities of NYISO's long-term debt were as follows:

		2011 Infrastructure loan	**2011 – 2013 Budget facility loan**	**2007 – 2010 Budget facility loan**	**Mortgage**	**Renovations**	**Total**
2012	$	—	8,333,333	15,885,715	541,065	356,162	25,116,275
2013		—	8,333,333	10,285,713	575,536	379,757	19,574,339
2014		95,300	8,333,334	—	610,246	403,352	9,442,232
2015		190,602	—	—	647,050	428,412	1,266,064
2016		190,602	—	—	684,637	453,836	1,329,075
Thereafter		2,763,728	—	—	7,972,862	6,501,030	17,237,620
Total	$	3,240,232	25,000,000	26,171,428	11,031,396	8,522,549	73,965,605

7. Derivatives and Hedging Activities

NYISO's derivative instruments are cash flow hedges used to hedge interest rate costs. The changes in the fair value of these derivatives are recorded in the Statements of Activities as a change in fair value of interest rate swaps. Due to NYISO's regulated rates, the offset to the changes in fair value of these derivatives is offset to either Other Current or Noncurrent Assets.

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, 2011 and 2010, the fair value of these interest rate swap agreements was ($2,390,695) and ($1,429,380) for the Mortgage, respectively, and ($2,088,765) and ($1,226,662), respectively, for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2011 and 2010, NYISO recorded interest expense of $1,823,418 and $912,382, 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 January 2008 through December 2013. As of December 31, 2011 and 2010, the fair value of these interest rate swap agreements was ($555,030) and ($1,512,775), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2011 and 2010, NYISO recorded interest income of $957,745 and $663,016, 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, 2011 and 2010, the fair value of these interest rate swap agreements was ($1,471,527) and $46,099, respectively, recorded in Other Noncurrent Liabilities and Other Noncurrent Assets. For the years ended December 31, 2011 and 2010, NYISO recorded interest expense of $1,517,626 and interest income of $46,099, respectively, related to these three swap agreements.

		Notional amount at inception	Notional amount at December 31,2011	Fair value at December 31,2010	Fair value at December 31,2011	2011 Gain (loss) on market value
Loan:						
2007 – 2010 Budget Facility	$	60,000,000	15,000,000	(1,512,775)	(555,030)	957,745
2011 – 2013 Budget Facility		60,000,000	20,000,000	46,099	(1,471,527)	(1,517,626)
Mortgage		14,708,750	11,031,396	(1,429,380)	(2,390,695)	(961,315)
Renovations		10,000,000	8,522,549	(1,226,662)	(2,088,765)	(862,103)

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

Interest rate swaps are included in Other Noncurrent Assets and Other Noncurrent Liabilities. The following table presents the carrying amounts and estimated fair values of NYISO's financial instruments at December 31, 2011 and 2010:

		2011		2010	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Interest rate swaps	$	—	—	46,099	46,099
Financial liabilities:					
Interest rate swaps	$	6,506,017	6,506,017	4,168,817	4,168,817

8. Employee Benefit Plans

a. *Defined Benefit Pension and Postretirement Plans*

NYISO has a defined benefit pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by NYPP member companies. Employees become vested in pension benefits after three years of credited service. NYISO expects to contribute $1.0 million to the pension plan in 2012. Effective December 1, 2009, NYISO adopted changes to its pension plan to end the accrual of future benefits for most employees. 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. Effective December 31, 2011, NYISO terminated the life insurance benefit of the postretirement plan.

The Company records the over-funded or under-funded position of a defined benefit pension and postretirement plan as an asset or liability, with any unrecognized prior service costs, transition obligations, or gains/losses reported as recoverable under ASC Topic 980 and recorded as a regulatory asset.

In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The Health Care Acts include several provisions that may affect a company's postretirement benefit plans, including imposing an excise tax on high cost coverage, eliminating lifetime and annual coverage limits, the excise tax on high cost plans, and extending coverage for adult children until age 26. The effect of providing unlimited coverage is assumed to be included in the plan rates. As of 2011 and 2010, there are no adult children covered in the NYISO plan. The Company has evaluated the effects of the Health Care Acts and concluded that there is no material impact on the plan.

For payment of benefits under the postretirement 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 $3,921,198 and $4,048,651 as of December 31, 2011 and 2010, respectively. 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, 2011 and 2010, and the change in benefit obligations for NYlSO's pension and postretirement plans for the years ended December 31, 2011 and 2010.

		Pension plan		Postretirement plan	
		2011	**2010**	**2011**	**2010**
Change in benefit obligation:					
Benefit obligation – beginning of year	$	28,300,166	26,078,728	7,092,538	6,134,698
Service cost		315,517	306,668	625,915	531,682
Interest cost		1,362,761	1,414,440	375,039	351,867
Actuarial loss		2,006,643	1,100,931	610,434	133,316
Participant contributions		—	—	133,998	110,592
Benefits paid		(1,115,366)	(600,601)	(222,354)	(169,617)
Retiree life insurance elimination		—	—	(214,419)	—
Benefit obligation – end of year		30,869,721	28,300,166	8,401,151	7,092,538
Change in plan assets:					
Fair value of plan assets – beginning of year		25,362,899	21,994,152	4,048,651	—
Actual return on plan assets		462,895	2,783,665	1,143	406,283
Employer contributions		1,623,996	1,338,600	—	3,733,024
Participant contributions		—	—	133,998	110,592
Benefits paid		(1,115,366)	(600,601)	(222,354)	(169,617)
Expenses paid		(167,137)	(152,917)	(40,240)	(31,631)
Fair value of plan assets – end of year		26,167,287	25,362,899	3,921,198	4,048,651
Funded status	$	(4,702,434)	(2,937,267)	(4,479,953)	(3,043,887)

Amounts recognized in the 2011 and 2010 Statements of Financial Position consist of:

		Pension plan		Postretirement plan	
		2011	2010	2011	2010
Net actuarial loss/(gain) recognized in regulatory assets/(liabilities)	$	11,100,923	7,951,665	1,771,465	(218,227)
Projected benefit obligation	$	(30,869,721)	(28,300,166)	(8,401,151)	(7,092,538)
Fair value of assets		26,167,287	25,362,899	3,921,198	4,048,651
Unfunded projected benefit obligation	$	(4,702,434)	(2,937,267)	(4,479,953)	(3,043,887)

Net periodic pension expense and other postretirement benefit costs include the following components:

		Pension plan		Postretirement plan	
		2011	2010	2011	2010
Service cost	$	315,517	306,668	625,915	531,682
Interest cost		1,362,761	1,414,440	375,039	351,867
Expected return on plan assets		(1,888,833)	(1,739,610)	(304,838)	—
Amortization of unrecognized prior service cost		51,424	51,424	—	—
Amortization of unrecognized loss		399,036	334,067	(71,868)	(48,598)
One-time credit for life insurance plan termination		—	—	(1,177,874)	—
Total	$	239,905	366,989	(553,626)	834,951

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 $30,372,218 and $27,644,552 at December 31, 2011 and 2010, respectively.

The following table as of December 31, 2011 and 2010, shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension plan		Postretirement plan	
	2011	2010	2011	2010
Benefit obligations:				
Discount rate	4.30%	5.20%	4.55%	5.50%
Rate of compensation increases	3.00	3.00	N/A	3.00
Net cost or credit:				
Discount rate	5.20%	5.70%	5.50%	5.95%
Rate of compensation increases	3.00	4.00	3.00	4.00
Expected return on plan assets	7.75	7.75	N/A	N/A

The rate of compensation increase for the postretirement plan was not applicable and 3% at December 31, 2011 and 2010 respectively. During 2010, the 3% rate of compensation increase applied to the retiree life insurance. Effective December 31, 2011, the retiree life insurance benefit was eliminated, and therefore, the rate of compensation assumption was not applicable.

NYISO's expected rate of return on plan assets reflects anticipated returns on the 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.

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 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, General Counsel, Vice President of Human Resources 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 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. During 2011, the NYISO Retirement Board began the transition towards a revised investment strategy for pension plan investments to minimize the volatility in plan investments while balancing the long-term plan returns. The revised investment strategy is expected to be completed during 2012.

The targeted allocation and actual investment mix of the pension plan's assets are as follows December 31:

	2011		2010	
Asset category	**Target**	**Actual**	**Target**	**Actual**
Fixed income	49%	47%	40%	38%
Large cap equities	17	18	22	23
International and emerging equities	21	21	22	22
Mid cap equities	8	9	10	11
Small cap equities	5	5	6	6
Total	100%	100%	100%	100%

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

Asset category	**Target allocation**	**December 31 2011**	**December 31 2010**
Domestic equities	50%	52%	53%
International and emerging equities	15	13	15
Fixed income	35	35	32
Total	100%	100%	100%

The actual rate of return for the pension plan's assets as of December 31, 2011 and 2010 were:

Asset category	Annual returns December 31 2011	2010
Small cap equities	2.8%	31.9%
Mid cap equities	0.1	23.3
Large cap equities	0.6	15.3
Fixed income	6.3	8.1
International and emerging equities	(3.5)	5.0
Cash equivalents	—	0.1
Total portfolio weighted average	2.3%	12.5%

The actual rate of return for the VEBA Trust (postretirement) plan's assets as of December 31, 2011 was:

Asset category	Annual returns December 31 2011	2010
Equity	(2.0)%	15.7%
International and emerging equities	(14.2)	12.8
Fixed income	6.9	4.3
Cash equivalents	—	0.2
Total portfolio weighted average	(1.0)%	9.9%

The assumed health care cost trend rates for the postretirement plan are 8.0% for 2011 decreasing to 4.75% in 2019, and 8.5% for 2010 decreasing to 5.0% in 2018. A one-percentage point change in the assumed health care cost trend rate would change the 2011 postretirement benefit obligation as follows:

		1% increase	1% decrease
Effect on postretirement benefit obligation	$	578,900	(512,000)
Effect on total of service and interest cost components		88,200	(76,400)

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

		Pension plan	Postretirement plan
2012	$	2,210,385	275,634
2013		2,331,375	322,555
2014		2,346,365	384,077
2015		2,584,432	436,620
2016		2,428,018	484,089
2017 – 2021		10,274,935	3,347,930

The fair values of the pension plan assets at December 31, 2011 and 2010 are presented below:

		2011 Fair value Level 1	Level 2	Level 3	Total
Domestic investments:					
Equities:					
Small Cap Funds	$	—	1,443,198	—	1,443,198
Mid Cap Funds		—	2,226,309	—	2,226,309
Large Cap Funds		—	4,802,763	—	4,802,763
Total		—	8,472,270	—	8,472,270
Fixed Income Funds		1,439,894	10,726,717	—	12,166,611
Total		1,439,894	10,726,717	—	12,166,611
International investments:					
Emerging securities		4,113,113	—	—	4,113,113
Emerging Market Funds		1,282,939	—	—	1,282,939
Developed Market Funds		—	—	—	—
Total		5,396,052	—	—	5,396,052
Cash and cash equivalents		132,354	—	—	132,354
	$	6,968,300	19,198,987	—	26,167,287

		2010 Fair value Level 1	Level 2	Level 3	Total
Domestic Investments:					
Equities:					
Small Cap Funds	$	—	1,684,838	—	1,684,838
Mid Cap Funds		—	2,707,367	—	2,707,367
Large Cap Funds		—	5,897,841	—	5,897,841
Total		—	10,290,046	—	10,290,046
Fixed Income Funds		—	9,568,249	—	9,568,249
Total		—	9,568,249	—	9,568,249
International Investments:					
Developed Market Funds		—	4,753,677	—	4,753,677
Emerging Market Funds		770,675	—	—	770,675
Total		770,675	4,753,677	—	5,524,352
Cash and cash equivalents		(19,748)	—	—	(19,748)
	$	750,927	24,611,972	—	25,362,899

NYISO's pension and postretirement plan investments are composed of common stocks, mutual funds and commingled trust funds that are redeemable at net asset value (NAV) on a daily basis. Redemption of such investments generally requires 1 to 2 days written prior notice prior to the redemption date.

The fair values of the postretirement plan assets at December 31, 2011 and 2010 are presented below:

		2011 Fair value			
		Level 1	Level 2	Level 3	Total
Domestic equities	$	1,929,972	—	—	1,929,972
Total		1,929,972	—	—	1,929,972
Fixed income:					
Fixed income mutual funds		536,946	—	—	536,946
U.S. Treasury obligations		—	286,935	—	286,935
U.S. Federal agency obligations		—	328,154	—	328,154
Corporate bonds		—	93,605	—	93,605
Total		536,946	708,694	—	1,245,640
International equities		558,375	—	—	558,375
Total		558,375	—	—	558,375
Cash and cash equivalents		187,211	—	—	187,211
	$	3,212,504	708,694	—	3,921,198

		2010 Fair value			
		Level 1	Level 2	Level 3	Total
Domestic equities	$	2,029,432	—	—	2,029,432
Total		2,029,432	—	—	2,029,432
Fixed income:					
Fixed income mutual funds		508,663	—	—	508,663
U.S. Treasury obligations		—	326,694	—	326,694
U.S. Federal agency obligations		—	375,765	—	375,765
Corporate bonds		—	27,810	—	27,810
Total		508,663	730,269	—	1,238,932
International equities		634,070	—	—	634,070
Total		634,070	—	—	634,070
Cash and cash equivalents		146,217	—	—	146,217
	$	3,318,382	730,269	—	4,048,651

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 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 $4,306,383 and $3,650,614 for 2011 and 2010, 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, 2011 and 2010, were $2,028,543 and $1,193,434, respectively.

9. Lease and Other Commitments

a. 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 $2,946,450 and $3,194,640 in 2011 and 2010, respectively. The NYISO's remaining obligation with respect to these leases for 2012 is $0.

b. 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, 2011 and 2010, the working capital reserve consisted of:

		2011	2010
Market participant contributions through Rate Schedule 1	$	33,000,000	46,440,349
Interest on market participant contributions		25,562	51,458
Total	$	33,025,562	46,491,807

Following the initiation of weekly invoicing of NYISO's market settlements, NYISO elected to reduce the principal balance of the working capital reserve from $46.4 million to $33.0 million. In November 2011, NYISO refunded $13.4 million in the working capital reserve to market participants on a pro rata basis, in accordance with the OATT.

11. Deferred Revenue

Deferred revenue at December 31, 2011 and 2010, consisted of the following:

		2011	2010
Advance payments received on planning studies	$	2,960,015	2,167,255
Governance participation fees		413,000	398,300
Total	$	3,373,015	2,565,555

12. Regulatory Liabilities

At December 31, 2011 and 2010, NYISO recorded the following amounts as regulatory liabilities:

		2011	2010
Funding for deferred charges	$	6,235,818	4,851,726
Rate Schedule 1 underspending		1,761,641	508,482
Voltage support service (reactive power) market		817,419	2,951,407
Rate Schedule 1 transactional volume overcollections		—	1,365,530
Deferred postretirement plan liability		—	218,227
Total		8,814,878	9,895,372
Less current portion		(2,579,060)	(4,825,418)
Long-term portion	$	6,235,818	5,069,954

NYISO recovers its revenues through a surcharge assessed to market participants via Rate Schedule 1 of the OATT and Services Tariff. To the extent that transactional volumes billed under Rate Schedule 1 exceed the amount expected when the Rate Schedule 1 surcharge is established, NYISO reflects a regulatory liability for the overcollection amounts. Additionally, to the extent that NYISO's spending does not exceed the annual Rate Schedule 1 revenue requirement, a regulatory liability is also established for the underspending amounts.

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 or liabilities. At December 31, 2011 and 2010, respectively, NYISO recognized a regulatory liability of $817,419 and $2,951,407, related to such timing differences.

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.

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 SGIG 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). NYISO is eligible to receive reimbursement of $15.0 million and the NYTOs are eligible to receive reimbursement of $22.8 million from DOE, which is 50% of the total project costs. The NYISO's 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 SGIG Award for which each party is eligible. Consistent with the requirements of the DOE agreement, in order to receive its respective portion of the SGIG Award, each party must expend a matching amount. Under the NYISO agreement with the NYTOs, NYISO's obligation to reimburse the NYTOs is only for the amount the NYISO receives from DOE in respect of the NYTOs request for reimbursement. NYISO and the NYTOs' are eligible to receive reimbursement for expenditures incurred from August 6, 2009.

As of December 31, 2011 and 2010, $3.7 million and $2.4 million, respectively, of grant revenue is recognized in NYISO's Statements of Activities, representing 50% reimbursement from DOE of NYISO's and the NYTO's incurred allowable cost during these respective years. Recorded in NYISO's Statements of Activities is the NYTO's 50% share of incurred allowable costs, which are classified as Grant expenses – New York Transmission Owners. Recorded in NYISO's Statements of Financial Position as of December 31, 2011 and 2010, is NYISO's unbilled grant revenue of $0.8 million and $2.4 million, respectively.

15. Eastern Interconnection Planning Collaborative Grant

On December 18, 2009, the DOE announced that the Eastern Interconnection Planning Collaborative (EIPC) would receive \$16.0 million (the EIPC 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 EIPC 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 agreement with DOE for the EIPC Award was executed on July 19, 2010 and the project obligations became effective on July 16, 2010. NYISO has a separate agreement with PJM and the other Participating Principal Investigators (the EIPC Agreement) which specifies the parties' obligations under the EIPC Award. Consistent with the requirements of the DOE agreement, NYISO is eligible to receive reimbursement of \$868,000 from DOE for expenditures incurred from March 1, 2010. 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.

As of December 31, 2011 and 2010, NYISO had \$0.2 million and \$0.2 million, respectively, of grant revenue included in the Statements of Activities.

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 19, 2012 and subsequent events have been evaluated through that date.