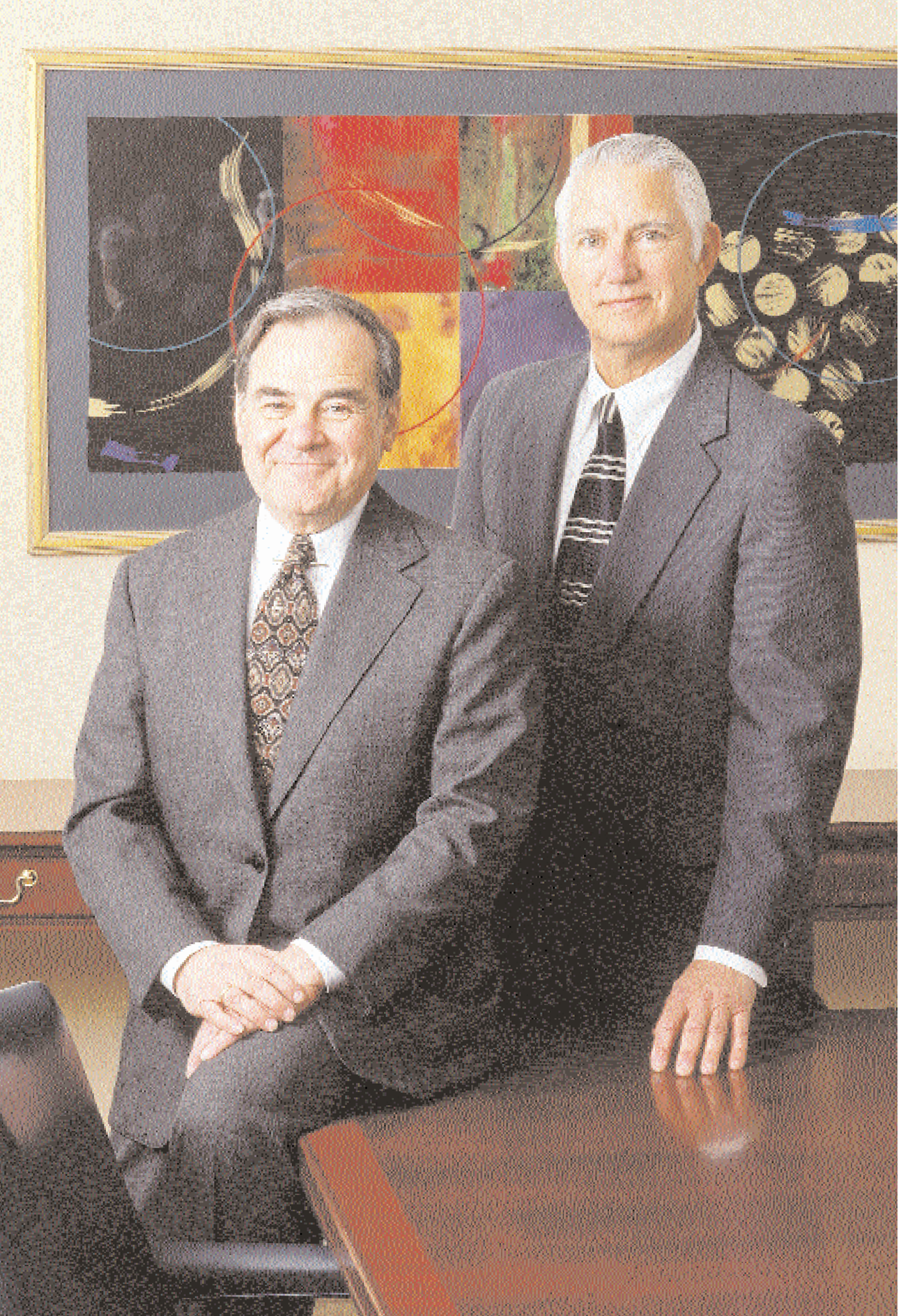
New York Independent System Operator, Inc.
Schenectady, New York 12303
www.nyiso.com

NYISO 2000

Annual Report of the New York Independent System Operator, Inc.



Dear Market Participants:

It has been a challenging and rewarding first year for the New York Independent System Operator (NYISO) since our "birth" on December 1, 1999 when we took command of New York State's power control center and launched the State's new wholesale electricity markets.

Not only did the NYISO continue operating the electric system during 2000 with the same world class level of reliability that New Yorkers have come to depend upon, it signed up more than 100 Market Participants and established Day-Ahead, Real-Time and Ancillary Service electricity markets that did $5.2 billion in commerce – more than double that of the other three ISOs in the Northeast Region combined.

Meanwhile, NYISO leadership was instrumental in developing a path toward the future by establishing with the other three Northeast ISOs, the Northeast ISO Memorandum of Understanding (MOU) process for studying the issues involved in expanding into larger regional electricity markets.

To achieve all this, the NYISO has been building a top-flight professional team by combining seasoned former New York Power Pool experts and top talent recruited from – and with consummate understanding of – the free market. In our first year alone, we grew the NYISO staff from 144 to more than 220 employees. The results of this team's hard work are already being validated by the NYISO's Independent Market Advisor, Dr. David Patton, who in his report on the NYISO's first year, called New York's electricity markets "workably competitive."

Looking ahead, there is clearly a lot more to be accomplished. Developing new sources of electric generation is vital to increasing the liquidity of New York's electric markets. So too is the continued development and expansion of the NYISO's Price Sensitive Load program, virtual bidding and other demand side response initiatives. And all of this will be played out against a backdrop of resolving seams issues to continue to harmonize Northeast regional electricity markets.

Finally, the success enjoyed so far by the NYISO – more than anything else – can be attributed to the cooperative attitude and outstanding organizational support demonstrated by our Market Participants. As we have jointly worked through complex, difficult and often trying issues, our Market Participants have embraced this organization in the true spirit of partnership. The confidence engendered by this kind of cooperative relationship enhances the spirit and attitude with which we tackle problems every day and also helps establish the foundation for a very bright future. To all of you, we thank you for contributing to this very positive working atmosphere.

We believe the seeds we are planting today will yield generous benefits for consumers and Market Participants alike in the years to come.

Sincerely,

Richard J. Grossi,
Chairman of the Board

William J. Museler,
President and CEO

POWER

From the lighthouse in Montauk to the medical centers in Buffalo, from the stock exchange on Wall Street to the streetlights in Plattsburgh and millions of homes and businesses in-between... electric power is more than a convenience for New Yorkers.

Affordable, reliable supplies of electricity are essential for a healthy economy and secure lives.

Power for subways, firehouses, airports, police stations, schools, offices.

Power for streetlights, stoplights, holiday lights, nightlights, house lights.

Power for storerooms, courtrooms, work rooms, living rooms, operating rooms.

Power for New Yorkers' jobs.

Power for New Yorkers' lives.

Assuring that New York continues to have a reliable, affordable supply of electric power day-in and day-out is the job of the New York Independent System Operator.

Formed in 1999, what is known as the "ISO" oversees the 10,775-mile-long in-State electric transmission system and operates an open, competitive wholesale electric market that transacts more than five billion dollars of electricity annually.

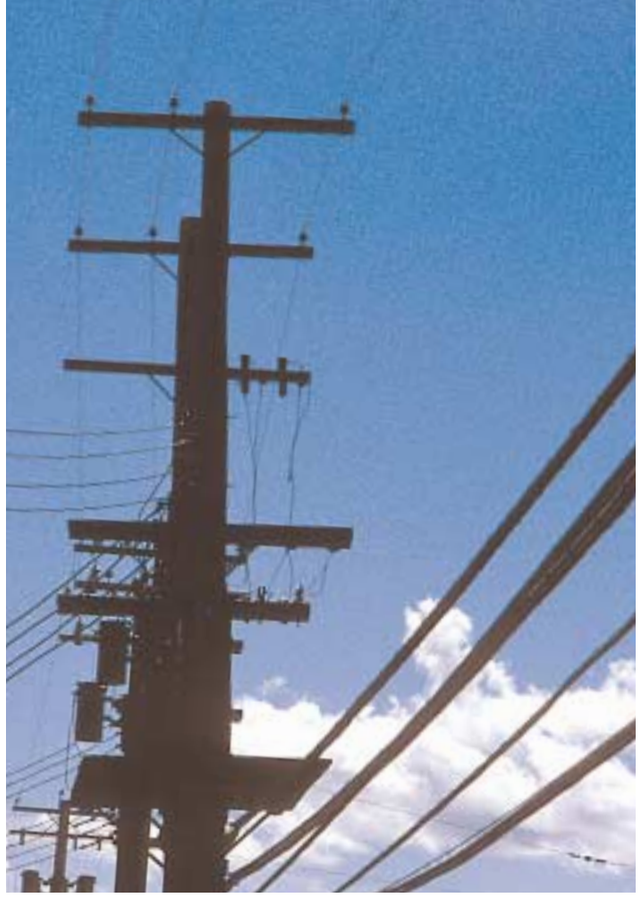
The ISO was formed as part of the restructuring of the electric industry in New York State – restructuring undertaken to stimulate competition in what had been a market comprised of regulated monopolies, each with its own service territory, generating plants, and distribution systems. Today, the organizations serving electric customers in New York are:

- electric generators,
- the bulk power transmission system,
- distribution companies, load serving entities, and
- energy brokers, aggregators, and marketers.

Generators produce the electricity demanded by businesses and residents. Among the generators who supply electricity to New York are national and international companies and public agencies. Approximately three percent of New York's electric power is supplied by out-of-State generators.

Power plants generate electricity by burning fossil fuels, biomass or refuse, controlling a nuclear reaction, or by harnessing a natural energy source such as hydropower or wind energy. Approximately one-third of the generating capacity serving New York are plants that burn natural gas. Nuclear, coal, hydro and other plants account for the remainder of the generation mix.

The bulk **transmission** system is operated by the not-for-profit New York Independent System Operator. With restructuring, it was necessary to assure the non-discriminatory access to the electric system, so the ISO was created and given the responsibility to operate it in a manner that allowed access by all electric generators. Ownership of the system remains with the investor-owned utility companies and the State's power authorities.



Distribution companies are descended from the traditional investor-owned utilities. They operate the local systems which connect each customer to the transmission system. These distribution companies are still regulated by the State and their revenues derive from charges on every customer's bill.

Energy brokers, aggregators and marketers represent or amass groups of customers and negotiate contracts on their behalf with electric suppliers and generators.

Reliable Affordable Electric Supplies

Beyond ensuring the reliable and safe operation of the State's bulk power transmission system, the ISO is responsible for maintaining a competitive wholesale market for electricity. Even though the retail price of electricity to end users remains regulated by the Public Service Commission, the price paid by distribution utilities for some of the electricity their customers demand is unregulated. This "wholesale" power is a commodity, purchased as needed by the ISO on behalf of utilities and other "load serving entities" through the NYISO markets.

Although distribution companies have contracted with generators for about half of the electricity they will supply, the remaining supply (which can vary significantly due to weather and other conditions) is purchased through the ISO markets, either on a "day-ahead" or "real-time" basis.

In the "day-ahead" market, which closes at 5 a.m. the day prior to delivery, distribution companies inform the ISO of their anticipated power needs for the following day. Simultaneously, generators submit bids to the ISO for

The Lockport Power Project, a 200 megawatt combined-cycle, dual-fueled electric generator operated by Fortistar, is one of approximately 300 independent generating plants that supply more than 36,000 megawatts of power to the bulk power transmission system operated by the NYISO.

Wholesale Electricity is a Commodity

At 67,000 square feet, Mirant's energy trading center is one of the world's largest. Operating around-the-clock, electric commodity trades are executed for buyers throughout North America, including the NYISO.

electric energy they can supply. Each bid is composed of a price and quantity. The ISO then accepts bids, choosing the lowest cost bids first, to meet the anticipated demand. The price to the distribution companies is called the "market clearing price" and is the price at which the supply exactly equals the demand.

The ISO also operates a "real-time" market. Here, distribution companies can buy the electricity they require but did not secure either through long-term contracts or in the "day-ahead" market. Less than five percent of the electricity required by customers in New York State is acquired in this market.

Both these markets are highly automated, much like a stock or commodity exchange. And, like a stock market, the ISO only provides the facilities and rules for trading. It neither sets nor regulates the prices, but by accepting first those bids which supply the lowest cost electricity, the ISO ensures the market functions efficiently for its customers.

All the activities of the ISO are funded by a charge it imposes on electric transmission and wholesale market activities.

2000

The NYISO began operations on December 1, 1999, established under the mandate of and still regulated by the Federal Energy Regulatory Commission. The ISO's headquarters are at facilities previously operated by the New York Power Pool (an alliance of utilities and the New York Power Authority which was formed after the Great Northeast Blackout in November, 1965).

The mission of the ISO is clear. To:

- ensure the reliability of the New York State power system;
- operate New York's transmission system and wholesale electricity markets in order to facilitate open, fair and effective competitive markets;
- improve regional cooperation for operations and planning; and
- meet or exceed customer expectations in all areas.

C. D. "Rapp" Rappleyea, Chairman of New York Power Pool Executive Committee, transfers control of the New York bulk power grid to the NYISO as William J. Museler, NYISO President and CEO, and Richard J. Grossi, Chairman of the NYISO Board of Directors, look on.

Opposite: Robert Miskanin, Control Room Shift Supervisor, oversees the minute-by-minute operation of New York's Power Grid.

During 2000, the ISO's transmission system delivered 156 billion megawatt-hours of electricity to New York's 7.2 million electric customers. In addition, approximately $5.2 billion passed through the electric markets newly established by the ISO. More than 95 percent of those funds were for purchases in the "day-ahead" market.

Consistent with its mission, the NYISO **maintains system reliability**. During 2000, the system operated without major problems. To respond to widespread concerns that the computer roll-over to the year 2000 could result in extensive "Y2K" problems, the ISO assigned professional staff to carefully review the system and correct any glitches. The **transition to the Year 2000** went smoothly and the bulk power system was not disturbed.

Building a world-class team that added to the outstanding corps of professionals selected from the New York Power Pool was among the NYISO's highest priorities. Staff size increased from 144 to 220 in the organization's first year alone.

To further ensure system reliability, the ISO **significantly upgraded its information systems** in 2000, investing in state-of-the-art hardware and software, installing new large tape storage units. These units, consisting of 2,000 20-gigabyte tape drives, store vast amounts of operating data and now allow operators to go back to any historical six-second period and scan all the system operating data from that moment.

A technician works on a Storage Tek tape silo, capable of holding 2,000 computer storage tapes containing 240,000 gigabytes or more than three years of market information. During 2000, the NYISO greatly upgraded its information technology systems, increasing the number of servers and work stations from 100 to 155.

The most significant task accomplished by the ISO during its first year was **the initiation of the wholesale electric markets**. Central to the deregulation and restructuring of the electric industry in New York, the markets not only had to provide a forum where all suppliers and purchasers could interact, but they had to operate in a completely fair and competitive manner. By the end of its first full year of operation, the ISO had welcomed more than 100 organizations and individuals as market participants.

Market Participants

1st Rochdale Cooperative Group
Advantage Energy
AEP System Operating Companies
AES Creative Resources, L.P.
AES Eastern Energy
Allegheny Energy Supply Company
Allegheny Power
Amerada Hess Corporation
Aquila Energy Power Marketing
Calpine Energy Service, L.P.
Canadian Niagara Power Company
Canal Emirates Power International
Cargill-Alliant, LLC
Central Hudson Enterprises
Central Hudson Gas & Electric Corp.
Cinergy Capital and Trading
Cinergy Services, Inc.
Coastal Merchant Energy, L.P.
Con Edison Energy, Inc.
Con Edison Solutions, Inc.
Conectiv Energy Supply, Inc.
Consolidated Edison of NY, Inc.
Constellation Power Source
Coral Power, LLC
Duke Energy Trading & Marketing
Dynegy Power Marketing Corp.
East Coast Power, LLC
ECONnergy Energy Company, Inc.
Edison Mission Marketing & Trading
El Paso Merchant Energy, L.P.
Energetix
Enron Energy Services
Enron Power Marketing, Inc.
Entergy – Fitzpatrick
Entergy – IP3
Entergy Power Marketing
Fiberteck Energy, LLC
FirstEnergy Trading Services, Inc.
Florida Power & Light
Fortis US Energy Corp.
FPL Energy Power Marketing
Freeport, Inc., Village of
Great Bay Power Corp.
Hess Energy
HQ Energy Services US
Indeck – Corinth L.P.
Indeck – Ilion, L.P.
Indeck – Olean, L.P.
International Paper
Jamestown, Board of Public Utilities
Keyspan Energy Services
Keyspan Ravenswood
Koch Energy Trading
LEPCORP, Agent for:
3M Purchasing and Packaging
Amherst Utility Corporation
Buffalo, City of
Energy Cooperative of NY, Inc.
Erie, County of
Kaleida Health
Monroe, County of
Niagara, County of
Schools & Municipal Energy Co-Op of Western NY
State University of NY at Buffalo
Top Markets, Inc.
Wegmans
Lockport Energy Association
Long Island Power Authority
Merchant Energy Group (MEGA)
Merrill Lynch Capital Services, Inc.
Mirabito Gas & Electric, Inc.
Mirant (formerly Southern Company)
Morgan Stanley Capital Group
National Fuel Resources
NEPA Energy, L.P.
New York Municipal Power Agency
New York Power Authority
New York State Electric & Gas Corp.
NewEnergy, Inc.
NFR Power
Niagara Mohawk Energy Marketing
Niagara Mohawk Power Corporation
Northeast Utilities Services Company
NRG Power Marketing, Inc.
NYSEG Solutions
Occidental Chemical Corp.
Onondaga Cogenerations, L.P.
Ontario Power Generation, Inc.
Orange & Rockland Utilities, Inc.
Orion Energy Services
Orion Power Holdings – Astoria
PECO Energy Company
Pepco Energy Services
PG&E Energy Trading – Power
PP&L Energy Plus Company
Project Orange Associates
PSEG Energy Resources & Trade LLC
PSEG Energy Technologies, Inc.
Public Service Company of Colorado
Public Service Electric & Gas Co.
Reliant Energy Services
Rochester Gas & Electric Corp.
Rockville Centre, Village of
Select Energy, Inc.
Selkirk Cogen Partners, L.P.
Sempra Energy Trading Corp.
Singer Holding Co. (dba Robison Oil)
Sithe/Independence Power Partners, L.P.
Sithe Power Marketing, L.P.
SmartEnergy
Strategic Energy LLC
Strategic Power Management
TransAlta Energy Marketing (U.S.) Inc.
TransCanada Power Marketing
TXU Energy Trading
University of Rochester
Virginia Power Marketing
Westchester RESCO
Western New York Wind Corp.
Williams Energy Marketing & Trading Co.

The competitive markets facilitated by the ISO resulted in real benefits over the prior regulated system. Incentives provided by the competitive markets have resulted in increases in supplies of five-to-ten percent. Additionally the markets, except for isolated instances, operated competitively and electric prices during 2000 were not unreasonably high. The increase in prices which did occur was the consequence of sharply increased natural gas and oil costs (natural gas prices increased more than 350 percent between December 1999 and December 2000) and the outage of 950 megawatts of nuclear generating capacity at Indian Point 2. Were it not for these two factors, electric prices in 2000 would have been approximately 30 percent lower, according to the NYISO's Independent Market Advisor, Dr. David Patton.

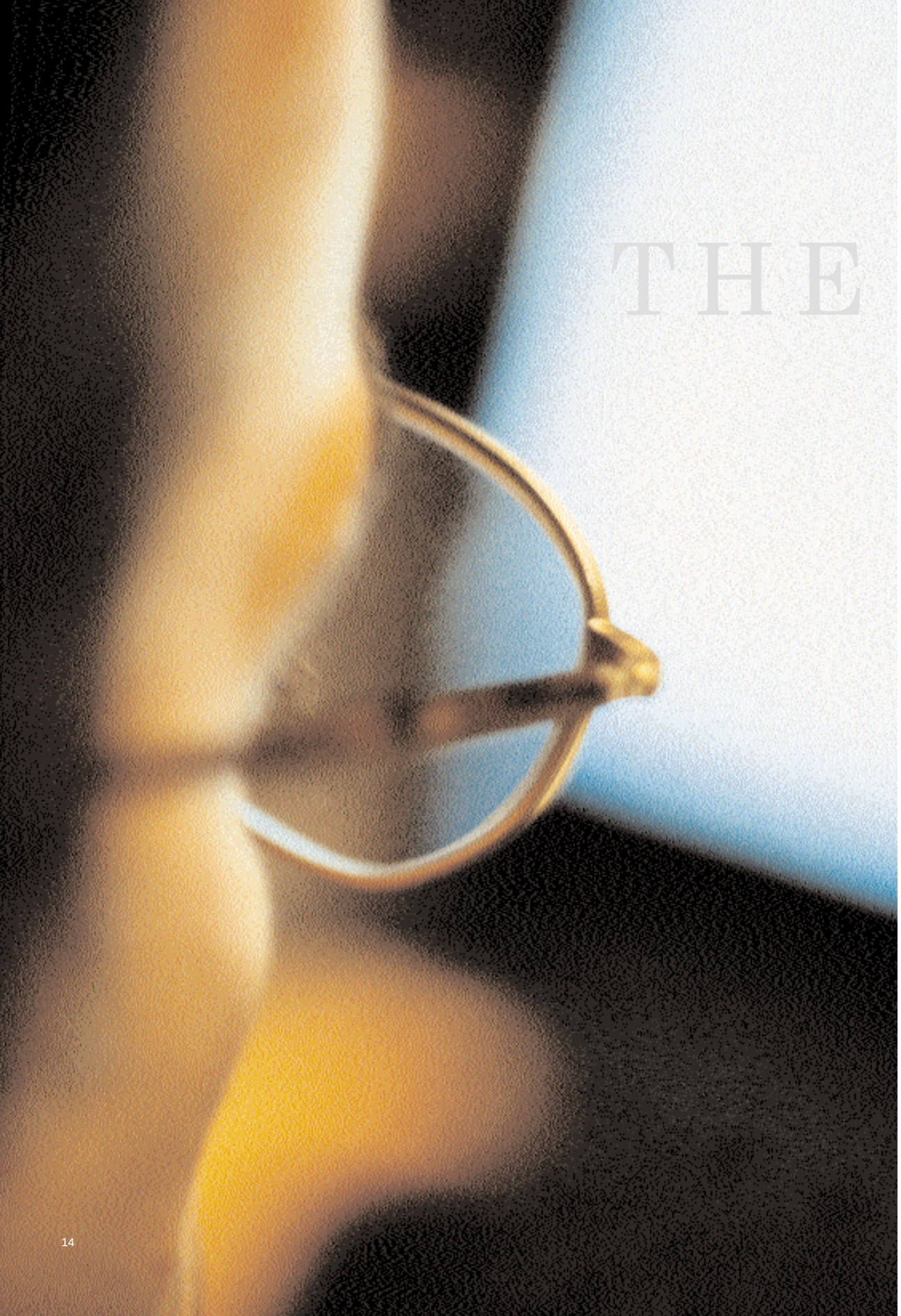
Charles King, Vice President of Market Services, explains the intricacies of bidding to attendees of a New York Market Orientation training course.

To help energy managers, power marketers, regulators, brokers, energy purchasers and others better understand and capitalize on the opportunities offered by the new, competitive wholesale electric market, the ISO developed and delivered a comprehensive Market Orientation Course. This three-and-one-half day course explained the step-by-step basics of bidding in the market and outlined the obligations and requirements expected of market players. The course was offered five times during 2000 and given to more than 440 people.

Others also came to the ISO to understand the markets and deregulation more fully, as well as to learn about the ISO's state-of-the-art control system. Representatives from 13 foreign countries – Australia, China, Costa Rica, France, Hungary, Indonesia, Japan, Korea, Malaysia, Saudi Arabia, Singapore, South Africa, and Tunisia – toured the ISOs headquarters and met with staff to discuss the intricacies of electric restructuring. Many of the teams that visited were responsible for restructuring their own systems, using New York as a model.

Bill Porter, Customer Associate, responds to a request for information. In 2000, the volume of calls to the HelpDesk reached an average of more than 2,300 inquiries a month.

A Focus on Service



THE FUTURE

As New York's economy has prospered, so has the need for additional electricity.

As with the nation as a whole, the State's new digital economy requires large amounts of electricity to run. A small personal computer and its peripherals use about 1,000 kilowatt-hours of electricity a year. Consequently, despite major energy efficiency improvements in lights, heating systems, and appliances, there has been little reduction in the amount of electricity used in office buildings. The electricity that was "saved" now powers fax machines, telephone systems, modems, computers, printers, scanners, and monitors.

Computer and internet activities now consume as much as 13 percent of all the electricity produced nationally, and they are expected to consume up to half of all future electric generation.

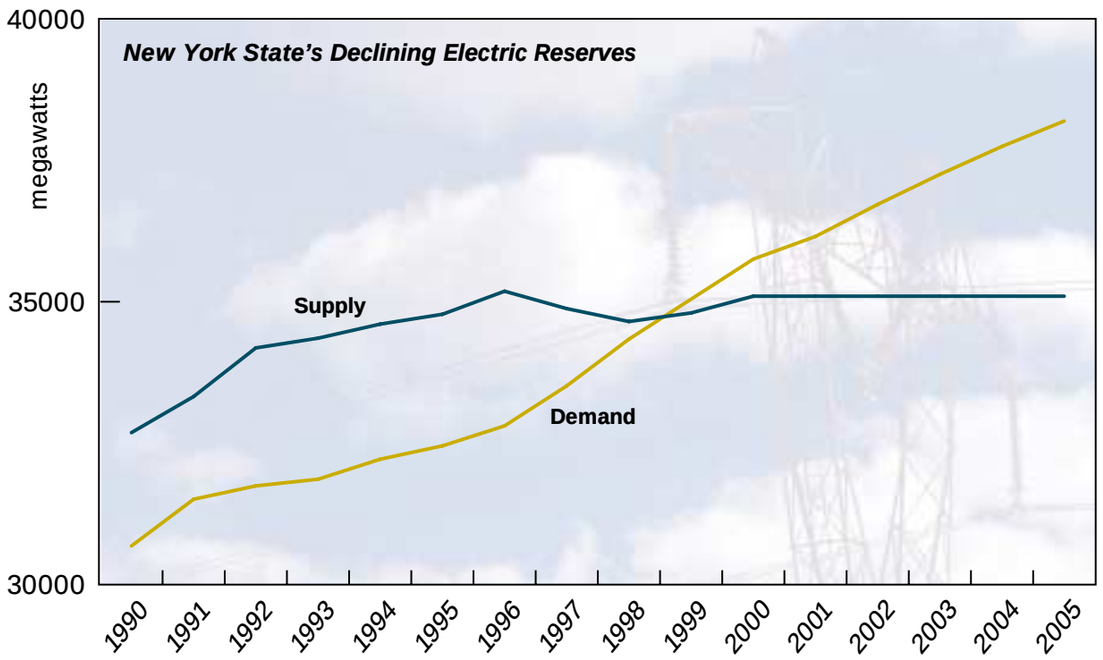
The growing use of computer and telecommunications technologies, wider use of everything from air conditioners to big-screen televisions, combined with a growing population, caused New York State's peak electric demand to increase more than 18 percent during the

1990s. It is projected to increase approximately seven percent further by 2005.

Yet, in the face of this rising demand, supplies increased only 1,060 megawatts (less than three percent) between 1995 and 2000. Because of economic conditions, few generating projects were proposed until just a few years ago.

Consequently, since 1999, New York State has been unable to meet its peak electric demand, including the reserve requirement, with in-state generating sources. If no new in-State generation comes on line in the next five years,

Demand is Steadily Increasing



reliance on power sources beyond the State's borders will only increase.

Recognizing this anticipated shortfall, a number of entities have advanced proposals to cope with the pent-up demand for more electric power. Today, 85 generating projects have been proposed in New York State, ranging in size from 20 to 1,200 megawatts. But they have not begun construction, only two have been approved for construction under the Article X siting law, and none have been approved in the critical generation-short New York City area.

As a result, the NYISO has been a vocal advocate of increasing supply, demand-side management programs and expanded transmission facilities to meet future needs.

MANAGEMENT

Standing: Alfred F. Boschulte, John W. Boston, Richard E. Schuler, Erland E. Kailbourne, William J. Museler
Seated: Peter A. A. Berle, Thomas F. Ryan, Jr., Richard J. Grossi, Harold N. Scherer, Jr., Karen Antion

The New York Independent System Operator is a not-for-profit corporation headquartered in a suburb of Albany.

It is governed by a Board of Directors composed of ten members. The members have no affiliations with any participants in the New York electric power industry, although some are former executives of out-of-State power companies. Current Board members come from a variety of backgrounds in academia, environmental affairs, finance, electric utilities, technology and telecommunications:

Richard J. Grossi, Chair
Former Chairman and CEO of United Illuminating, a Connecticut utility, and past Chairman of the North American Reliability Council.

John W. Boston, Vice Chair
Past President and COO of the Wisconsin Electric Power Company.

William J. Museler, President and CEO
Formerly Executive Vice President of the Transmission/Power Supply Group of the Tennessee Valley Authority.

Karen Antion, President of Karen Antion Consulting, LLC and former Vice President of Oracle Corporation.

Peter A.A. Berle, Former Commissioner of the NYS Department of Environmental Conservation and CEO of the National Audubon Society.

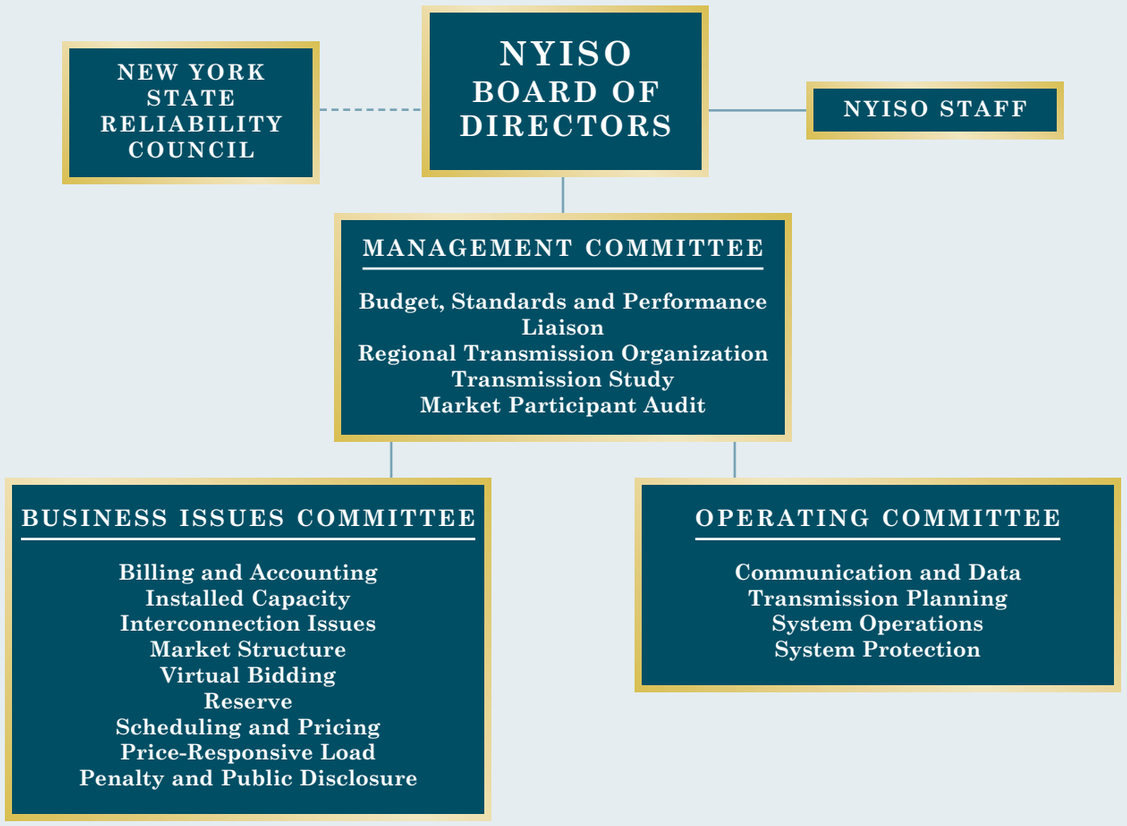
Alfred F. Boschulte, President of AFB Consulting, specializing in strategic planning for telecommunications firms.

Erland E. Kailbourne, Former Chairman and CEO of Fleet National Bank, New York region.

Thomas F. Ryan, Jr., Former President and COO of the American Stock Exchange.

Harold N. Scherer, Jr., Former President and COO of the Commonwealth Electric Company of Massachusetts.

Richard E. Schuler, Director of the Cornell Institute for Public Affairs and former Commissioner of the NYS Public Service Commission.



Working with the Board to govern the ISO are committees of market participants including sellers and buyers of electricity, consumer and environmental groups, and both New York City and New York State governmental representatives.

Reporting to the Board is a Management Committee, comprised of all sectors of the market participants.

Reporting to the Management Committee are the Business Issues and Operating Committees. To ensure a balanced view, giving a voice to all market participants, these committees are comprised of five broad categories or sectors of participants: electric generators, other suppliers, transmission owners, public power organizations and end users.

The New York State Reliability Council, a not-for-profit corporation which develops, maintains and updates reliability rules, provides an independent monitoring function for the NYISO and the State. These rules are designed to promote and preserve the reliability of electric service on the bulk power system without unfairly assisting or disadvantaging any market participant's commercial interests.

The staff of the ISO, comprising more than 220 employees, reports directly to the Board through the Chief Executive Officer. The staff specializes in directing the ISO's activities in finance, communications, wholesale market services, information services, regulatory affairs, planning, and the operation and reliability of the power grid.

NYISO Senior Staff: Seated, S. Kennedy Fell, Michael Calimano Standing, Mary McGarvey, Steven Sullivan, John Buechler, Charles King, Sandra Sanford, Andrew Ragogna, William Museler, Carol Murphy, Robert Soeldner, John Adams Absent, Robert Fernandez, Michael Mackles

FINANCIALS

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of New York Independent System Operator, Inc. ("NYISO") as of December 31, 2000, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NYISO as of and for the one-month period ended December 31, 1999 were audited by other auditors whose report, dated April 17, 2000, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements as of and for the year ended December 31, 2000 present fairly, in all material respects, the financial position of NYISO as of December 31, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Parsippany, New Jersey
March 19, 2001

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
STATEMENTS OF FINANCIAL POSITION

	Years ended December 31	
	2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 37,769,733**	$ 7,977,848
Accounts receivable	**10,470,302**	18,717,929
Prepaid expenses	**1,315,092**	209,480
Restricted cash	**68,303,306**	4,897,815
Total current assets	**117,858,433**	31,803,072
Noncurrent Assets:		
Property and equipment, net (Note 3)	**8,244,124**	3,496,498
Transition asset, net (Note 2)	**43,953,956**	54,942,444
Other	**1,517,572**	135,000
Total noncurrent assets	**53,715,652**	58,573,942
Total Assets	**$ 171,574,085**	$ 90,377,014

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
STATEMENTS OF FINANCIAL POSITION

	Years ended December 31	
	2000	1999
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 32,742,459**	$ 2,840,131
Market participant security deposits	**19,910,870**	5,032,835
Short-term debt	**6,500,000**	3,000,000
Long-term debt - current portion (Note 6)	**10,160,070**	-
Capitalized lease obligations - current portion (Note 5)	**1,370,661**	1,982,532
Working capital reserve	**2,561,998**	18,118,244
Deferred revenue	**6,822,257**	-
Note payable to NYPP Member Systems (Note 8)	**-**	54,942,444
Other current liabilities	**42,445,916**	1,815,889
Total current liabilities	**122,514,231**	87,732,075
Noncurrent Liabilities:		
Capitalized lease obligations (Note 5)	**367,231**	1,459,541
Accrued pension liability (Note 4)	**2,607,585**	106,527
Regulatory liabilities (Note 7)	**10,277,008**	1,078,871
Long-term debt (Note 6)	**35,808,030**	-
Total noncurrent liabilities	**49,059,854**	2,644,939
Commitments and Contingencies (Note 9)	**-**	-
Total Liabilities	**$ 171,574,085**	$ 90,377,014

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
STATEMENTS OF ACTIVITIES

	Years ended December 31	
	2000	1999
Revenues:		
Rate Schedule 1 tariff charge	**$ 61,373,324**	$ 3,799,755
Fees and services	**215,764**	183,864
Interest income	**3,434,406**	20,568
Total revenues	**65,023,494**	4,004,187
Operating Expenses:		
Compensation and related benefits	**19,207,583**	1,550,570
Pension expense (Note 4)	**1,274,665**	106,527
Professional fees and consultants	**16,510,000**	1,152,260
Building, equipment leases and facility costs	**3,659,441**	179,548
Telecommunications	**1,844,823**	98,055
Training, travel and meeting expenses	**1,367,223**	79,118
Depreciation and amortization	**2,423,493**	163,421
Amortization of transition asset (Note 2)	**10,988,488**	-
Northeast Power Coordinating Council fees	**1,377,522**	-
Board, administrative and other expenses	**1,324,735**	268,891
Total operating expenses	**59,977,973**	3,598,390
Interest Expense	**$ 5,045,521**	$ 405,797
Net Results of Activities	**$ -**	$ -

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2000	1999
Cash Flows from Operating Activities:		
Net results of activities	**$ -**	$ -
Adjustments to reconcile net results of activities to net cash provided by operating activities:		
Depreciation and amortization	**2,423,493**	163,421
Amortization of transition asset	**10,988,488**	-
Change in operating assets and liabilities:		
Accounts receivable and prepaid expenses	**7,142,015**	(18,927,409)
Accounts payable and accrued expenses	**29,902,328**	2,840,131
Restricted cash	**(63,405,491)**	(4,897,815)
Working capital reserve	**(15,556,246)**	18,118,244
Other assets	**(1,382,572)**	(135,000)
Other liabilities	**74,029,514**	8,034,122
Net cash provided by operating activities	**44,141,529**	5,195,694
Cash Flows from Investing Activities:		
Acquisition of property and equipment	**(7,171,119)**	(55,263)
Net cash used by investing activities	**(7,171,119)**	(55,263)
Cash Flows from Financing Activities:		
Net proceeds from revolving credit facilities	**3,500,000**	3,000,000
Net proceeds from term loan	**45,968,100**	-
Payment of note to NYPP member companies	**(54,942,444)**	-
Decrease in capitalized lease obligations	**(1,704,181)**	(162,583)
Net cash (used) provided by financing activities	**(7,178,525)**	2,837,417
Net Increase in Cash and Cash Equivalents	**29,791,885**	7,977,848
Cash and Cash Equivalents, Beginning of Year	**7,977,848**	-
Cash and Cash Equivalents, End of Year	**$ 37,769,733**	$ 7,977,848
Supplemental Disclosure of Cash Flow Information –		
Cash paid during the year for interest	**$ 5,758,456**	$ 21,604

See notes to financial statements.

NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.
YEARS ENDED DECEMBER 31, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description - The New York Independent System Operator, Inc. ("NYISO") was formed in April 1997 and commenced operations on December 1, 1999. NYISO is incorporated in the State of New York as a not-for-profit organization. NYISO assumed the responsibilities of its predecessor, the New York Power Pool ("NYPP"), which had coordinated the reliability of New York's electric power grid for more than 30 years.

Formed as a result of Federal Energy Regulatory Commission ("FERC") policies, NYISO monitors a network of more than 10,775 miles of high-voltage transmission lines and approximately 335 generators. NYISO's principal objective is to ensure the reliable, safe and efficient operation of the New York State transmission system and to administer an open, competitive and nondiscriminatory wholesale market for electricity in New York State.

NYISO is governed by an independent board of directors as well as a committee structure consisting of market participant representatives. NYISO is operated from a power control center near Albany, New York.

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

The 1999 financial statements present results of activities from December 1, 1999, the date NYISO commenced operations, through December 31, 1999. Prior to December 1, 1999, there was no financial activity.

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

The following amounts represent energy and energy-related products transacted in NYISO's markets during 2000:

Energy	$	4.5 billion
Installed capacity (ICAP)		0.4 billion
Transmission Congestion Contracts (TCC)		0.3 billion
Total	$	5.2 billion

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, 2000 are held in short-term repurchase agreements that invest in United States government obligations.

Restricted Cash - Restricted cash consists primarily of market participant security deposits held in escrow accounts, amounts due to market participants for over-collections on the voltage market, and amounts reserved for funding employee benefit plans.

Property, Equipment and Capital Leases - Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the assets' estimated useful lives of three to five years.

Costs incurred to acquire and develop computer software for internal use are capitalized and amortized using the straight-line method over three years.

Capital lease obligations are recorded at the present value of future minimum lease payments. Assets under capital leases are amortized on the straight-line method over the life of the leases, which approximates their useful lives of three to five years.

Working Capital Reserve - In order to maintain the liquidity and stability of NYISO's markets, NYISO accumulates a working capital fund through amounts charged to market participants under Rate Schedule 1. NYISO bills its estimated working capital needs monthly to market participants.

Deferred Revenue - Amounts collected from market participants through Rate Schedule 1 for capital purchases are deferred and recognized over the depreciable period of the assets' lives.

Fees for participation in the NYISO governance process are billed to market participants in advance of the year for which they apply and are amortized over the related governance period.

Regulation - NYISO's financial statements are prepared in accordance with generally accepted accounting principles for rate-regulated entities. Statement of Financial Accounting Standard ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*, requires an entity that is rate regulated on a cost-of-service basis, to recognize regulatory assets and liabilities for amounts which would otherwise be included in earnings, when authorized to do so by FERC.

Income Taxes - NYISO is not subject to income taxes because it is operating as a corporation described in Section 501(c)(3) of the Internal Revenue Code, exempt under Section 501(a) of the Internal Revenue Code.

Fair Value of Financial Instruments - The carrying amount of current assets and liabilities, and long-term debt approximates their fair values.

Concentration of Credit Risk - Financial instruments that subject NYISO to credit risk consist primarily of accounts receivable billings due from market participants. As provided in the OATT and Services Tariffs, market participants are required to maintain either approved credit ratings or post specified financial security in an amount sufficient to cover their outstanding liability to NYISO.

Use of Estimates - Generally accepted accounting principles require management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

New Accounting Pronouncements - SFAS No. 133, Accounting *for Derivative Instruments and Hedging Activities*, as amended ("SFAS No. 133"), is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. NYISO adopted SFAS No. 133 effective January 1, 2001. There was no effect of adopting SFAS No. 133 on the financial statements.

2. TRANSITION ASSET

The transition asset represents costs incurred and paid by the member companies of the NYPP to prepare NYISO for initial operations. In accordance with NYISO's tariffs, such costs are recovered from market participants through Rate Schedule 1, and are amortized over five years, beginning in January 2000.

At December 31, 2000 and 1999, the transition asset was comprised of:

	2000	1999
Computer and software development	$ 24,363,819	$ 24,363,819
Administrative and organizational development	29,356,643	29,356,643
Power control center building and land	1,221,982	1,221,982
	54,942,444	54,942,444
Accumulated amortization	(10,988,488)	-
Transition asset, net	$ 43,953,956	$ 54,942,444

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2000 and 1999 consisted of the following:

	2000	1999
Assets under capital leases	$ 3,678,460	$ 3,604,656
Computer hardware, software and accessories	3,041,235	30,183
Software developed for internal use	1,803,887	-
Furniture and fixtures	1,111,532	-
Machinery and equipment	436,134	-
Building and leasehold improvements	546,952	-
Construction work in progress	212,838	25,080
	10,831,038	3,659,919
Accumulated depreciation and amortization	(2,586,914)	(163,421)
Property and equipment, net	$ 8,244,124	$ 3,496,498

4. EMPLOYEE BENEFIT PLANS

Pension Plan - NYISO has a defined benefit pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by an NYPP member company. Employees become vested in pension benefits after five years of creditable service.

	2000	1999
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 3,625,621	$ 3,757,863
Service cost	674,994	59,895
Interest cost	303,776	21,974
Actuarial (gain) loss	536,451	(214,111)
Benefits paid	(14,728)	-
Benefit obligation, end of year	$ 5,126,114	$ 3,625,621
Change in plan assets:		
Fair value of plan assets, beginning of year	$ -	$ -
Employer contributions	15,728	-
Benefits paid	(14,728)	-
Fair value of plan assets, end of year	$ 1,000	$ -
Funded status	$ (5,125,114)	$ (3,625,621)
Unrecognized prior cost	3,437,310	3,733,205
Unrecognized (gain) loss	322,340	(214,111)
Additional minimum pension cost	(1,242,121)	-
Total accrued pension liability	$ (2,607,585)	$ (106,527)

Amounts recognized in the statement of financial position consist of:

Benefit obligation	$ (2,607,585)	$ (106,527)
Intangible asset	1,242,121	-

The components of net periodic pension cost are as follows:

Service cost	$ 674,994	$ 59,895
Interest cost	303,776	21,974
Amortization of unrecognized prior service cost	295,895	24,658
Total	$ 1,274,665	$ 106,527

The following table shows the assumptions used to calculate the pension benefit obligations as of December 31, 2000 and 1999:

	2000	1999
Discount rate	7.50 %	8.00 %
Rate of compensation increases	5.80	5.80
Expected return on plan assets	n/a	n/a

401(k) Plan - NYISO has a 401(k) Retirement and Savings Plan open to all nontemporary employees. This plan provides for employee contributions up to specified limits. NYISO matches 100% of the first 3% of employee contributions, and 50% of the next 2% of employee contributions. Employees are immediately vested in NYISO's matching contributions, which were $487,975 and $59,092 for 2000 and 1999, respectively.

Postretirement Plan - NYISO has committed to sponsor a defined benefit postretirement medical and life insurance plan for eligible employees and their beneficiaries. The plan is expected to be in place during 2001 or 2002. During 2000, NYISO recovered $671,040 through Rate Schedule 1 for such postretirement benefits. This amount is included in Regulatory Liabilities at December 31, 2000. See additional information in Note 7.

Trust Share Option Agreement - During 2000, NYISO established a supplemental compensation program, which grants eligible employees options to acquire debt and equity securities held by NYISO in a trust for an amount equal to 25% of the fair value of such securities. At December 31, 2000, securities held by the trust had a fair value of $275,451. Options outstanding at December 31, 2000 expire on November 16, 2009. Compensation expense is recorded over the vesting period of the options.

5. LEASE COMMITMENTS

Operating Leases - NYISO has obligations under lease agreements primarily for rental of office space in Altamont, NY and Albany, NY. The lease of the Altamont facility expires in February 2002, and has an option to renew the lease for ten additional years at current market rates. The Albany facility expires in January 2006, but NYISO has the option to renew this lease for two additional five-year periods at the current lease rate. The future minimum lease payments under these operating leases at December 31, 2000 were as follows:

2001	$ 691,746
2002	525,885
2003	484,636
2004	484,636
2005	484,636
Thereafter	40,386
Total	$ 2,711,925

Capital Leases - Certain lease obligations assumed from NYPP for computers, furniture and fixtures include provisions which at the termination of the lease either transfer ownership of the leased property to NYISO or allow NYISO the option to purchase the leased equipment for a nominal cost. Accordingly, these agreements have been recorded as capital leases.

Future minimum capital lease payments were as follows at December 31, 2000:

2001	$ 1,370,661
2002	262,899
2003	104,332
Total minimum lease payments	1,737,892
Less: current maturities	(1,370,661)
Long-term obligation	$ 367,231

6. REVOLVING CREDIT AND TERM LOAN AGREEMENTS

On October 26, 1999, NYISO entered into a $66 million Credit Agreement, consisting of a $54 million Term Credit Loan Commitment and a $12 million Revolving Credit Facility. On December 6, 2000, the Revolving Credit Facility portion of the credit agreement was increased to $50 million.

The Revolving Credit Facility is a six-year commitment that expires on October 26, 2005. The proceeds from this facility are to be used for general working capital purposes. Interest on borrowings under this agreement is based on NYISO's option of varying rates of interest tied to either the prime rate or the London Interbank Offering Rate (LIBOR). At December 31, 2000, $6.5 million was outstanding on the Revolving Credit Facility, with interest payable monthly at 7.3% per annum on the outstanding principal amount.

The Term Credit Loan is for a five-year period commencing January 1, 2000 and ending December 31, 2004. After obtaining FERC approval on transition expenses, NYISO borrowed $48,460,444 from the Term Credit Loan on September 8, 2000. The proceeds of the Term Credit Loan were used to reimburse NYPP member companies for their investment in the transition of the NYPP to the NYISO, and for the purchase of certain NYPP assets. Principal and interest payments are due monthly through December 2004. Interest on the Term Credit Loan is variable based on the 30-day LIBOR plus 125 basis points. The interest rate on the Term Credit Loan at December 31, 2000 was 7.87%.

At December 31, 2000, the following amounts were outstanding on the Term Credit Loan:

Outstanding balance	$	45,968,100
Less current portion		(10,160,070)
Long-term portion	$	35,808,030

At December 31, 2000, scheduled maturities of the Term Credit Loan are as follows:

2001	$	10,160,070
2002		11,001,087
2003		11,911,721
2004		12,895,222
Total	$	45,968,100

On January 10, 2001, NYISO entered into an interest rate swap agreement with a third party which locks the interest rate on the Term Credit Loan at 6.99%. The fixed interest rate applies to payments from February 1, 2001 through December 2004, and is based on the outstanding principal amount of the Term Credit Loan. The notional amount of the Term Credit Loan was $45,157,860 on the date of the interest rate swap agreement.

7. REGULATORY LIABILITIES

Certain amounts recovered under NYISO's rate-making mechanisms are based on estimates. The difference between actual results and these estimates result in overcollections or undercollections. Such amounts are deferred as regulatory assets or liabilities and are amortized as such amounts are included in future rates. At December 31, 2000 and 1999, respectively, NYISO recorded the following amounts as regulatory liabilities:

		2000		1999
Energy market	$	6,825,131	$	1,078,871
ICAP market		1,735,600		-
Voltage market		1,045,237		-
Future funding of post-retirement plan		671,040		-
Total	$	10,277,008	$	1,078,871

8. NOTE PAYABLE TO NYPP MEMBER COMPANIES

On December 2, 1999, NYISO entered into a promissory note with the NYPP member companies for the amount of the transition costs incurred and paid by NYPP member companies to prepare NYISO for initial operations, including interest based on the FERC refund rate. Using proceeds from its Term Credit Loan, NYISO repaid the NYPP member companies in September 2000.

9. 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, if any, on the financial position, results of operations or liquidity of NYISO.

On the Cover

Shown is the display board in NYISO's power control center. This board provides operators with critical information about the bulk power transmission system, using continuous analog data and bursts of millions of bits of digital data.

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