New York Independent System Operator 2006 | Annual Report

Mark S. Lynch
President & CEO

Karen Antion
Board Chair

From the President & CEO and Chair of the Board —
2006 was a year of robust accomplishments for the NYISO

Dear NYISO Stakeholders:

On behalf of the Directors, management and staff of the New York Independent System Operator (NYISO), we are pleased to present the company's 2006 Annual Report.

This past year was one of significant accomplishments for the NYISO in terms of its stewardship of New York's wholesale electricity markets and the reliable operation of the bulk electricity grid.

Spurred on by the state's Renewable Portfolio Standard and supported by the NYISO's administration of its Open Access Transmission Tariff, total wind powered generation in commercial operation climbed to 350 MW during 2006. Another 50 wind power projects, representing more than 6,000 MW, have been proposed for New York.

The NYISO's innovative and varied demand response programs continue to grow and to bring real value to the market and to the grid operators. During the record-setting hot spells of summer 2006, participants in these programs responded to the NYISO's instructions and reduced electricity demand by approximately 1,000 MW.

During 2006, the NYISO and its market participants developed the first annual Comprehensive Reliability Plan, providing a blueprint for meeting the state's electric infrastructure needs. And, the NYISO's Strategic Plan was updated by the Board this past year, placing a special emphasis on the company's leadership role in maintaining reliable electric service and open and fair wholesale electricity markets.

Finally, last year was one of transition for the Board of Directors as our Chairman John "Bill" Boston retired and Bob Hiney, a respected industry veteran, joined the Board. We extend our heartfelt appreciation to Bill for his years of service and inspired leadership and are grateful that Bob's expertise and talents will be available to us in the coming years.

As has been the case since the NYISO took over grid and market operations in 1999, it is the cooperation, creativity and hard work of market participants, policymakers, regulators and other industry stakeholders that contribute to the company's accomplishments. We thank those of you who assist the NYISO staff in carrying out its important mission. And we look forward to a productive year ahead.

INTRODUCTION

The law of supply and demand works, as economists will affirm, given an environment that supports fair and open economic competition. The mission of the New York Independent System Operator (NYISO) is to allow for that law to work in New York's wholesale electricity markets. Working together with the Market Participants that make, transport, trade and consume electricity, the NYISO is dedicated to bringing the benefits of fair, open and efficient competition to the state's consumers of electricity.

The mission consists of two primary parts:

> One, the NYISO manages New York's transmission grid – the 10,775-mile network of high-voltage lines that carry electricity throughout the state. In handling this challenging role, the NYISO works around the clock to maintain a reliable and efficient grid.
>
> As an independent, impartial administrator, the NYISO allows for open access to the grid to all qualified suppliers of electricity, from traditional generating plants to new technologies, like wind farms. New technologies are already providing clean, renewable energy to New York homes and businesses.
>
> Two, the NYISO administers the wholesale electricity marketplace in which power is bought and sold in a competitive bidding process not unlike a stock exchange.
>
> The design of NYISO's competitive electricity markets allows power to be delivered at the lowest cost possible despite constantly changing conditions – from hot weather to spiking fuel prices – resulting in "hundreds of millions of dollars" in savings, according to a recent study.

The NYISO was formed in 1997, and commenced operations in 1999 as a not-for-profit corporation regulated by the Federal Energy Regulatory Commission (FERC) and governed by a 10-member Board of Directors. The Board members each have varied backgrounds and expertise, with three having extensive experience in the power industry. The NYISO Code of Conduct requires that Board members and all employees will be independent from any business, financial or operating ties to any stakeholders in the NYISO's markets.

The NYISO's creation was the result of sweeping changes in the electric marketplace made in Washington and Albany during the 1990s. The fully integrated regulated utilities that had previously generated and delivered electricity to consumers were restructured into a competitive system in which any qualified organization can generate, buy or sell power. These changes have shifted investment risks, such as cost overruns, from consumers to private investors.

New York is part of a large interconnected electricity grid that reaches from Canada to Florida to the Rockies. Therefore, a constant flow of information about operations and power supplies, especially during days of high demand, is essential to the integrity of this interconnected system, and the NYISO is an important part of this network. The NYISO must have a full understanding of electric system conditions in New York and in neighboring control areas. This information flow is a crucial part of the NYISO's operations.

Throughout its many complex operations, the NYISO's watchwords are flexibility and collaboration as it deals with the multitude of stakeholders in the power marketplace – the generators of electricity, the transmission line owners, retail distributors, wholesale customers and energy traders.

The NYISO's goals are to:

- *Provide a reliable and efficient supply of electricity to consumers at the lowest possible production cost;*
- *Keep the energy marketplace disciplined, competitive and efficient;*
- *Provide appropriate market signals for continued investment in New York State's power system; and*
- *Develop plans to maintain adequate supplies in the future.*

Ultimately, the goal of the NYISO is to keep the lights on for New York and keep the energy markets operating efficiently.

OPENING DOORS FOR NEW TECHNOLOGIES

Ever since its creation in 1999, the NYISO has been changing the ways in which newcomers join the state's transmission grid. In other words, the NYISO has moved the State to an era of open and fair access for all qualified developers.

New technologies for renewable sources of electricity are coming on line in increasing numbers. These renewable technologies, spurred on by New York's Renewable Portfolio Standard (RPS), are part of a strategy to promote fuel diversity of the state's electricity supply mix.

Significantly, New York's first wind farm, with a generating capacity of 300 MW, went into operation during 2006. Many more wind farm projects are in the works.

There are as many as 100 renewable energy projects in the NYISO's application pipeline — about 60 of them for wind-driven generators. The wind projects vary in size from 40 MW to as large as 479 MW.

The NYISO's policy of providing fair access to the transmission grid has two major benefits for the people of New York:

- The state's power system can keep pace with demand. Because New York's need for electricity is constantly growing, it is imperative that new power resources keep joining the system, and the NYISO's openness helps make that possible.
- New environmentally friendly sources of electricity generation are coming on line, as it has become more desirable to generate electricity with clean, naturally recurring sources of energy, including hydro, wind, biomass, tidal and geothermal power.

Hydropower has always been a major contributor to the state's electricity supply. Other renewable technologies, however, have had more limited success. The advent of New York's RPS, as well as open access to the electricity grid, has changed that. In its role as the independent, not-for-profit operator of the transmission system and the administrator of the wholesale electricity market, the NYISO welcomes new technologies and the growth and competition they bring.

This open door is not just limited to new generating resources. Reducing the demand for electricity on the hottest days is equally valued. Increasingly, innovative demand-side programs are making major contributions in meeting the State's growing electricity requirements.

The NYISO works to maximize the benefits of open, fair and efficient competition to meet future power needs. Renewable energy and demand response programs will be an important part of that future.

HOT TIME, COOL RESPONSE

Each summer is a challenge for the NYISO. The summer of 2006 was no exception. In fact, it was one of the toughest tests ever for New York's power grid. Working together with those entities that make, move and use electricity, the NYISO successfully managed New York's bulk power system.

With temperatures reaching the 90s upstate and climbing above 100 downstate – and with humidity often making it feel 10 degrees hotter – the state set records for average peak load on July 17 and August 1. Then came August 2 and the highest peak load in New York's history: 33,939 MW – an increase of more than 1,800 MW over the previous year's record peak of 32,075 MW. To put these numbers in further perspective, the peak load in 1996 was 25,587 MW.

Yet not only was there enough electricity available on August 2 to keep the air conditioners and fans humming, the NYISO maintained sufficient reserves that even on a sweltering, record-breaking day, provided New York with a significant margin of safety.

New York's well-managed electricity market paid dividends elsewhere, too. During the heat wave, the New England Independent System Operator alerted New York operators that it needed 1,300 MW of additional energy. The NYISO was able to deliver surplus power, sparing New England from an emergency.

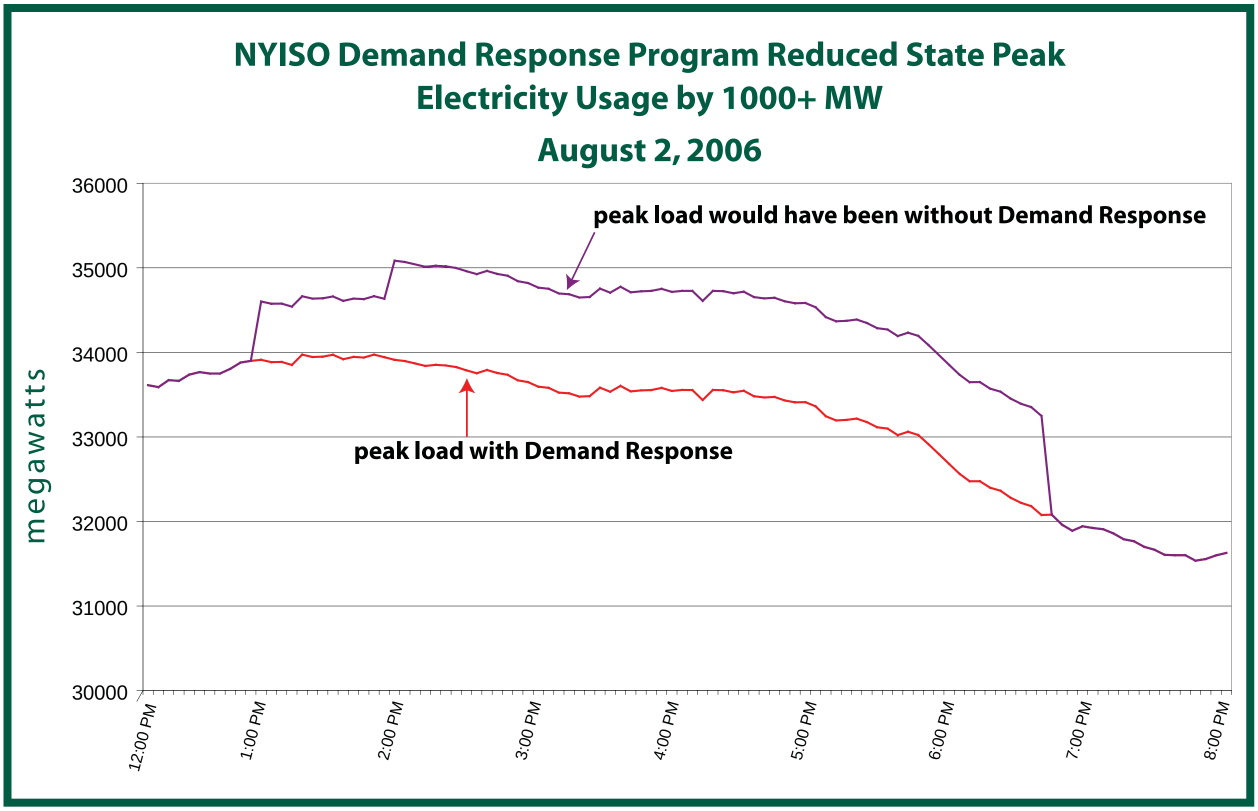
The credit for the successful summer of 2006 goes in large part to the NYISO's skilled and dedicated grid operators, who staff the control room 24 hours a day, 365 days a year.

An equally valuable contribution came from generators and transmission owners, who worked with the NYISO to keep the power flowing when it was needed most.

The third crucial component of success was the NYISO's market rules that have allowed active participation by demand-side resources in the NYISO's Demand Response Program. Major energy consumers, from factories to high-rise office buildings, have agreed to curtail their electricity usage when called upon.

On hot days as the demand for electricity climbs, participants in the program are notified by the NYISO to begin taking pre-arranged, energy-saving steps, like turning down the air conditioning, switching off lights, using on-site generators and possibly cutting production to conserve energy. The participants – known as demand response providers – are paid by the NYISO to take these steps. It is a cost to the power system that is more than offset by the reduction in demand for electricity, which in turn eases the pressure on prices and increases system reliability.

The NYISO's Demand Response Program creates still another benefit: As the need for electricity increases during a heat wave, less efficient, more polluting generating plants are normally brought on line to bolster the supply. By paying participants to cut their electricity consumption, the program reduces the need for such fossil-fuel generated power and helps stem hot weather air pollution.



ACCESS TO THE GRID FOR QUALIFIED APPLICANTS

Any qualified entity that wants to generate or sell wholesale electricity on New York's transmission grid must apply through the NYISO, which is the gatekeeper for the state's 10,775-mile network of high-voltage lines.

To gain access to the grid, however, all proposed new generation and transmission projects must meet the NYISO's basic and mandatory standards of feasibility, reliability and compatibility.

Applicants, both large and small, who use a variety of traditional and new technologies, submit their proposals to the NYISO. They are then added to what is called the "interconnection queue." The details of the application are made public, including the size and location of the proposed generating station, the technology it would use, the number of megawatts it would produce and the Transmission Owner to which it would be connected.

The interconnection queue is updated on a weekly basis as new proposals are added, others progress toward final authorization and still others drop out because they are unable to meet the mandatory standards, fall short on environmental requirements or are determined by the owner not to be viable.

As the proposed projects move through the queue, the NYISO, working closely with the project developer and the Transmission Owner, keeps looking ahead to the next steps that will be necessary for the project to become fully operational. This allows the developers to consider at each point in the process whether or not they want to continue.

The proposals that meet the standards are licensed and become part of a "class year." The project developers are then eligible to sign interconnection agreements with the Transmission Owners and the NYISO, and join the transmission grid.

The need for new power sources – especially clean, renewable power – is essential to New York's future. The NYISO's long-range forecast, known as the Comprehensive Reliability Planning Process, predicts energy shortfalls beginning in 2011 unless new sources come on line to both meet growing demand and replace aging plants.

The NYISO is dedicated to working with Market Participants to help the supply of electricity remain sufficient and reliable. It's part of the crucial job of keeping the lights on for New York.

HIGH MARKS FOR A STRONG PERFORMANCE

The year 2006 was one of strong performance for the NYISO; it was a period in which the innovations and efforts of previous years paid dividends. Confirmation of these achievements came from several independent sources.

In its 2006 Reliability Readiness Audit Report, the North American Electric Reliability Corporation (NERC) cited the NYISO for three "Potential Examples of Excellence," its highest commendation. The awards single out successful management practices as possible models – or potential examples – for other independent system and regional transmission operators to adopt.

The NYISO's three commendations were for its:

- Clearly defined operating instructions;
- Carefully planned Grid Operations training program; and
- Control Center redundancy, including a fully functional backup Control Center, plus backup equipment at both the primary and backup Control Centers.

The NERC further noted 12 positive observations about various phases of the NYISO's operations.

It went on to say, "The PJM and NYISO markets ensure that the lowest cost energy is dispatched first and [they] provide a transparent spot power market with strong financial incentives for improved generator performance."

The Potomac Economics' New York Market Report – a comprehensive analysis of the NYISO's operations that is prepared annually under the supervision of NYISO's Independent Market Advisor David S. Patton, Ph.D. – described a number of NYISO achievements. The report was released in the fall of 2006 and covered the year 2005.

Its assessment of wholesale electricity markets found "many areas of improved performance, primarily due to the release of software enhancements," in the state-of-the-art SMD2 (Standard Market Design) computer platform.

The Patton Report included these findings:

- The design of the ancillary services market and their interaction with the energy market changed significantly with the implementation of SMD2. The new design includes the two key features not found in any other wholesale market in 2005.
- The quantity of offers to supply 10-minute spinning reserves and 30-minute operating reserves rose substantially from 2004 to 2005, which we attribute to the improved incentives under SMD2.
- Under the SMD2 market enhancements, the NYISO became the first wholesale market operator to co-optimize energy and ancillary services every five minutes in the real-time market, and to use demand curves for real-time ancillary services procurement under shortage conditions.
- Real Time Scheduling was a vehicle for introducing a number of market enhancements, including efficient energy and operating reserve prices during periods of shortages.
- These initiatives substantially improved the efficiency of energy and ancillary service dispatch levels and prices in real time, particularly during shortage conditions.
- The NYISO has some of the most effective demand response programs in the country.

A study of New York's restructured wholesale electricity markets conducted by a Boston-based economic consulting firm, The Analysis Group, found that, "significant benefits have resulted from the impacts of NYISO operations."

Asked to measure whether the benefits that the NYISO provides are greater than the cost of its operations – that is, whether the NYISO delivers net savings for New York – the Analysis Group concluded that it does: "The system-wide benefits exceed the NYISO's operating budget costs in every year from 2000 to 2006. In the later years, the difference is hundreds of millions of dollars."

The NYISO is meeting and exceeding all regulatory standards and requirements while producing major benefits, savings and decreased investment risk for consumers throughout New York.

PLANNING FOR FUTURE NEEDS

On August 23, 2006, the NYISO made public New York's first Comprehensive Reliability Plan (CRP). It is a document of far-reaching consequence, since it contains a detailed set of recommendations for meeting New York's future power needs.

Specifically, the plan spells out solutions to meet the state's generation and transmission needs for the 10-year period from 2006 to 2015 in light of projected growth in electricity demand and foreseeable shortfalls.

Working closely with Market Participants, the NYISO will update the CRP each year so that New York's power needs and the proposed solutions are continuously analyzed and developed, looking 10 years into the future.

The CRP is the second step of the NYISO's forward-looking Comprehensive Reliability Planning Process. The first step was the preparation of a Reliability Needs Assessment (RNA) — a detailed analysis of New York's generating capacity and transmission capability measured against future demands and expected shortages.

The first RNA was issued in December 2005. It found that the state's generation and transmission resources should be adequate in the short term, but that increased power demands, coupled with the retirement of several generating units, could cause difficulties in southeastern New York beginning in 2011. The shortfalls could reach 2,250 MW by 2015 if no actions were to be taken.

The CRP was drawn up after lengthy discussions about the RNA's findings between the NYISO and Market Participants – the organizations that buy and sell energy in New York. In conducting the discussions, the NYISO sought market-driven solutions that will meet the needs identified in the RNA. Generation, transmission and demand response proposals can be considered as legitimate solutions to meet these needs.

Transmission Owners are required to develop fallback plans – known as backstop solutions – and if the NYISO concludes that late or failing projects threaten New York's electricity supply, it can trigger the requirement that some of the backstops be put into effect. If the New York State Public Service Commission agrees, these regulated solutions will be mandated as a last resort.

The NYISO's Comprehensive Reliability Plan contains such solutions submitted by four Transmission Owners – Central Hudson, the Long Island Power Authority, Consolidated Edison and Orange & Rockland – to address the downstate needs identified in the RNA.

The Comprehensive Reliability Plan projected that these measures, coupled with other market-driven plans and the previously planned projects of Transmission Owners, should be enough to maintain the reliability of New York's electric grid through 2015.

The question remains of what will happen if some of the proposed market-based solutions fall behind schedule or fail to materialize. To deal with that possibility, the NYISO monitors each project on a continuing basis.

The thrust of the NYISO's Comprehensive Reliability Planning Process and its two component steps – the RNA and the CRP – is to constantly identify energy needs and potential solutions and encourage the market to respond in an effective, timely and logical way. Market-driven solutions are the keystone of the NYISO's energy planning process.

Each year, the rigorous process of identifying the needs of the bulk electricity grid and the solutions to meet those needs is repeated, resulting in updated versions of the RNA and CRP. In March 2007, the NYISO issued its second RNA; the 2007 CRP is expected to be completed later in the year.

NYISO Board of Directors

Board of Directors (left to right - standing)

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

Erland E. Kailbourne
Chairman of the Board of Financial Institutions, Inc. and its subsidiary Five Star Bank.

Mark S. Lynch, President and CEO - NYISO.

Richard E. Schuler
Professor of Economics and Civil/Environmental Engineering at Cornell University and former New York State Public Service Commissioner and Deputy Chairman.

Karen Antion, Board Chair
President of Karen Antion Consulting, LLC and former Senior IT Executive at Oracle Corporation and the Port Authority of New York and New Jersey.

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

(left to right - seated)

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

Robert A. Hiney
Former Executive Vice President for Power Generation of the New York Power Authority (NYPA).

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

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

NYISO Senior Team

Mark S. Lynch
President and CEO

Robert E. Fernandez
General Counsel

Garry A. Brown
Vice President
External Affairs

Michael C. Calimano
Vice President
Operations

S. Kennedy Fell
Vice President
Chief Information Officer

Rana Mukerji
Vice President
Market Structures

Charles N. Garber
Vice President
Chief Financial Officer

* *Vice President - Human Resources — currently vacant*

MANAGEMENT CERTIFICATION

I certify that:

1. I have reviewed this report of the New York ISO for the year ended December 31, 2006;

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 New York ISO as of, and for, the periods presented in this report;

4. The New York ISO'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)) for New York ISO 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 New York ISO is made known to us by others within the New York ISO, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the New York ISO'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

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

5. The New York ISO's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the New York ISO's auditors and the audit committee of New York ISO'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 New York ISO'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 New York ISO's internal control over financial reporting.

Date: March 31, 2007

Mark S. Lynch
President & Chief Executive Officer

I certify that:

1. I have reviewed this report of the New York ISO for the year ended December 31, 2006;

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 New York ISO as of, and for, the periods presented in this report;

4. The New York ISO'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)) for New York ISO 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 New York ISO is made known to us by others within the New York ISO, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the New York ISO'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

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

5. The New York ISO's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the New York ISO's auditors and the audit committee of New York ISO'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 New York ISO'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 New York ISO's internal control over financial reporting.

Date: March 31, 2007

Charles N. Garber

Charles N. Garber
Vice President & Chief Financial Officer

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of New York Independent System Operator, Inc. ("NYISO" or "the Company") as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

New York, New York
March 31, 2007

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 58,461,867	$ 58,180,363
Restricted cash	189,299,217	252,878,234
Accounts receivable—net (Note 2)	11,956,956	12,454,894
Prepaid expenses	4,128,694	4,348,231
Regulatory assets—current portion (Note 3)	265,387	-
Other current assets	480,885	361,402
Total current assets	264,593,006	328,223,124
NONCURRENT ASSETS:		
Regulatory assets (Note 3)	7,392,723	12,240,143
Property and equipment—net (Note 4)	71,251,476	76,137,208
Other noncurrent assets	19,854,539	15,948,527
Total noncurrent assets	98,498,738	104,325,878
TOTAL	$ 363,091,744	$ 432,549,002
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 18,557,423	$ 15,535,507
Market participant prepayments	31,437,099	86,975,384
Market participant security deposits	152,089,995	161,190,024
Long-term debt—current portion (Note 6)	30,903,198	26,780,525
Working capital reserve (Note 10)	51,270,034	49,700,136
Deferred revenue (Note 11)	5,466,556	5,032,414
Regulatory liabilities—current portion (Note 12)	9,109,217	17,514,159
Other current liabilities	1,032,733	595,834
Total current liabilities	299,866,255	363,323,983
NONCURRENT LIABILITIES:		
Accrued pension liability (Note 8)	1,973,731	2,168,365
Accrued postretirement liability (Note 8)	4,106,206	3,425,271
Regulatory liabilities (Note 12)	604,179	1,279,459
Other noncurrent liabilities (Note 8)	1,189,900	1,597,253
Long-term debt (Note 6)	55,351,473	60,754,671
Total noncurrent liabilities	63,225,489	69,225,019
COMMITMENTS AND CONTINGENCIES (Note 13)	-	-
TOTAL	$ 363,091,744	$ 432,549,002

See notes to financial statements.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
REVENUES:		
Rate Schedule 1 tariff charge	$ 142,353,676	$ 144,882,248
Interest income	2,723,211	2,121,390
Planning studies revenue	1,572,392	341,209
Lease income (Note 9)	635,806	1,215,882
Fees and services	591,819	610,132
Total revenues	147,876,904	149,170,861
OPERATING EXPENSES:		
Compensation and related benefits (Note 8)	47,093,969	45,693,068
Depreciation and amortization	32,036,649	35,856,529
Professional fees and consultants	24,898,495	26,327,352
Rent, equipment leases, and other facility costs	20,668,736	17,476,454
Federal Energy Regulatory Commission fees	7,754,555	8,893,682
Telecommunications	4,376,256	4,642,278
Administrative and other expenses	3,298,267	2,981,482
Training, travel, and meeting expenses	2,261,939	2,459,472
Northeast Power Coordinating Council fees	1,724,639	1,689,802
Total operating expenses	144,113,505	146,020,119
INTEREST EXPENSE—Net	$ 3,763,399	$ 3,150,742
NET RESULTS OF ACTIVITIES	$ -	$ -

See notes to financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net results of activities	$ -	$ -
Adjustments to reconcile net results of activities to net cash (used in) provided by operating activities:		
Depreciation and amortization	32,036,649	35,856,530
Loss on disposal of fixed asset	341,577	45,917
Change in operating assets and liabilities:		
Decrease in accounts receivable and prepaid expenses	717,474	3,527,594
Decrease (increase) in restricted cash	63,579,017	(59,602,894)
Decrease in regulatory assets	4,582,033	5,440,582
(Increase) in other assets	(4,025,496)	(12,577,728)
(Decrease) in accounts payable and accrued expenses	(1,299,405)	(692,821)
(Decrease) increase in market participant prepayments	(55,538,285)	67,897,143
(Decrease) in market participant security deposits	(9,100,029)	(11,652,627)
Increase in working capital reserve	1,569,898	2,791,261
(Decrease) increase in regulatory liabilities	(9,080,222)	9,178,143
Increase in deferred revenue and other liabilities	949,991	5,840,661
Net cash provided by operating activities	24,733,202	46,051,761
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment (including capitalized interest)	(23,264,773)	(26,828,713)
Proceeds from sale of assets	93,600	-
Net cash (used in) investing activities	(23,171,173)	(26,828,713)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage	-	14,708,750
Proceeds from renovations loan	10,000,000	-
Proceeds from 2004–2006 budget facility loan	15,500,000	18,000,000
Repayment of mortgage	(30,525)	(2,131,887)
Repayment of 2004–2006 budget facility loan	(15,000,000)	(10,500,000)
Repayment of 2003 budget facility loan	(11,750,000)	(11,750,000)
Net cash (used in) provided by financing activities	(1,280,525)	8,326,863
NET INCREASE IN CASH AND CASH EQUIVALENTS	281,504	27,549,911
CASH AND CASH EQUIVALENTS—Beginning of year	58,180,363	30,630,452
CASH AND CASH EQUIVALENTS—End of year	$ 58,461,867	$ 58,180,363
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the year for interest	$ 3,812,327	$ 3,534,937
NONCASH INVESTING ACTIVITIES:		
Property and equipment additions which were accrued but not paid	$ 6,346,053	$ 2,024,733
Property and equipment additions previously accrued which were paid	$ 2,024,733	$ 788,709

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description—The New York Independent System Operator, Inc. ("NYISO") was formed in April 1997 and commenced operations on December 1, 1999. NYISO is incorporated in the state of New York as a not-for-profit organization. NYISO assumed the responsibilities of its predecessor, the New York Power Pool ("NYPP"), which had coordinated the reliability of New York State's electric power grid for more than 30 years. Formed as a result of Federal Energy Regulatory Commission ("FERC") policies, NYISO monitors a network of more than 10,775 miles of high-voltage transmission lines and serves approximately 375 market participants.

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

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

Basis of Accounting—The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles").

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

Revenue Recognition—Monthly settlements of market participants' energy transactions are not reflected in NYISO's Statements of Activities since they do not represent revenues or expenses of NYISO, as NYISO merely acts as an intermediary in the settlement process. In this role, NYISO receives and disburses funds to/from market participants in the month following the month transactions occurred. See Note 15 for an unaudited summary of transactional volumes occurring in 2006 and 2005.

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

NYISO's Rate Schedule 1 includes a timing mechanism that effectively meets the requirements of an alternative revenue program set forth in Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force Issue No. 92-7, *Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs*. Accordingly, revenue is recognized for net financing obligations and capital costs incurred during the reporting period based on the revenue requirement formula in the tariffs. NYISO has recorded an Other Noncurrent Asset of $15,003,195 and $11,397,988, respectively, in the accompanying 2006 and 2005 Statements of Financial Position in connection with this rate-making recovery mechanism.

Cash and Cash Equivalents—NYISO considers short-term marketable securities with original maturities of three months or less to be cash equivalents. The cash equivalents at December 31, 2006 and 2005, were held in money market accounts invested primarily in short-term U.S. government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve, amounts due to market participants for overcollections on the voltage market, amounts collected for Transmission Congestion Contracts ("TCC") auctions, amounts for funding employee benefit plans, and for general operating purposes.

Restricted Cash—Restricted cash consists primarily of market participant security deposits held in escrow accounts, amounts prepaid by market participants in advance of settlements billing dates, amounts deposited for interconnection studies, and amounts retained by NYISO pursuant to setoff agreements. Based on recent guidance provided by accounting authoritative regulators, the Company now presents changes in restricted cash in the operating activities section of our statement of cash flows instead of in the investing activities section. NYISO has determined that this classification is more suitable to the nature of the Company's operations. The prior year change in restricted cash of $59,602,894 has been reclassified to conform to the current-year presentation.

Other Assets—Other assets consist primarily of timing differences on certain rate-making recoveries, the intangible asset related to NYISO's pension plan, the fair value of securities held by the Trust Share Option Agreement, interest receivable, the fair value of interest rate cap and swap agreements, and other deferred charges.

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

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

Long-lived assets are recorded at cost, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is not aware of any events or changes in circumstances that would necessitate a review of any long-lived assets as of the years ended December 31, 2006 and 2005.

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

Market Participant Prepayments—Amounts received from certain market participants who do not provide an alternate form of financial assurance and must prepay their obligations to NYISO in advance of settlements billing dates and amounts retained by NYISO pursuant to setoff agreements with bankrupt market participants are recorded as market participant prepayments.

Deferred Revenue—Advance payments from developers for interconnection studies, amounts collected for self-insurance reserve, security deposits, and advance rental billings from a tenant leasing office space from NYISO 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 included in deferred revenue.

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

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

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

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

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

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

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

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

Recently Issued Accounting Pronouncements—In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit 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. NYISO will adopt SFAS 158 effective December 31, 2007. NYISO is currently evaluating the effect, if any, that the adoption of SFAS 158 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*," This Standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. NYISO is currently evaluating the effect, if any, that the adoption of SFAS 159 will have on its financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, "Quantifying Misstatements" ("SAB 108"). SAB 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements requiring the use of both a balance sheet and an income statement approach when quantifying and evaluating the materiality of a misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on NYISO's financial statements.

2. ACCOUNTS RECEIVABLE

NYISO's accounts receivable at December 31, 2006 and 2005, consisted of the following:

	2006	**2005**
Billed:		
Past due settlement invoices	$ 5,294,963	$ 9,042,114
Miscellaneous billed receivables	258,575	130,822
Reserve for doubtful accounts—past due settlement invoices	(4,980,394)	(8,964,782)
	573,144	208,154
Unbilled:		
Operating expenses for December	11,158,491	11,839,170
Bad debt losses recoverable from market participants	194,185	356,997
Miscellaneous unbilled receivables	31,136	41,067
Replenishments of working capital reserve	-	9,506
	11,383,812	12,246,740
TOTAL	$ 11,956,956	$ 12,454,894

Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from market participants and provides guidance on the provisions of such recoveries. NYISO's reserve for doubtful accounts at December 31, 2006 and 2005, results primarily from past due settlement invoices related to two subsidiaries of Enron Corporation. The bad debt losses were recovered from market participants in accordance with the OATT and any amounts recovered from the Enron bankruptcy proceedings are refundable to these market participants. During 2006 and 2005, NYISO recovered $3,636,060 and $2,759,606, respectively, from claims entered in the Enron bankruptcy process. All amounts recovered from the Enron bankruptcy proceedings through December 31, 2006, were refunded to market participants in 2006. The 2005 claim was reflected as a current regulatory liability on the 2005 Statement of Financial Position. As of December 31, 2006 and 2005, NYISO recorded unbilled receivables of $194,185 and $356,997, respectively, to reflect amounts yet to be recovered from remaining market participants in connection with other bad debt losses.

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

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

3. REGULATORY ASSETS

At December 31, 2006 and 2005, regulatory assets were comprised of the following:

	2006	2005
Replenishment of working capital reserve	$7,392,723	$12,240,143
Voltage support service (reactive power) market	265,387	-
Total	7,658,110	12,240,143
Less: current portion	(265,387)	-
Long-term portion	$7,392,723	$12,240,143

During 2004, NYISO entered into a settlement agreement with its market participants to resolve a billing issue in NYISO's Transmission Congestion Contracts market. As of December 31, 2006 and 2005, respectively, NYISO's working capital fund has been temporarily depleted by $7,392,723 and $12,240,143, respectively, as a result of this settlement. NYISO is replenishing this temporary draw on the working capital reserve via a FERC-approved surcharge assessed to certain future transmission congestion contracts. The timing of the replenishments via this surcharge is dependent upon the amount and timing of activity in the transmission congestion contracts market. Remaining future replenishments are reflected as regulatory assets due from market participants.

In order to maintain acceptable transmission voltages on the New York State transmission system, certain market participants within the New York Control Area produce or absorb voltage support service (reactive power). Payments to market participants supplying voltage support service and recoveries from other market participants are assessed via Rate Schedule 2 of the OATT and Services Tariff. Differences between the timing of recoveries and payments for voltage support service that result in undercollections are reflected as regulatory assets. At December 31, 2006 and 2005, respectively, NYISO recognized a regulatory asset of $265,387 and a regulatory liability of $3,679,480 (see Note 12) related to such timing differences.

4. PROPERTY AND EQUIPMENT

Property and equipment includes interest of $51,646 and $82,735 capitalized during 2006 and 2005, respectively. As of December 31, 2006 and 2005, property and equipment consisted of the following:

	2006	2005
Computer hardware and software	$ 73,155,073	$ 64,068,880
Software developed for internal use	73,099,841	67,971,366
Building, building improvements, and leasehold improvement	23,429,098	21,355,624
Machinery and equipment	3,794,357	3,655,452
Furniture and fixtures	2,920,164	2,630,143
Land and land improvements	2,042,929	2,007,904
Work in progress	11,797,113	4,497,723
	190,238,575	166,187,092
Accumulated depreciation and amortization	(118,987,099)	(90,049,884)
Property and equipment – net	$ 71,251,476	$ 76,137,208

5. SHORT-TERM DEBT

On July 21, 2005, NYISO entered into a $50 million Revolving Credit Facility that expires on July 21, 2010. The proceeds from this facility are to be used for working capital purposes. Interest on borrowings under this agreement is based on NYISO's option of varying rates of interest tied to either the prime rate or the London Inter Bank Offer Rate ("LIBOR"). At December 31, 2006 and 2005, respectively, there were no amounts outstanding on the Revolving Credit Facility.

6. LONG-TERM DEBT

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

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

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

On July 8, 2005, NYISO entered into two financing agreements to purchase and renovate a 140,000- square foot office building. The first agreement is a $14.7 million mortgage to finance the building purchase ("Mortgage"), and the second agreement represents a $10.0 million line of credit for renovations during an 18-month period, beginning in July 2005 ("Renovations Loan"). The Mortgage has principal and interest payments payable over 20 years, beginning September 2005. Principal and interest payments on borrowings made during the Renovations Loan draw period are payable over 20 years, beginning in January 2007. 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 NYISO's option of varying rates of interest tied to either LIBOR plus 100 basis points or the prime rate. On February 15, 2005, NYISO entered into an interest rate swap agreement on the Mortgage, which fixes the interest rate on this loan at 5.79%. On February 15, 2005, NYISO also entered into an interest rate swap agreement on the Renovations Loan, which fixes the interest rate on these borrowings at 5.96%, beginning on January 1, 2007. As of December 31, 2006, $14.7 million was borrowed on the Mortgage, and $10.0 million was drawn on the Renovations Loan.

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

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

At December 31, 2006, scheduled maturities of NYISO's long-term debt were as follows:

	2003 Budget Facility Loan	2004-2006 Budget Facility Loan	Mortgage	Renovations	Total
2007	$ 11,750,000	$ 18,875,000	$ 32,366	$ 245,832	$ 30,903,198
2008	1,958,334	18,875,000	32,216	279,427	21,144,977
2009	-	8,375,000	455,434	298,470	9,128,904
2010	-	3,875,000	482,901	317,013	4,674,914
2011	-	-	512,025	336,709	848,734
Thereafter	-	-	11,031,395	8,522,495	19,553,944
Total	$ 13,708,334	$ 50,000,000	$ 12,546,337	$ 10,000,000	$ 86,254,671

7. DERIVATIVES AND HEDGING ACTIVITIES

The fair values of NYISO's derivative instruments, which qualify as interest rate hedges, are quoted by external sources. The changes in the fair value of these derivatives are recorded in Interest Expense, net.

In December 2003, NYISO entered into an interest rate cap agreement with a commercial bank to cap interest payments at 5.375% (4.65% after refinancing on April 8, 2005) on its 2003 Budget Facility. The notional amount of the debt on the date of the cap agreement was $47,000,000. Under the cap agreement, NYISO pays a variable interest rate tied to LIBOR on the outstanding principal amount of the 2003 Budget Facility from January 2004 through February 2008; however, this variable interest rate cannot exceed 5.375% (4.65% after refinancing). As of December 31, 2006 and 2005, the fair value of the interest rate cap was $108,514 and $196,073, respectively, and is recorded in Other Current and Noncurrent Assets. For the year ended December 31, 2006 and 2005, NYISO recorded interest income of $115 and $191,531, respectively, related to this derivative instrument.

In March 2004, NYISO entered into interest rate cap agreements with a commercial bank to cap interest payments at 4.60% for draws and 5.00% for term loans (4.525% and 4.80% after refinancing on April 8, 2005) on its 2004–2006 Budget Facility. The notional amount of the debt on the date of the cap agreements was $82,000,000. Under the cap agreements, NYISO pays a variable interest rate tied to LIBOR on the draws and term loans of the 2004–2006 Budget Facility from March 2005 through December 2010; however, this variable interest rate cannot exceed 4.525% for draws or 4.80% for term loans. As of December 31, 2006 and 2005, the fair value of the interest rate cap was $928,590 and $1,161,635, respectively, and is recorded in Other Current and Noncurrent Assets. For the year ended December 31, 2006 and 2005, NYISO recorded interest income of $21,207 and $412,944, respectively, related to this derivative instrument.

In February 2005, NYISO entered into two interest rate swap agreements with a commercial bank to fix interest rate payments on the financing of a new office building purchase. The notional amount of debt on the swap agreement for the Mortgage was $14,708,750, and NYISO will pay 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 will pay a fixed interest rate of 5.96% on payments from January 2007 through January 2027. As of December 31, 2006 and 2005, the fair value of these interest rate swap agreements was $333,440 and $96,395 for the Mortgage and $132,710 and ($49,249) for the Renovations Loan, recorded in Other Noncurrent Assets and Other Noncurrent Liabilities, respectively. For the years ended December 31, 2006 and 2005, NYISO recorded interest income of $419,004 and $47,146, respectively, related to these two swap agreements.

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

8. EMPLOYEE BENEFIT PLANS

Pension and Postretirement Plans—NYISO has a defined benefit qualified pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by a NYPP member company. Employees become vested in pension benefits after five years of credited service. NYISO expects to contribute $2.0 million to the qualified pension plan in 2007.

NYISO also had an unfunded nonqualified excess benefit plan to provide employees with the full level of benefits as stated in the qualified plan without reductions due to various limitations imposed by the provisions of federal income tax laws and regulations. In 2005, this plan was amended such that the timing of payments would be made annually once a five-year vesting period is satisfied. Accordingly, this plan was curtailed in 2005 under SFAS No. 87, *Employers' Accounting for Pensions*. At December 31, 2006 and 2005, NYISO had recognized a liability of $21,651 and $66,976, respectively, of which $21,651 and $57,825 represents the current portion of this liability.

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

The schedules that follow show the benefit obligations, the plan assets, and the funded status as of December 31, 2006 and 2005, and the change in benefit obligations and the components of net periodic cost for NYISO's qualified pension and postretirement plans for the years ended December 31, 2006 and 2005.

	Pension Plan		Postretirement Plan	
	2006	**2005**	**2006**	**2005**
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 19,941,334	$ 15,876,054	$ 4,619,446	$ 3,712,698
Service cost	2,006,348	1,933,823	437,776	412,631
Interest cost	1,110,475	970,357	235,221	234,300
Actuarial (gain)/loss	961,149	2,177,257	(562,902)	260,547
Participant contributions	-	-	30,922	730
Terminated plan/plan amendment	107,856	(498,985)	-	-
Benefits paid	(3,155,880)	(517,172)	(45,269)	(1,460)
Benefit obligation—end of year	$ 20,971,282	$ 19,941,334	$ 4,715,194	$ 4,619,446
Change in plan assets:				
Fair value of plan assets—beginning of year	$ 12,966,846	$ 11,135,501	$ -	$ -
Actual return on plan assets	1,611,189	579,171	-	-
Employer contributions	4,166,671	1,833,337	14,347	730
Participant contributions	-	-	30,922	730
Benefits paid	(3,155,880)	(517,172)	(45,269)	(1,460)
Expenses paid	(95,762)	(63,991)	-	-
Fair value of plan assets—end of year	$ 15,493,064	$ 12,966,846	$ -	$ -
Funded status	$ (5,478,218)	$ (6,974,488)	$ (4,715,194)	$ (4,619,446)
Unrecognized prior service cost	1,785,461	1,974,440	-	-
Unrecognized loss	5,411,481	5,150,207	608,988	1,194,175
Additional minimum pension cost	(3,692,455)	(2,318,524)	-	-
Total accrued liability	$ (1,973,731)	$ (2,168,365)	$ (4,106,206)	$ (3,425,271)

Amounts recognized in the Statements of Financial Position consist of:

	Pension Plan		Postretirement Plan	
	2006	**2005**	**2006**	**2005**
Benefit obligation	$ (1,973,731)	$ (2,168,365)	$ (4,106,206)	$ (3,425,271)
Intangible asset	1,785,461	1,974,440	-	-
The components of net periodic pension and postretirement cost are as follows:				
Service cost	$ 2,006,348	$ 1,933,823	$ 437,776	$ 412,631
Interest cost	1,110,475	970,357	235,221	234,300
Expected return on plan assets	(1,041,759)	(921,112)	-	-
Amortization of unrecognized prior service cost	296,835	296,835	-	-
Amortization of unrecognized loss	226,207	186,305	22,285	54,487
Total	$ 2,598,106	$ 2,466,208	$ 695,282	$ 701,418

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 $17,466,795 and $15,135,211 at December 31, 2006 and 2005, respectively.

The following table as of December 31, 2006 and 2005, shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension Plan		Postretirement Plan	
	2006	**2005**	**2006**	**2005**
Benefit obligations:				
Discount rate	6.00 %	5.75 %	6.00 %	5.75 %
Rate of compensation increases	4.00	4.50	4.00	4.50
Net cost or credit:				
Discount rate	5.75	6.00	5.75	6.00
Rate of compensation increases	4.50	5.06	4.50	5.06
Expected return on plan assets	7.75	8.00	n/a	n/a

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

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

	Target Allocation	December 31, 2006	December 31, 2005
Cash equivalents	- %	4%	- %
Equity securities	60	59	62
Debt securities	40	37	38
Total	100%	100%	100%

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

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

The assumed health care cost trend rates for the postretirement plan are 9% for 2006 decreasing to 5% in 2013, and 9% for 2005 decreasing to 4.5% in 2010. A one-percentage point change in the assumed health care cost trend rate would change the 2006 postretirement benefit obligation as follows:

	1% increase	1% decrease
Effect on postretirement benefit obligation	$ 224,400	$ (208,900)
Effect on total of service and interest cost components	50,000	(45,400)

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

	Pension Plan	Postretirement Plan
2007	$ 742,035	$ 53,062
2008	864,056	90,727
2009	1,185,183	137,505
2010	1,557,497	191,794
2011	1,688,538	247,528
2012–2016	11,750,766	1,971,220

401(k) Plan—NYISO has a 401(k) Retirement and Savings Plan open to all non-temporary employees. This plan provides for employee contributions up to specified limits. NYISO matches 100% of the first 3% of employee contributions, and 50% of the next 2% of employee contributions. Employees are immediately vested in NYISO's matching contributions, which were $1,390,915 and $1,234,783 for 2006 and 2005, respectively.

Long Term Incentive Plan—NYISO's Long-Term Incentive Plan provides certain members of senior management with deferred compensation benefits. Benefits are based upon the achievement of three-year performance goals established by the Board of Directors, with participants becoming fully vested in these deferred amounts after the completion of the third year. For the first three performance cycles (2000–2002, 2001–2004, and 2002–2005), annual distributions were payable in the year following completion of the cycle. In 2005, there was a one-year performance cycle, payable in 2006. After 2005, distributions are payable after the completion of each three-year cycle. Accrued Long Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2006 and 2005, respectively, were $0 and $856,606. The short-term portion of such liability, included in Other Current Liabilities, at December 31, 2006 and 2005, was $941,513 and $118,725, respectively.

Trust Share Option Agreement—NYISO has entered into a nonqualified share option agreement with a key former officer whereby NYISO has granted to such former officer the right to acquire debt and equity securities held by NYISO in a trust for an amount equal to 25% of the fair value of such securities. The options are immediately vested and are subject to certain restrictions of transferability. At December 31, 2006 and 2005, respectively, the fair market value of securities held by the trust was $899,887 and $840,726. Options outstanding at December 31, 2006, expire from November 16, 2009 through February 19, 2012. NYISO records compensation expense for 75% of the fair value of the options granted at the date of grant. A corresponding liability is established until such time as the options are exercised. No options have been exercised as of December 31, 2006.

Severance Pay Plan—In 2005, NYISO implemented changes to its organizational structure to more closely align with its corporate objectives and market participant expectations. As a result of these realignments, 11 employee positions were eliminated. These former employees were eligible to receive certain termination benefits under a Severance Pay Plan adopted by NYISO in 2005. Total severance costs resulting from these 2005 activities were $1,425,031, and are reflected in the Compensation and Related Benefits line item of the Statement of Activities. Of this total, $1,029,497 was paid to terminated employees during 2005, and the remaining $395,534 was paid during 2006. At December 31, 2006 and 2005, respectively, $0 and $395,534 was included in the Other Current Liabilities line item of the Statement of Financial Position.

9. LEASE COMMITMENTS

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

Rent expense related to these leases in 2006 and 2005 was as follows:

	2006	2005
Minimum lease payments	$ 180,422	$ 1,020,990
Additional lease payments	1,387	49,584
Total	$ 181,809	$ 1,070,574

The future minimum lease payments under these operating leases at December 31, 2006, are as follows:

2007	$ 61,080
2008	20,360
Total	$ 81,440

On July 8, 2005, NYISO purchased an office building to relocate NYISO's alternate control center and to consolidate employees located in leased facilities. On this date, NYISO also executed an agreement to lease certain office space within the building to the previous owner of this building for a period of one year. The lease agreement allowed the lessee to terminate the lease after 10 months or to extend the lease for two months. In December 2005, the lessee gave notice to terminate the lease after 10 months, and the lease was terminated in May 2006. Monthly minimum lease payments were $89,546, plus reimbursements for a percentage of operating, maintenance, real estate taxes, and insurance costs. A security deposit of $281,521 was received at closing and was applied to the last two months' rent and expenses. On January 16, 2006, NYISO amended the lease terms to reduce the square footage rented and to lower rent and expense reimbursements by 9.8%. The minimum lease income recorded in 2006 and 2005 was $327,217 and $517,056, plus additional rent income of $308,589 and $698,826, respectively.

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. However, the agreement is cancelable at the discretion of NYISO.

10. WORKING CAPITAL RESERVE

At December 31, 2006 and 2005, the working capital reserve consisted of:

	2006	2005
Market participant contributions through Rate Schedule 1	$ 46,440,345	$ 46,440,345
Interest on market participant contributions	4,829,689	3,259,791
Total	$ 51,270,034	$ 49,700,136

11. DEFERRED REVENUE

Deferred revenue at December 31, 2006 and 2005, consisted of the following:

	2006	2005
Advance payments received on interconnection studies	$ 3,754,248	$ 2,937,925
Amounts collected for self-insurance reserve	1,351,408	1,290,096
Governance participation fees	360,900	375,400
Security deposit and advanced rent on building lease	-	428,993
Total	5,466,556	5,032,414
Less: current portion	(5,466,556)	(5,032,414)
Long-term portion	$ -	$ -

12. REGULATORY LIABILITIES

At December 31, 2006 and 2005, NYISO recorded the following amounts as regulatory liabilities:

	2006	2005
Rate Schedule 1 underspending	$ 5,594,680	$ 1,072,525
Rate Schedule 1 load overcollections	3,514,537	10,002,548
Funding for deferred charges	604,179	1,279,459
Voltage support service (reactive power) market	-	3,679,480
Due to market participants for bad debt recovery	-	2,759,606
Total	9,713,396	18,793,618
Less: current portion	(9,109,217)	(17,514,159)
Long-term portion	$ 604,179	$ 1,279,459

NYISO recovers its operating expenses through a surcharge assessed to market participants via Rate Schedule 1 of the OATT and Services Tariff. To the extent that transactional volumes billed under Rate Schedule 1 exceed the amount expected when the Rate Schedule 1 surcharge is established, NYISO reflects a regulatory liability for the overcollection amounts. Additionally, to the extent that NYISO's spending does not exceed the annual Rate Schedule 1 revenue requirement, a regulatory liability is also established for the underspending amounts. The regulatory liabilities resulting from Rate Schedule 1 load overcollections and underspending at December 31, 2006 and 2005, respectively, will be applied toward reduction of long-term debt in 2007 and 2006.

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 overcollections are reflected as regulatory liabilities. At December 31, 2006 and 2005, respectively, NYISO recognized a regulatory asset of $265,387 (see Note 3) and a regulatory liability of $3,679,480 related to such timing differences.

During 2005, NYISO recovered $2,759,606 from claims entered in the Enron bankruptcy proceedings to recover amounts previously charged to market participants for bad debt losses on two Enron subsidiaries. These recoveries were refunded to market participants in 2006.

13. COMMITMENTS AND CONTINGENCIES

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

The most significant legal proceeding affecting NYISO is a civil suit, filed by New York State Electric and Gas, seeking recovery of $6.6 million in compensatory damages and unspecified punitive damages, associated with alleged excessive payments for reserves of electricity during the period January to March 2000. This case has been stayed pending the outcome of related proceedings at the FERC and the D.C. Circuit Court of Appeals.

NYISO is also defending a civil suit, filed by a former employee, seeking reinstatement, as well as compensatory and punitive damages totaling $5 million, as relief for certain events alleged to have occurred during this individual's NYISO employment. While the ultimate outcome of this suit cannot be predicted, NYISO intends to defend the action vigorously.

14. SUBSEQUENT EVENT

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

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

15. MARKET ACTIVITY (UNAUDITED)

The following amounts represent the transactional volume of energy and energy-related products in NYISO's markets during the years ended December 31, 2006 and 2005 (in $ billions). The decrease in energy transactions from 2005 to 2006 is driven primarily by price rather than volume considerations.

	2006	2005
Energy	$ 7.5	$ 9.6
Installed capacity	0.8	0.8
Transmission congestion contracts	0.3	0.3
Total	$ 8.6	$ 10.7

MARKET PARTICIPANTS

3C Investments
AB Energy, Inc.
330 Fund I, L.P.
330 Investment Management LLC
Absolute Energy Inc.
Accent Energy Midwest II, LLC
Accent Energy Midwest, LLC
Ace Energy Company, Inc.
ACN Power, Inc.
Advantage Energy Hedging
Advantage Energy, Inc.
AES Creative Resources, L.P.
AES Eastern Energy, L.P.
AG Energy, L.P.
Agway Energy Services
AIG Energy Inc.
Aleph One Inc.
Allegheny Energy Supply Co.
Allegheny Power
Allied Utility Network
American Electric Power Service Corp.
American Ref-Fuel Company
Astoria Energy LLC
Astoria Generating Company, L.P.
Athens Generating Company
August Power, LLC
Automated Energy, Inc.
Axon Energy
Bank of America NA
Barclay's Bank PLC
Bear Energy, LP
BJ Energy LLC
Black Oak Capital, LLC
Black Oak Energy, LLC
Blue Rock Energy, Inc.
Boralex Chateaugay
Boralex Operations
BP Energy Company
Brookfield Energy Marketing, Inc.
Calpine Energy Service L.P.
CAM Energy Products
CAM Energy Trading, LLC
Cambridge Valley Enterprises LLC
Canastota Wind Power, LLC
Cargill Power Markets, LLC
Carr Street Generating Station
CBK Group, Ltd.
Centaurus Energy Master Fund
Central Hudson Enterprises
Central Hudson Gas & Electric
Central Vermont Public Service Corp.
Cinergy Capital & Trading
Cinergy Services, Inc.
Citadel Energy Products
Citigroup Energy Inc.
City Power Marketing, LLC
CMT Fund IX LLC
Commerce Energy, Inc.
Con Edison Solutions, Inc.
Conectiv Energy Supply, Inc.
Consolidated Edison Co. of NY, Inc.
Consolidated Edison Energy, Inc.
Consolidated Hydro New York
Constellation Energy Commodities
Constellation NewEnergy, Inc.
Consumerpowerline.org
Coral Canada US, Inc.
Coral Power, LLC
Core Equities, Inc.
County Energy Services, LLC
Crucible Specialty Metals
Cutone & Company Consultants, LLC
DART Premiums
David Sholk, LLC
Day Automation Systems, Inc.
DB Energy Trading LLC
DC Energy New York, LLC
DC Energy, LLC
DE Shaw Plasma Power
Delaware Trading
Demand Direct LLC
Direct Energy Marketing, Inc.
Direct Energy Services
Dominion Energy Marketing
Dominion Retail, Inc.
DTE Energy Trading
Dynegy Power Marketing, Inc.

East Coast Power LLC
EBidenergy.com
ECONnergy
ECS Power Corp.
Edison Mission Mktng & Trading
E-Energy, Inc.
El Paso Merchant Energy LP
Electrotek Concepts
Emera Energy Services
Emera Energy US Sub. No. 1
Empire Natural Gas
Empire Power Systems LLC
Energetix
Energy Aggregation Svcs
Energy Analytics
Energy Connect, Inc.
Energy Conservation & Supply, Inc.
Energy Curtailment Specialists
Energy Endeavors, LLC
Energy Enterprises Inc.
Energy Investment Systems
Energy New England
Energy Procurement Serv. All.
Energy Services Providers
Energy Solutions Group LLC
Energy Solutions USA
Energy Spectrum
Energy Systems North East LLC
Energy Trading Associates Inc.

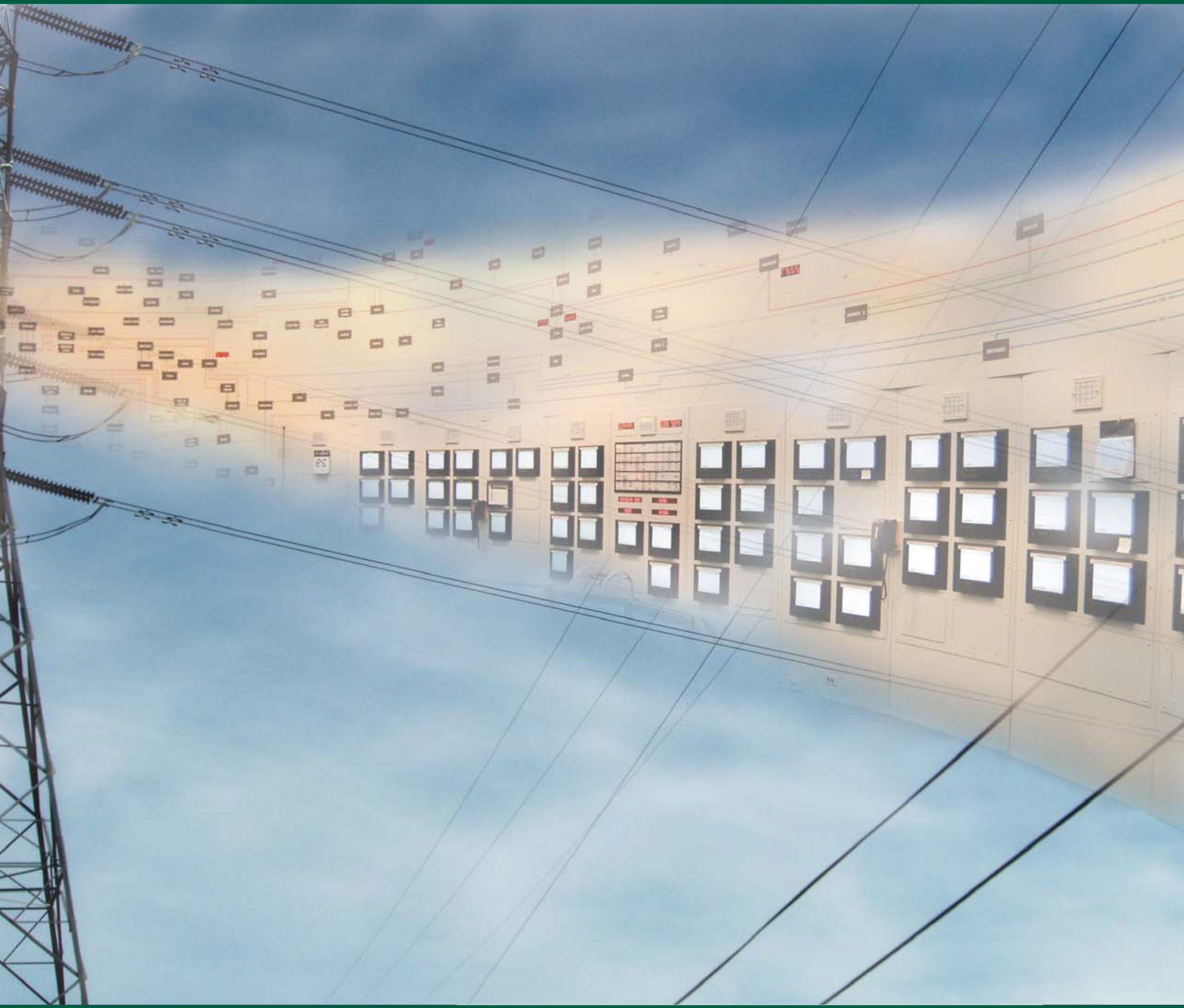
EnerNOC
Engage Energy America
Entegra Capital Management
Entergy Nuclear Power
Marketing, LLC
Entergy Solutions Supply, Ltd.
Entergy Solutions, Ltd.
EPCOR Energy Marketing (US) Inc.
EPCOR Merchant & Capital (US)
EPIC Merchant Energy NY, L.P.
Erie Blvd. Hydropower LP
Exelon Generation Company, LLC
Firm Solution, LLC
First Commodities Ltd.
First Energy Solutions Corp.
Flat Rock Windpower LLC
Florida Power & Light
Fluent Energy Corporation
Fortis Energy Marketing
& Trading, GP
Fortis Ontario, Inc.
FPL Energy Power Marketing
Galt Power, Inc.
General Electric Plastics
GEXA Energy, LLC
Glacial Energy New York, Inc.
Glens Falls Lehigh Cement
Good Energy, LP
Grant Energy, Inc.

Grunwald Fund
Hess Corporation
Horizon Power, Inc.
HQ Energy Services US
Hudson Energy Services, LLC
IDT Energy, Inc.
Indeck-Corinth, L.P.
Indeck-Energy Svs of Silver Springs
Indeck-Olean, L.P.
Indeck-Oswego, L.P.
Indeck-Yerkes, L.P.
Innovative Energy Systems
Innoventive Power, LLC
International Paper
J Aron and Company
Jamestown Board of Public Utilities
JP Morgan Ventures Energy Corp.
Keyspan Energy Services
Keyspan Ravenswood
KW Control Systems, Inc.
Lafarge Building Materials, Inc.
Laissez Faire Energy, Inc.
Lehman Brothers Commodity Svcs.
Lighthouse Energy Trading Co Inc.
Lockport Energy Associates
Long Island Power Authority
LSF Limited
Lynx Technologies, Inc.
Lyonsdale Biomass, LLC

MARKET PARTICIPANTS

Madison Windpower, LLC
MAG Energy Solutions
Merrill Lynch Capital Services, Inc.
Merrill Lynch Commodities
Methane Credit Inc.
MG Industries
Mirabito Gas & Electric
Mirant Energy Trading LLC
Model City Energy, LLC
Modern Innovative Energy LLC
Morgan Stanley Capital Group
MxEnergy Electric, Inc.
National Fuel Resources
New York Energy Savings Corp.
New York Energy, Inc.
New York Municipal Power Agency
New York Power Authority
New York State Electric & Gas Corp.
Niagara Frontier
Transportation Authority
Niagara Mohawk Power Corp.
Nine Mile Point Nuclear Station
Nissequogue Cogen Partners
NOCO Electric LLC
North America Power Partners
North American Energy, Inc.
North East Expense
Reduction Svcs Inc.
North East Sources, LLC
Northbrook New York, LLC
Northeast Utilities Services Company
Northern States Power Company
NorthPoint Energy Solutions Inc.
NRG Power Marketing
NYSEG Solutions
Occidental Chemical Corp.
Occidental Power Services Inc.
Old Lane Commodities, LP
One Joule per Second, LLC
Onondaga Cogeneration, LP
Ontario Power Generation, Inc.
Optima Energy, LLC
Orange & Rockland Utilities, Inc.
Peoples Energy Services Corp.
Pepco Energy Services
PG&E Energy Trading - Power
Pine Bush Energy Trading, LLC
Plant-E Corp
Potential Energy Consulting
Power City Partners, L.P.
Power Hedging Dynamics, LLC
Powerex
PP&L EnergyPlus Co.
PPM Energy, Inc.
Praxair, Inc.
Preferred Utilities Energy Services
Prenova, Inc.
Primary Power Marketing, LLC
Pro-Energy Marketing, LLC
Project Orange Associates
PSEG Energy Resources & Trade
Public Energy Solutions, LLC
Public Service Electric & Gas Co.
Public Service of Colorado
Pure Energy, Inc.
Quark Power
R.E. Ginna
Rainbow Energy Mkt. Corp.
RAM Energy Products, LLC
Reliable Power Management, Inc.
Reliant Energy Services
Rensselaer Cogeneration LLC
Robinson Energy, LLC
Rochester Gas & Electric Corp.
RS Environmental Solutions Inc.
S.A.C. Energy Investments, L.P.
Saracen Energy, LP
Saracen Merchant Energy, LP
Select Energy NY, Inc.
Select Energy, Inc.
Selkirk Cogen Partners, L.P.
Sempra Energy Solutions
Sempra Energy Trading Corp.
Seneca Energy II
Seneca Power Partners, L.P.
Sesco Enterprises
Silverhill Limited

Site Controls, Inc.
Sithe Independence Power Partners
Sithe Power Marketing L.P.
Solios Power LLC
SourceOne
Spark Energy L.P.
Specialized Energy Services, Inc.
Split Rock Energy, LLC
SR Energy, LLC
State of New York
State University of New York
State University of NY at Buffalo
Stealth Energy Company
Sterling Power Partners
Strategic Energy LLC
Strategic Power Management
Suez Energy Marketing NA, Inc.
Suez Energy Resources NA, Inc.
SUNY Potsdam
Susquehanna Energy Products, LLC
Tarachand Enterprises
Telemagine Inc.
Tenaska Power Services Company
Texas Retail Energy, LLC
Transalta Energy Marketing (US)
TransCanada Power Marketing
Trigen Syracuse Energy Corp.
Triton Power Company
Twin Cities Power Generation
TXU Energy Trading
U.S. Direct Energy, Inc.
U.S. Energy Partners, LLC
UBS AG London Branch
UGI Energy Services
UniGrid Energy, LLC
Village of Freeport, Inc.
Village of Hilton
Village of Rockville Center
Virtual Energy LLC
Virtual Energy, Inc.
Wakefern Food Corp.
WebGen Systems Inc.
Western New York Wind Corp.
Wheelabrator Westchester
WPS Energy Services, Inc.
Zone Energy
ZZ Corp.



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