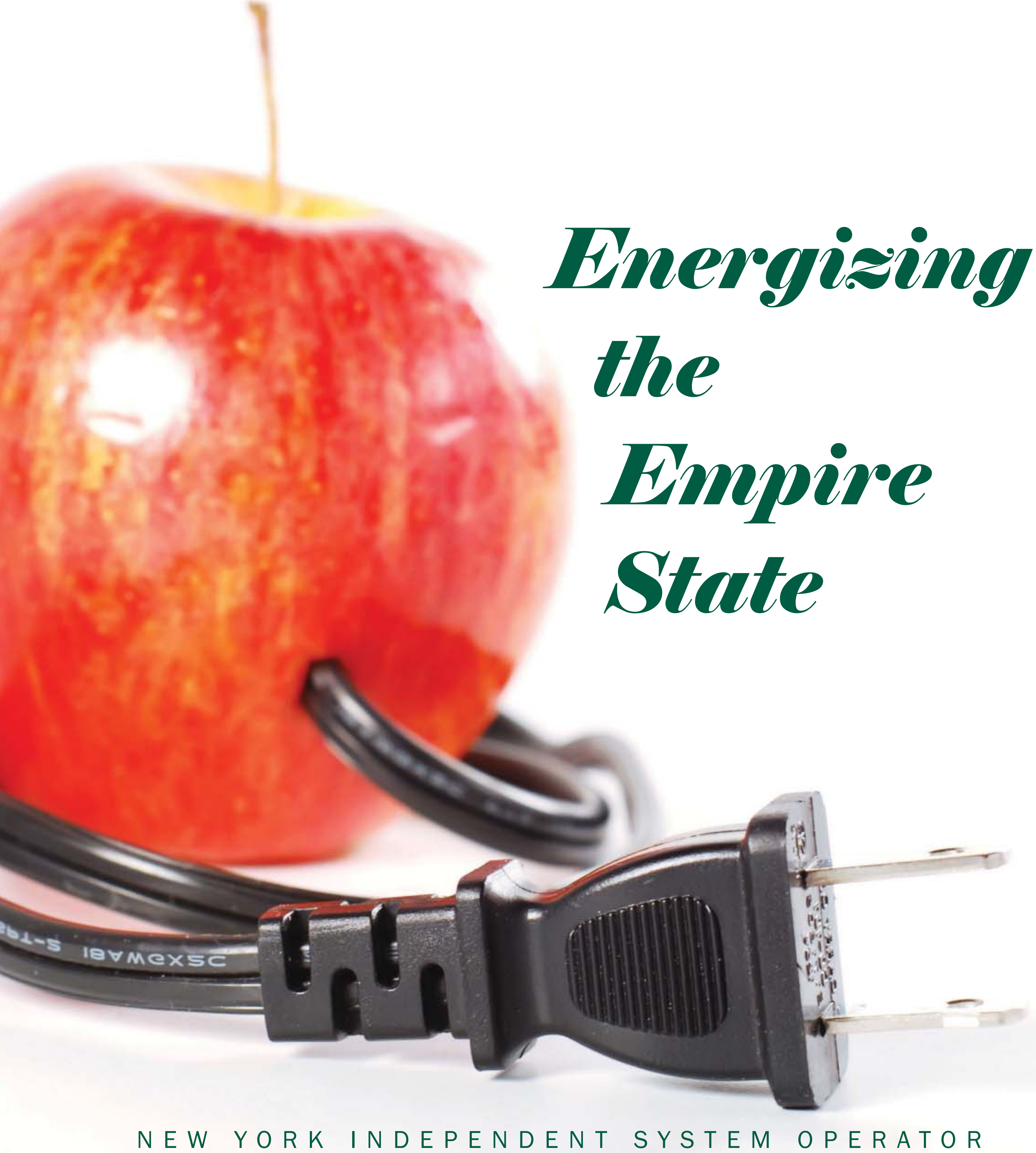
2009 ANNUAL REPORT

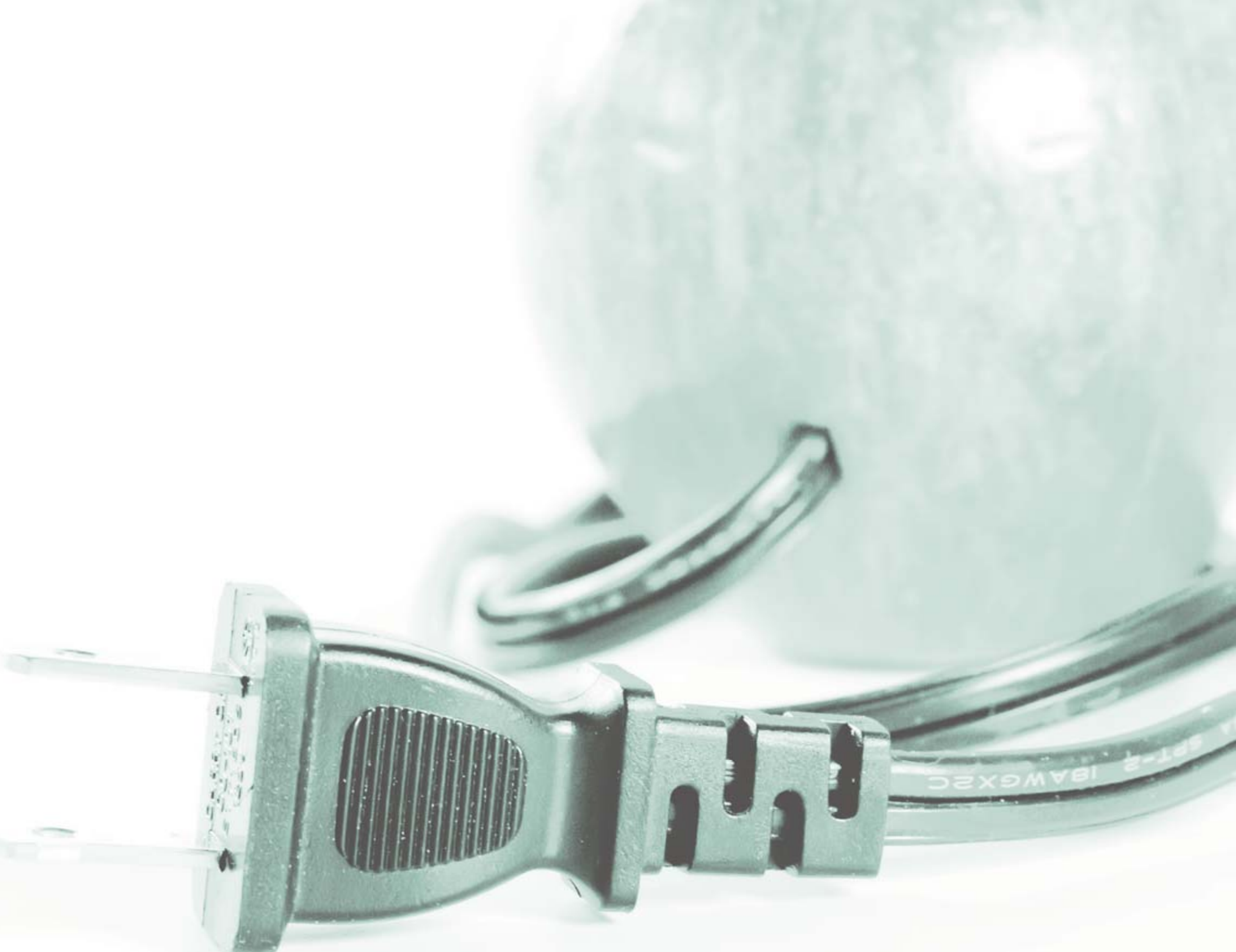


Energizing the Empire State

NEW YORK INDEPENDENT SYSTEM OPERATOR

New York Independent System Operator

- *Sustaining and enhancing reliability*
- *Bolstering open and competitive markets*
- *Planning a smarter, greener, and more efficient grid*



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Letter from the Board Chair and President & CEO

2009 was a milestone in the history of the New York Independent System Operator, marking our first decade of successfully energizing the Empire State.

Since the NYISO began operations in 1999, New York's competitive marketplace has helped improve reliability and increase the responsiveness of the power system, providing benefits for all New Yorkers.

These benefits include a decrease in power plant emissions, an increase in renewable resources, and the development of demand-side management innovations. The markets have provided sustained economic value to consumers by fostering innovation and expanding customer choice.

While our industry-leading record of innovation and value continued in 2009, the NYISO also faced many challenges as the economic downturn continued. In response to reduced electricity use, the NYISO cut its planned spending by $12 million. Prices were similarly affected by decreased demand, as well as reductions in the cost of fuel. This led to an unprecedented 50% drop in power prices as compared to 2008 – with the average 2009 price at a level lower than any year in our history.

Whether we are addressing dynamic economic conditions or advancing the evolution of grid operations and market design, the NYISO's unique shared governance system provides advantages for managing change. Combining an independent Board of Directors and actively engaged stakeholder committees, shared governance has been instrumental in guiding the progress of the past decade.

The NYISO Board is a diverse body whose members feature backgrounds in the electric industry, public service, finance, academics, information technology, and communications. In 2009, we welcomed two new Board members: Ave M. Bie, former Chair of the Wisconsin Public Service Commission; and Michael B. Bemis, who has more than three decades of experience as an executive in the electric utility industry.

The NYISO continued its leadership in market design, grid operations, electricity system planning, and technological innovation in 2009. In our operation of the bulk electricity grid, we remained intently focused on the reliable supply of electricity, which sustains the lives and livelihoods of New York State's families, businesses, and institutions.

Through market design and advanced grid technology, we pioneered the integration of wind energy and new energy storage technologies. There are now over 1,275 megawatts of wind generation in operation with an additional 7,000 megawatts proposed for grid connection.

We expanded our quest for new solutions to New York's energy needs with an initiative to receive Smart Grid funding from the federal government. The U.S. Department of Energy awarded the NYISO $37.8 million in federal stimulus funds to support Smart Grid investments in New York. The funds will support grid technology to enhance the reliability of the bulk electricity system.

Working in collaboration with grid operators and system planners beyond our borders, we began significant initiatives for broader regional markets and expanded interregional planning.

In addition, we added an important economic component to our long-term system reliability planning process. It features a first-of-its-kind economic analysis of transmission congestion on New York State's bulk power system and the potential costs and benefits of relieving the congestion.

Seeking an independent view of our first decade of operations, in 2009 we commissioned a comprehensive external study by the Analysis Group. The report, released in April 2010, offered an unbiased, independent look at our history to date. It found that the NYISO has succeeded in operating the electric grid reliably and has developed the best market design in the nation. It noted that New York's competitive wholesale electricity markets have helped to create demand response programs and increase generation and transmission in the right locations – paid for by developers, not ratepayers. It highlighted the role of markets in fostering the growth of renewable resource and reducing emissions.

The Analysis Group report also noted that, like any organization, there are areas in which we can improve, including working to enhance transparency and sharpen our focus on consumer interests.

Building on our ten-year record of progress, we are committed to making the grid smarter, greener, and more efficient. We are proud that others recognize our record of excellence. In the past decade, more than 1,000 representatives from over 50 nations have visited us to learn about competitive power markets and reliable operation of the grid.

With a renewed commitment to excellence in the performance of our vital roles and the enthusiastic pursuit of new challenges and opportunities, we are confident about building on our record of success and lighting the way to New York's bright energy future.

Karen Antion
Chair, Board of Directors

Stephen G. Whitley
President & CEO

2009 In Brief

The economic recession and the disruption of the financial markets resulting from the credit crisis significantly impacted the electric system in 2009. Across the nation, demand for electricity dropped 4.2 percent, the biggest single-year decline in sixty years.

In New York State, we experienced a nearly identical drop in power demand – a 4.1 percent decline.

Anticipating reduced revenues as a result of lower electricity use, the NYISO initiated cost-cutting and budget revision to cut planned spending by $12 million in 2009.

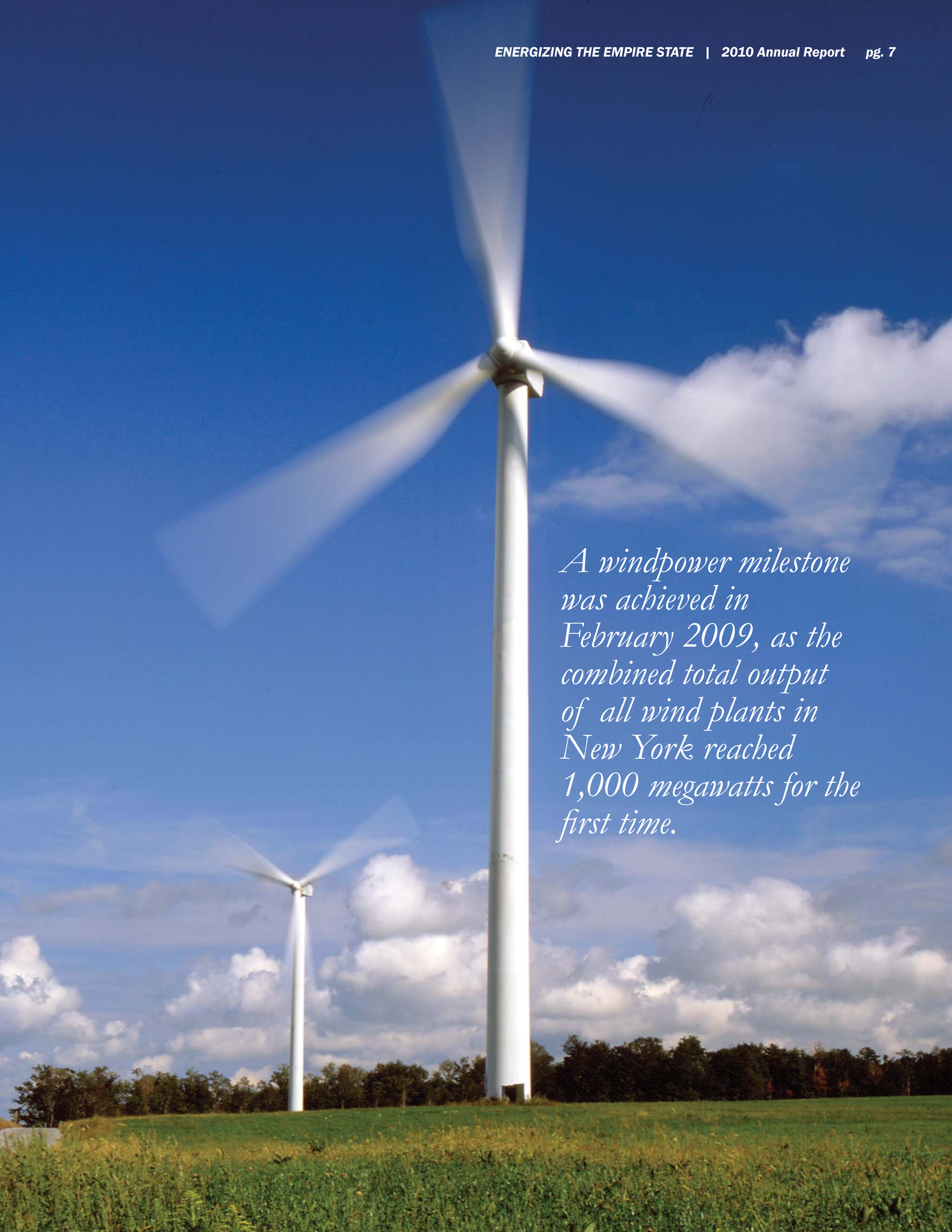
In the midst of this historic economic downturn, the NYISO continued to achieve its objectives and enhance the ways in which it serves to energize the Empire State.

In 2009, the NYISO pioneered power market innovations, especially with regard to renewable resources. We implemented a state-of-the-art wind forecasting system and became the first grid operator to integrate wind-generated electricity into economic dispatch. A windpower milestone was achieved in February 2009, as the combined total output of all wind plants in New York reached 1,000 megawatts for the first time. The capacity of New York's windpower generation totaled 1,275 megawatts in 2009, with proposed projects offering the potential of another 7,000 megawatts.

The NYISO achieved another market first in the area of energy storage, creating the first regulation-only energy storage product in any ISO/RTO market environment. In November 2009, Beacon Power broke ground for its Stephentown, N.Y. flywheel energy storage plant. When completed in 2012, the 20 MW project is expected to become the nation's first full-scale flywheel system to provide grid regulation services.

In 2009, the NYISO conducted a first-of-its-kind economic analysis of transmission congestion on the New York State bulk power system and the potential costs and benefits of relieving congestion.

On December 1, 2009, the NYISO marked its 10-year anniversary. The Federal Energy Regulatory Commission (FERC) authorized the creation of the NYISO in 1998. By November 1999, New York State's competitive wholesale electricity markets were opened to suppliers and consumers of electricity as NYISO began managing the bulk electricity grid. The formal transfer of the New York Power Pool's responsibilities to the newly created NYISO took place on December 1, 1999. NYISO has launched an enhanced version of its Web site (www.nyiso.com) in recognition of its first decade of operation.



A windpower milestone was achieved in February 2009, as the combined total output of all wind plants in New York reached 1,000 megawatts for the first time.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Mission and Key Roles

The Mission of the New York Independent System Operator, in collaboration with its stakeholders, is to serve the public interest by:

- *Maintaining and enhancing regional reliability*
- *Promoting and operating fair and competitive wholesale electricity markets*
- *Planning the power system for the future*
- *Providing objective and independent technical information on energy issues*

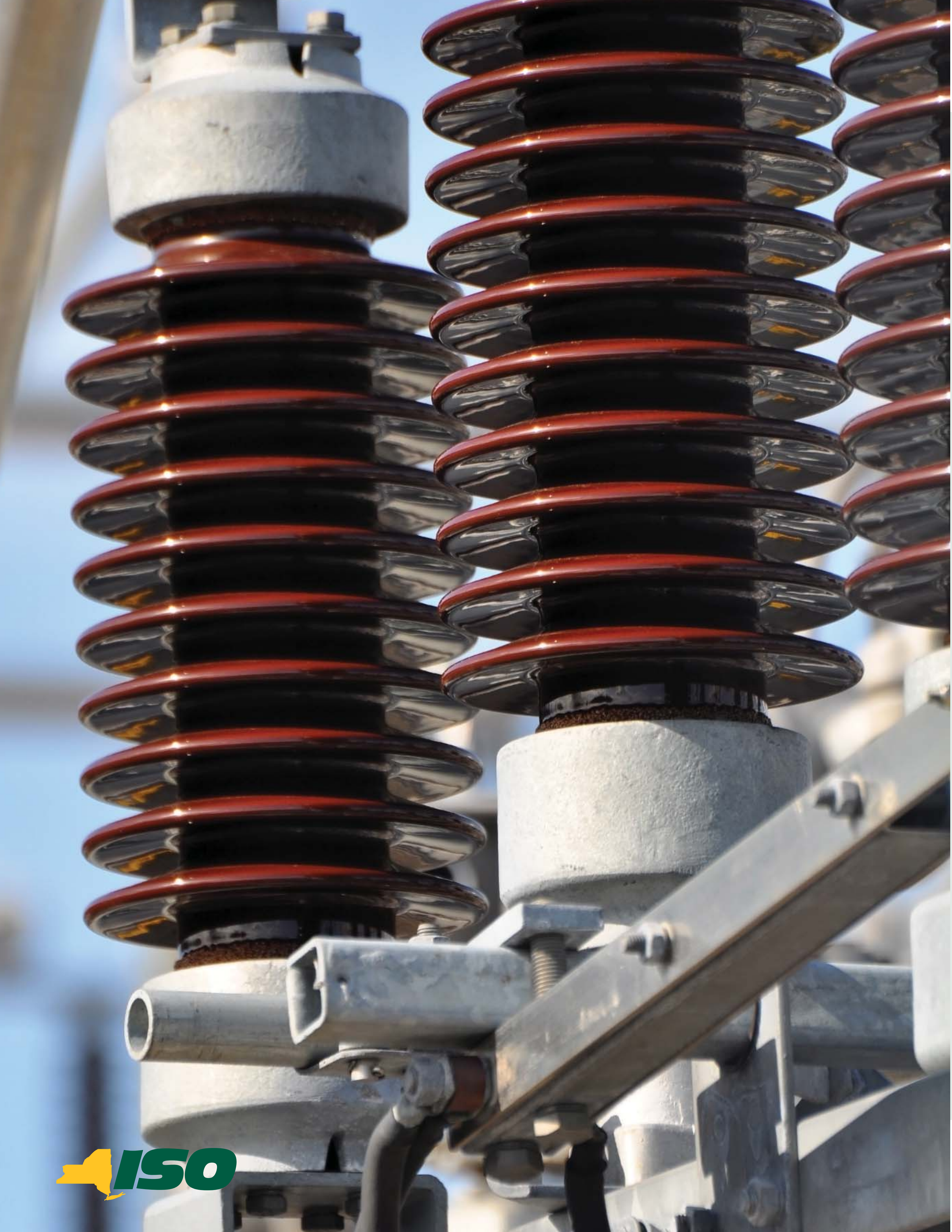
At the onset of operations in 1999, the NYISO's focus centered on the reliability of the bulk electricity grid and the development and administration of open, efficient wholesale electricity markets. Over the years, as the NYISO increased its ability to anticipate emerging energy needs, long-term system and resource planning emerged as a complementary role. Likewise, the NYISO's extensive information technology resources are an integral element in performing its mission and this technological expertise is increasingly being leveraged to address the energy needs of the Empire State.

Oversight & Governance

The NYISO is overseen by government regulators – the Federal Energy Regulatory Commission and the New York State Public Service Commission – as well as electric system reliability regulators. These include the North American Electric Reliability Corporation (NERC), Northeast Power Coordinating Council (NPCC), and the New York State Reliability Council (NYSRC).

Shared governance, including an independent Board of Directors and stakeholder committees, has been key to the successful operation of the NYISO. Stakeholder committees are comprised of representatives of market sectors that include transmission owners, generation owners, other suppliers, end-use consumers, public power, and environmental parties. Since the inception of the NYISO, the overwhelming majority of the tariff revisions filed with the FERC have been developed through consensus among NYISO stakeholders about new market rules, system operations and planning procedures.

The shared governance process has been lauded for creating an environment that enables diverse points of view to be represented and complex issues to be fully vetted. The value of shared governance was noted by FERC in a 2008 order that stated, "The Commission commends NYISO and the stakeholders for working together to resolve many issues ..." Diverse input and extensive participation takes advantage of a wide array of expertise and experience to produce the best possible design changes.


ISO

Reliability

Reliable management of New York's bulk electricity grid, consisting of hundreds of generating units and thousands of miles of high-voltage transmission lines, requires constant balancing of the electricity supply to meet consumer needs, on a moment-by-moment basis, 24 hours a day, 365 days a year. The constant vigilance required for reliable power system operation is at the core of the NYISO's responsibilities.

In the NYISO's ten years of operation, we have met New York's power needs – sustaining the electric pulse of modern life – by reliably managing the bulk electricity grid.

In 2009, we continued to sustain and enhance reliability.

The resources available to meet summer peak demand increased to a surplus of over 900 megawatts in 2009. In the past decade, encouraged by the competitive marketplace, more than 7,600 megawatts of new generation was added, with 80 percent sited where demand for power is greatest (New York City, Long Island and the Hudson Valley).

Nearly 1,300 megawatts of transmission capability has been added to bring more power to the downstate region from out of state. 2009 saw the activation of the Linden VFT, a transmission facility that runs from Linden, NJ to Staten Island. The Linden project will transport 300 megawatts – enough electricity to power a quarter-million homes. It is the third major transmission project built to serve the metropolitan New York region since the creation of the NYISO a decade ago.

NYISO President & CEO Stephen G. Whitley helps to mark the inauguration of the Linden VFT project in December 2009.

Markets

When the federal and state governments opened access to the grid and restructured the electricity industry, the NYISO was assigned the task of designing, implementing and monitoring wholesale electricity markets. In collaboration with an extensive array of stakeholders, the NYISO has continued to evolve grid operations and market design to a level of sophistication few imagined possible a decade ago.

The State of the Markets Report issued in 2009 by the NYISO's Independent Market Advisor stated, "The NYISO markets are at the forefront of market design and have been a model for market development in other areas."

The number of participants in New York's wholesale electricity markets has tripled – from 120 in 2000 to approximately 400 in 2009. The value of transactions in the NYISO markets has grown to more than $75 billion. Demand response programs, providing incentives for energy conservation during peak periods, were created and have flourished. They now total over 2,300 megawatts, an amount equal to four medium-sized power plants.

Market prices reached historic lows in 2009 – 50 percent lower than in 2008 -- driven by lower electricity use and drops in the prices of natural gas (one of New York's chief generating fuels). Discounting fluctuations in the cost of fuel used to generate electricity, wholesale electricity costs dropped by 18 percent, representing a $2.2 billion savings on a current annual basis.

In the market environment, power producers have invested heavily in new generation and upgrades to existing facilities. Consumers have benefited through prices that are lower than they might have been otherwise. Environmental quality has been enhanced by the addition of more emission-free, renewable power resources and enhanced power plant efficiencies that have contributed to reduced emission rates.

For example, the system-wide heat rate of fossil-fueled power plants improved by 21 percent. Power plant emission rates, measured in tons per year for sulfur dioxide, nitrogen oxides, and carbon dioxide, have dropped by double digits since 2000.

NYISO markets continued to evolve in 2009 as innovations made New York the first to integrate wind in economic dispatch and adopt pioneering design to enable new energy storage technologies to provide regulation-only service.

Environmental quality has been enhanced by the addition of more emission-free, renewable power resources and enhanced power plant efficiencies that have contributed to reduced emission rates.

Planning

The supply of power and the demand for electricity are constantly changing. New power plants and transmission facilities are brought on line and older ones retired as energy technology advances. Consumer patterns of power use ebb and flow as the weather, the economy, and technology change. It is the NYISO's responsibility to anticipate and prepare for the impact of such changes on the reliable operation of the grid and the efficient operation of the markets. The unbiased, authoritative analyses, evaluations, and forecasts produced by the NYISO assist electricity consumers, power producers, energy service providers, regulators, and policy makers as they plan for the future.

In 2009, NYISO's multi-analyses Comprehensive Planning Process reported that the resources available to meet electricity needs are expected to exceed demand through the next decade.

NYISO planners coordinate with Market Participants, State and regional planning agencies and other key stakeholders on vital planning issues. With these partners, we complete studies and analyze reliability, operations, and market impacts of a broad range of energy-related federal and state level policy goals, including environmental, fuel diversity, energy efficiency, and renewables integration.

In January 2010, the NYISO issued a first-of-its-kind economic analysis of transmission congestion on the New York state bulk power system and the potential costs and benefits of relieving congestion. Called the Congestion Assessment and Resource Integration Study (CARIS), it is part of the NYISO's expanded comprehensive system planning process.

The study, developed with extensive stakeholder input, identified the three most congested parts of the New York bulk power system based upon historic data as well as estimates of future congestion. Transmission congestion results from physical limits on how much power high-voltage lines can reliably carry. Solutions may include building or upgrading transmission, building a less expensive power source in closer proximity to an area needing supplies, or reducing the demand for power in the downstream region.

In recent years, we have fostered expanded planning with other ISOs (Independent System Operators) and Regional Transmission Organizations (RTOs) to facilitate development of broader regional markets, interregional transmission analysis, and compatible Smart Grid design.

We hosted a symposium in 2009 featuring FERC Chairman Jon Wellinghoff as keynote speaker. Entitled *"Foundation to the Future: Infrastructure, Innovation and Investment,"* the event was well attended by a diverse array of energy industry leaders and policy makers.

In 2009, we issued an array of publications on energy issues, including planning reports, white papers, conference presentations, and other informative materials. Central to these is the NYISO's annual publication of *Power Trends*, which looks at the forces and factors affecting New York State's energy future.

In December 2009, the New York State Energy Planning Board approved and the Governor accepted the 2009 State Energy Plan. The first plan adopted since 2002, it establishes a framework of policy objectives and strategic recommendations to be implemented over a ten-year horizon in order to maintain reliable, affordable, and sustainable energy for New Yorkers. The NYISO contributed extensively to the research and analysis of data presented in the plan. The document states that the NYISO "has been generous in its support of the modeling efforts and has assisted the planning agency staff in data collection, modeling, and analysis." To govern future state energy planning, a new law was signed by the Governor in 2009. That new law added the NYISO as a non-voting member to the State Energy Planning Board.

The NYISO continued its exploration of the potential synergies between plug-in hybrid electric vehicles (PHEVs) and wind energy. PHEVs offer the promise of significant environmental and economic benefits, and could work in tandem with wind energy. Windpower projects tend to produce more electricity in the early morning hours, a period when current demand for electricity is relatively low. In 2009, a NYISO assessment found that, in general, the production profile of wind resources in New York correlates very well with off-peak charging of PHEVs, creating the potential for a synergy between wind generation and transportation energy needs. PHEV prospects have been enhanced by public policy initiatives encouraging electric-drive vehicles, including new programs proposed by President Barack Obama to support PHEV development and deployment.

Technology

Improving and advancing technologies has always been a cornerstone of NYISO activities. Our investments in information technology continue to provide a solid foundation for progress.

While references to “Smart Grid” have now grown commonplace, the NYISO has been working to make the grid smarter since we were created a decade ago. Staying ahead of the technology curve continues to pay dividends. NYISO information technology features architectures and platforms that rival the best in the nation, resulting in significant efficiencies for the competitive wholesale electricity markets and benefits to those consumers and suppliers participating in the marketplace.

In 2009, the NYISO was awarded $37.8 million by the U.S. Department of Energy to support investments in grid technology that will enhance the reliability of the bulk electricity grid in New York and provide the foundation for further development of Smart Grid infrastructure in New York State. The federal funds, provided under the Smart Grid Investment Grant (SGIG) program, will support a $75.7 million project creating a statewide Phasor Measurement Network and installing capacitor banks in various locations throughout the state.

In 2009, the NYISO successfully completed all planned software deployment projects, including Transmission Congestion Contract (TCC) Auction Automation, Credit Management System for Virtual Transactions and Credit Policy Enhancements, Wind Resource Management Software, Regulation-Only Energy Storage, Trading Hubs, and an enhancement of the NYISO website.

NYISO information technology initiatives not only serve the evolution of grid operation and market design; they also produce efficiencies in the operation of the NYISO. Our data center “virtualization” project, which reduced the number of servers by half, realized savings of $18.7 million through the end of 2009.

In 2009, NYISO IT systems also passed rigorous cyber-security tests. The NERC Critical Infrastructure Protection (CIP) audit was performed by a multi-authority external team. NYISO protection policies, procedures, and practices drew high marks from participating auditors from FERC, NERC, and the NPCC.

The NYISO - *A Ten-Year Review*

"In many respects, NYISO stands as a model of a well-functioning electric market that relies extensively on competitive markets to provide benefits to the state's electricity consumers."

Seeking an independent review of our first decade, the NYISO commissioned a study by Dr. Susan F. Tierney, managing principal of The Analysis Group. Dr. Tierney was formerly an assistant secretary of policy at the U.S. Department of Energy, a commissioner on the Massachusetts Department of Public Utilities, and co-chair of President Obama's Transition Team for the U. S. Department of Energy. In preparing the report, Dr. Tierney reviewed historic documents, researched market data, and interviewed numerous stakeholders.

The report finds that the NYISO has succeeded in operating the electric grid reliably and has excelled in the design of wholesale electricity markets. It notes that New York's competitive marketplace for electricity has helped to add system resources where they are needed the most. Likewise, the report cites the value of markets in cultivating the growth of renewable resources and encouraging efficiencies in generation that have contributed to reductions in power plant emissions.

The report also notes that, like any organization, there are areas in which the NYISO can improve. Among those areas are "seams" issues with neighboring grids that hamper regional efficiency. To address this concern, we are vigorously developing broader regional markets and enhancing interregional planning. In addition, the report recommends that the NYISO work to further enhance transparency and sharpen the focus on consumer interests.

The NYISO is committed to a mindset of excellence in execution and continuous improvement. The ten-year review conducted by The Analysis Group offers guidance to our efforts to build an increased focus on transparency and consumer interests. We are also dedicated to sustaining and enhancing reliability and reducing seams to improve market efficiency, to serve the best interests of the Empire State.

1999

NY's Electric Industry is Restructured – NYISO start-up authorized by FERC. NY Power Pool members transfer operation of New York Control Area to NYISO on December 1.

2000

Markets Grow – More than 100 Market Participants sign up in first year of NY marketplace for wholesale electricity. Transactions total $5.2 billion.

2001

***Power Alert* Warns of Generation Gap** - NYISO *Power Alert* report brings attention to potential power "generation gap" in downstate NY.

2005

A New Way to Plan – First NYISO Reliability Needs Assessment (RNA) completed in December, a milestone in the Comprehensive Reliability Planning Process for NY's electric system.

2006

Heat Waves Produce Record Peak - Power demands due to summer heat waves set record peaks three times over a three week period in July and August. Demand response helps to stabilize power use, saving the peak by 1,000 MW during record-breaking demand of August 2, 2006.

Studies Cite NYISO S
Independent Market Ad
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ISO, which called New
"the most complete and
markets in the U.S."

ISO

Excerpts of The Analysis Group's: The New York Independent System Operator: A Ten-Year Review follow:

Reliability: *"Commenters consistently viewed the NYISO as doing an excellent job in its role as grid operator. There is a reservoir of confidence that NYISO is performing well in this regard, with a strong staff and ethic of excellence in operations … Not only has the system operated well, but New York's system has produced reliability relatively economically."*

Markets: *"Thousands of megawatts of generating and demand-response capacity have been introduced in New York (over the past decade) without relying on consumers' rates to underwrite investment."*

Governance: *"As compared to the pre-NYISO years when eight transmission utilities exercised near-exclusive control over the New York Power Pool, over 350 Market Participants are now involved in shaping policies and protocols of the NYISO, and in providing services that support the provision of efficient, reliable and clean electric service."*

Electricity Prices: *"Many things not directly related to the NYISO's performance – such as increases in natural gas prices since 2000 and the high cost of doing business in New York State – have contributed substantially to electricity price increases in the state. These factors more than offset the power production efficiencies that occurred over course of the decade under electric industry restructuring and the NYISO's administration of wholesale markets."*

Environment and Energy: *"In the past decade, New York's electric industry has stimulated significant investment in new renewable power projects (such as wind turbines) and low-emitting natural gas plants, and caused strong interest in demand response. Together these have helped diversify the state's energy mix and lower the air emissions that contribute to acid rain, smog and global warming."*

Demand Response Arrives – NYISO successfully implements Emergency Demand Response Program (EDRP), which reduced demand by 400 MW during consecutive record consumption days.

2002

The 2003 Blackout – In August, a blackout originating in Ohio, affects 50 million people in the U.S. and Canada. NYISO and others acted to restore electric service expeditiously, with some parts of the state experiencing only momentary losses. Restoration completed statewide in less than 30 hours.

2003

SMD2 Approved - FERC approved NYISO's Standard Market Design 2 (SMD2) project. This milestone enables the integration of the Real-Time and Day-Ahead pricing more efficiently with new software.

2004

uccess –In July,
lvisor issues
ort: New York
York's markets
l efficient set of

2007

Innovations Yield Savings - First phase of multi-year IT "virtualization" reduced servers and cut costs. Use of "Lean Six Sigma" methodology streamlined the Thunderstorm Alert billing process, among other process improvements.

2008

Wind Power Milestones – On February 19, 2009, output of wind projects totaled 1,000 MW for first time. In May, FERC approved NYISO proposal to become the first grid operator to integrate wind resources with economic dispatch of electricity.

2009

Looking Ahead

Building on a decade of progress, we are working to enhance the wholesale electricity markets, bulk electricity grid, information technologies, and planning processes serving the electricity consumers of the Empire State.

NYISO initiatives include the interrelated objectives of a smarter grid, broader regional markets, wider interregional planning, and further progress in cultivating cleaner and greener resources.

Smart Grid

The Smart Grid encompasses comprehensive view of transmission, distribution and the “smart home” in which advanced metering and real-time price signals will help consumers be better informed about the amount and cost of the electricity they are using. Timely, accurate information can empower consumers to make informed decisions about their energy choices.

The bulk electricity grid already incorporates “smart” features. As grid operator, the NYISO has been consistently applying state-of-the-art technology to the management of the high-voltage transmission system and wholesale power markets. Both the grid and the marketplace will continue to become “smarter” by incorporating progressive generations of advancements. The use of digital information will greatly enhance the ability to monitor and control the transmission grid, and Smart Grid features will help minimize transmission and transformer losses, and enhance regional reliability.

Working with the owners of New York’s transmission facilities, the NYISO is leveraging the investment of federal stimulus funds by the U.S. Department of Energy (DOE) to help provide the foundation for further development of Smart Grid infrastructure in New York State.

As Smart Grid is developed across North America, the ability of various technologies to work together is vital. Developing standards and protocols is an area where ISOs and RTOs play a leadership role. Cooperative efforts among grid operators and organized markets will provide uniform standards that provide fertile ground for deploying Smart Grid technology.

Broader Regional Markets

Making the grid smarter on a regional and interregional basis is linked to the NYISO’s efforts to develop broader regional markets which will extend and expand the benefits of competition. The NYISO is leading the effort to expand regional markets with neighboring control areas to address limitations that currently exist in the areas where our markets and systems connect. The objective is seamless trading of electricity with neighboring regional transmission operators through interregional transaction coordination and market-based congestion management. The success of these efforts can expand opportunities for stakeholders, consumers and businesses in New York State and the region.

In 2009, the NYISO, in conjunction with grid operators serving the Mid-Atlantic, Midwest and New England regions of the U.S. and the Canadian province of Ontario, developed a series of “broader regional markets” initiatives for submission to the FERC. The proposals address ways to improve coordination of power transactions between regional grid operators. Enhancing the flow of power among the grid operators will expand the benefits of markets to consumers throughout the region. Preliminary analysis of the benefits of the proposals estimates regional annual savings of at least $368 million. Estimated savings associated with New York are $211 million a year.

Broader Interregional Planning

Expanded interregional planning means sharing information about emerging energy needs and working together to develop solutions. The NYISO is already involved in coordinated interregional planning within regional reliability organizations. It is actively developing broader coordination and collaboration to serve the common interest of consumers, grid operators, and electricity planning authorities.

In 2009, the NYISO helped lead the formation of a wide-ranging group of electric planning authorities. Called the Eastern Interconnection Planning Collaborative (EIPC), its 24 members are responsible for planning power systems from the Rocky Mountains to the Atlantic Ocean and from the Canadian Northeast to the Gulf of Mexico. The EIPC will benefit stakeholders by providing modeling and analysis concerning the entire Eastern Interconnection, identifying potential opportunities between members' systems, providing coordinated analysis of scenarios to policymakers and stakeholders, and developing potential transmission and expansion options and cost estimates to inform their decisions.

In October 2009, NYISO President and CEO Stephen G. Whitley was selected to chair the Executive Committee of the EIPC.

EIPC efforts have been recognized by federal energy authorities. In December 2009, the DOE announced that the EIPC and state groups from throughout the Eastern Interconnection would share in federal stimulus funds to support the transmission planning process. Key to the EIPC proposal is the development of an open and transparent stakeholder process. The EIPC was awarded $16 million in federal stimulus funding. The DOE also awarded $14 million to the Eastern Interconnection States' Planning Council to assist the states in developing a consensus process to identify renewable resources and other policy options as part of this pioneering interregional planning effort.

Greening the Grid

The NYISO markets will continue to develop in a way that values and encourages sustainable growth. We will continue planning for transmission enhancements and advancing the grid integration of renewable resources and energy storage technologies.

Advancements in market design have helped New York State assume a leadership role in green power and advanced energy technology. In 2009, the NYISO became the first grid operator to integrate wind into its economic dispatch function, which balances the reliability requirements of the power system with the use of the least costly power available.

We pioneered the integration of energy storage resources, such as flywheels and batteries, into our regulation market. Regulation helps balance electrical supply and demand on the grid. Energy storage devices offer complimentary technologies to the integration of renewable resources such as wind power. Flywheel and battery system devices store electricity as kinetic or chemical energy to provide power to the system when it is needed. In addition, we enhanced integration of other renewable resources, such as landfill gas/methane power projects.


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Conclusion

Working in close collaboration with stakeholders, policy makers and regulators over the past ten years, the NYISO has achieved great progress. We are committed to sustaining and enhancing our value to New York ratepayers, and we remain focused on continuous improvement in the conduct of our duties.

In 2010 and beyond, the NYISO will reinforce its commitment to reliable operation of the grid, competitive markets and making the grid smarter, greener, and more efficient.

The NYISO has contributed significantly to making the Empire State a leader in grid operations, market design, system planning, and energy technology. As we look to the future, we will strengthen the transparency of our operations, refine our focus on consumer interests, and further enhance the efficiency of the markets we are entrusted to administer.

We look forward to continuing to energize the Empire State.

2009 Board of Directors

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.

Michael B. Bemis
Former President of Exelon Power and President of Energy Delivery for the Exelon Corporation.

Ave M. Bie
Partner in the law firm of Quarles & Brady and former Chair of the Wisconsin Public Service Commission.

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

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

Erland E. Kailbourne

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

James V. Mahoney

President and CEO of Energy Market Solutions, Inc. and former President and CEO of DPL Inc., a regional energy and utility company.

Thomas F. Ryan, Jr.

Former President and COO of the American Stock Exchange.

Richard E. Schuler

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

Stephen G. Whitley

President and CEO of the New York Independent System Operator.

From left to right standing: *Michael Bemis, Alfred Boschulte, Robert Hiney, Karen Antion, Richard Schuler, Ave Bie*

From left to right seated: *James Mahoney, Thomas Ryan, Erland Kailbourne, Stephen Whitley*

2009 Corporate Officers

Stephen Whitley, *President and CEO*

Wayne Bailey,*Vice President, Enterprise Services and Chief Compliance Officer*

Henry Chao,*Vice President, System and Resource Planning*

Richard Dewey, *Vice President and Chief Information Officer*

Diane Egan, *Corporate Secretary and Board Secretary*

Robert Fernandez, *General Counsel*

Rick Gonzales, *Vice President, Operations*

Mary McGarvey, *Vice President and Chief Financial Officer*

Rana Mukerji, *Vice President, Market Structures*

Thomas Rumsey, *Vice President, External Affairs*

2009 Governance Committee Leadership

Management Committee

Bill Palazzo - *Chair*
(New York Power Authority)

Glen McCartney - *Vice Chair,*
(Constellation)

Business Issues Committee

Stuart Nachmias - *Chair*
(Con Edison)

Glen Haake - *Vice Chair*
(Dynegy)

Operating Committee

Ted Pappas - *Chair*
(Long Island Power Authority)

John Marczewski - *Vice Chair*
(EIG)

The NYISO's shared governance system involves representatives from market sectors that include Public Power & Environmental Parties, End-Use Consumers, Transmission Owners, Generation Owners, and Other Suppliers. The governance structure includes three standing committees — the Management Committee, the Business Issues Committee, and the Operating Committee. Each committee oversees its own set of working groups and/or subcommittees.

Market Participants

330 Fund I, L.P.
330 Investment Management, LLC
3M Tonawanda
AB Energy NY, Pty.Ltd.
Absolute Energy Inc.
Accent Energy Midwest II LLC
Accent Energy Midwest LLC
Ace Energy Company, Inc.
AES Eastern Energy LP
Affordable Power, L.P.
AG Energy, L.P.
Agway Energy Services, LLC
Aleph One, Inc.
Amber Power, LLC
Ambit New York, LLC
American Utility Consultants
Amerinco, LLC
Amherst Utility Cooperative (AUC)
Astoria Energy LLC
Astoria Generating Company L.P.
Athens Generating Company, L.P.
Atlantic Energy Services, Inc.
August Power, LLC
Automated Energy, Inc.
Axon Energy, LLC
Bank of America, N.A.
Barclays Bank PLC
BG Energy Merchants, LLC
BJ Energy LLC
Black Oak Energy LLC
Blue Rock Energy, Inc.
BluePoint Energy
BNP Paribas Energy Trading GP
Boralex Hydro Operations Inc
Boralex New York LP
BP Energy Company
Brookfield Energy Marketing Inc.

Brookfield Renewable Energy Marketing US LLC
Brown's Energy Services LLC
Bruce Power Inc.
Calpine Energy Services LP
Cambridge Valley Enterprises LLC
Canandaigua Power Partners, LLC
Canastota Windpower LLC
Cargill Power Markets, LLC
Carr Street Generating Station LP
Castleton Power, LLC
Catskill Mts.Energy Corp.
CBA Endeavors, LLC
CBK Group, LTD
CECONY-LSE
Centaurus Energy Master Fund, LP
Central Hudson Gas & Electric Corp.
Central Vermont Public Service Corp.
Citadel Energy Investments Ltd.
Citadel Energy Strategies LLC
Citigroup Energy Inc.
City of Niagara Falls
City Power Marketing, LLC
Clearview Electric, Inc.
Columbia Utilities Power, LLC
Commerce Energy, Inc.
Con Edison Solutions, Inc.
Conectiv Energy Supply, Inc.
ConocoPhillips Company
Conservation Services Group
Consolidated Edison Co. of New York, Inc.
Consolidated Edison Energy, Inc.
Consolidated Hydro New York, Inc.
Constellation Energy Commodities Group, Inc.
Constellation NewEnergy, Inc.
Core Equities, Inc.
County Energy Services, LLC
County of Erie NY
County of Niagara NY
Covanta Niagara, LP
CP Energy Marketing (US) Inc.
CPower, Inc.
Credit Suisse (USA) Inc.
Credit Suisse Energy LLC
Crucible Specialty Metals
Cummins Inc
Cutone & Company Consultants, LLC
DART Premiums
David Sholk, LLC
Day Automation Systems, Inc.
DB Energy Trading LLC
DC Energy LLC
DC Energy New England, LLC
DC Energy New York, LLC
Delaware County Electric Cooperative, Inc.
Demand Response Partners, Inc.
Direct Energy Marketing Inc

Market Participants

Direct Energy Services, LLC
Discount Energy LLC
Dominion Retail, Inc.
drop18 Energy
DTE Energy Trading Inc
Dynamis ETF, LLC
Dynegy Power Marketing, Inc.
East Coast Power, LLC
EDF Trading North America, LLC
Edison Mission Marketing & Trading, Inc.
E-Energy, Inc.
eKapital NY, LLC
Emera Energy Services Subsidiary No. 1, LLC
Emera Energy Services, Inc
Emera Energy U.S. Subsidiary No. 1, Inc.
Emera Energy U.S. Subsidiary No. 2, Inc.
Empire Generating Co, LLC
Empire Natural Gas Corp.
Empire Power Systems LLC
Endure Energy, L.L.C.
Energetix, Inc.
Energy Connect, Inc.
Energy Conservation and Supply, Inc.
Energy Cooperative of America, Inc
d/b/a Energy Cooperative of New York
Energy Curtailment Specialists, Inc.
Energy Enterprises Inc.
Energy Investment Systems, Inc
Energy Plus Holdings LLC
Energy Services Providers, Inc d/b/a
U.S.Gas & Electric
Energy Solutions Group LLC
Energy Spectrum Inc.
Energy Systems North East LLC
EnerNOC, Inc.
Enerwise Global Technologies, Inc.
Engage Networks, Inc.
Entergy Nuclear Power Marketing LLC
Entergy Solutions LLC
EPIC Merchant Energy NY, L.P.
Erie Boulevard Hydropower LP
Exelon Generation Company LLC
FC Energy Services Company, LLC
First Commodities Ltd.
FirstLight Power Resources Management, LLC
Flat Rock Windpower II LLC
Flat Rock Windpower LLC
Fortis Ontario Inc
Franklin Power LLC
Freeport Electric
Fulcrum Power Marketing, LLC
Galt Power Inc.
Gateway Energy Services Corporation
Gemsys LLC
General Electric Plastics
Glacial Energy New York, Inc.
Glens Falls Lehigh Cement Company
Good Energy, L.P.
Gotham Energy Marketing, LP
Grant Energy, Inc.
Green Mountain Energy Company
Grunwald Fund
Hampshire Paper Co., Inc.
Hess Corporation
Horizon Power, Inc.
HQ Energy Services (US)
HSBC Bank USA
Hudson Energy Services, LLC
Hudson Valley Trading Group, Inc.
IDT Energy, Inc
Indeck Energy Svs of Silver Springs
Indeck-Corinth LP
Indeck-Olean LP
Indeck-Oswego LP
Indeck-Yerkes LP
Innovative Energy Systems, Inc.
Innoventive Power LLC
Integrys Energy Services of New York, Inc.
Integrys Energy Services, Inc.
International Paper Company
International Renewables Group, LLC
ISO Trader, LLC
J Aron and Company
J. P. Morgan Ventures Energy Corporation
Jamestown Board of Public Utilities
Jump Power, LLC
Just Energy New York Corp
Kaleida Health
KeySpan - Ravenswood, Inc.
Keystone Energy Partners, LP
KeyTex Energy LLC
Koch Supply & Trading, LP

Market Participants

KW Control Systems Inc.
Laissez Faire Enterprises, LLC
Lavand and Lodge, LLC
Liberty Power Holdings LLC
Lighthouse Energy Trading Co., Inc.
Linde Energy Services, Inc.
Lockport Energy Assoc.
Long Island Power Authority
Louis Dreyfus Energy Services L.P.
Lynx Technologies Inc.
Lyonsdale Biomass, LLC
Macquaire Energy LLC
Madison Windpower, LLC
MAG Energy Solutions Inc.
Major Energy Electric Services, LLC
Merrill Lynch Commodities, Inc.
MG Industries
Mirabito Gas & Electric Inc.
Mirant Energy Trading, LLC
MM Albany Energy LLC
Model City Energy LLC
Modern Innovative Energy, LLC
Monroe County NY
Morgan Stanley Capital Group, Inc.
Morgan Stanley Management Services II, Inc
MxEnergy Electric Inc
Nationwide Energy, LLC
New York Industrial Energy Buyers, LLC
New York Municipal Power Agency
New York Power Authority
New York State Electric & Gas Corp.
NextEra Energy Power Marketing, LLC
Niagara Frontier Transportation Authority
Niagara Generation, LLC
Niagara Mohawk Power Corp.
Niagara University
Niagara Wind Power, LLC
Nine Mile Point Nuclear Station, LLC
Nissequogue Cogen Partners
Noble Altona Windpark, LLC
Noble Bliss Windpark, LLC
Noble Chateaugay Windpark, LLC
Noble Clinton Windpark I, LLC
Noble Ellenburg Windpark, LLC
Noble Wethersfield Windpark LLC
NOCO Electric LLC
North American Power Partners LLC
Northbrook New York LLC
Northeast Utilites Service Co.
Northern States Power Company
NorthPoint Energy Solutions Inc.
NRG Power Marketing LLC
NuEnerGen, LLC
NYSEG Solutions, Inc.
Oasis Power, LLC d/b/a Oasis Energy
Occidental Chemical Corp.
Occidental Power Services Inc
Ocean Power LLC
Olin Chlor - Alkali Products
Ontario Power Generation Energy Trading, Inc.
Ontario Power Generation, Inc.
Orange & Rockland Utilities, Inc.
ORU-LSE
Pacific Summit Energy LLC
Peoples Energy Services Corp.
Pepco Energy Services
Petra Technical Consultant Group, LLC
Pine Bush Energy Trading, LLC
Pirin Solutions, Inc
Plant-E Corp.
Power Biddiing Strategies, LLC
Power City Partners, L.P.
Power G Inc
Powerex Corporation
PP&L EnergyPlus Co. (EPLUS)
PPM Energy, Inc.
Praxair Inc
Pro-Energy Development LLC
Project Orange Associates, L.P.
PSEG Energy Resource & Trade, LLC
Public Energy Solutions, LLC
Public Power & Utility of NY, Inc.
Pure Energy Inc
R.E. Ginna Nuclear Power Plant, LLC
Rainbow Energy Marketing Corp
RBC Energy Services LP
RedGreen288, LLC
Reliable Power Management, Inc.
Rensselaer Cogeneration LLC
Riverbay Corporation
Robison Energy, LLC
Rochester Gas & Electric Corp.
Royal Bank of Canada
RTP Controls, Inc
Sanctorum Energy Inc.
Saracen Energy Power Trading LP

Market Participants

Saracen Power LP
Saranac Power Partners, L.P.
Schools & Municipal Energy Cooperative (SMEC)
Select Energy, Inc.
Selkirk Cogen Partners, L.P.
Sempra Energy Solutions
Sempra Energy Trading LLC
Seneca Energy II, LLC
Seneca Power Partners, L.P.
SESCO Enterprises LLC
Sheldon Energy LLC
Shell Energy North America (US), L.P.
SIG Energy, LLLP
Silverhill Ltd., GP for Power Fund LPs.
Site Controls LLC
Sithe Independence Power Partners L.P.
Sol Energy, LLC
Solios Power LLC
South Jersey Energy Company
Spark Energy, L.P.
Spartan Electricity Futures, Inc
Specialized Energy Services, Inc.
Standard Binghamton LLC
StatArb Investment LLC
State of New York
State University of New York
State University of New York at Buffalo
Sterling Power Partners, L.P.
Strategic Energy, LLC
Suez Energy Marketing NA, Inc
Suez Energy Resources NA, Inc
SUNY Potsdam
Swiftwater Energy Trading, LLC
Tallgrass Energy Partners, LLC
Tarachand Enterprises, Inc.
TC Ravenswood, LLC
Telemagine, Inc.
Texas Retail Energy, LLC
The Dayton Power and Light Company
Time Warner Inc.
Tops Markets, Inc.
TransAlta Energy Marketing (U.S.) Inc.
TransCanada Power Marketing, Ltd.
Trigen-Syracuse Energy Corp.
Triton Power Company
Twin Cities Energy, LLC
Twin Cities Power, LLC
U.S. Energy Partners LLC
UGI Energy Services, Inc
University of Rochester
Upstate Energy Trading Inc
VC Marketing Inc
Velocity American Energy Master I, L.P.
Verisae, Inc
Village of Hilton
Village of Rockville Centre
Virtual Energy LLC
Watchtower Bible and Tract Society of New York, Inc.
West Oaks Energy NY/NE, LP
Western New York Wind Corp.
Wheelabrator Westchester, L.P.
Windy Bay Power, LLC

I certify that:

1. I have reviewed this report of the NYISO for the year ended December 31, 2009;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the NYISO as of, and for, the periods presented in this report;
4. The NYISO's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for NYISO and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the NYISO is made known to us by others within the NYISO, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the NYISO's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the NYISO's internal control over financial reporting that occurred during the NYISO's most recent fiscal quarter (the NYISO's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the NYISO's internal control over financial reporting; and
5. The NYISO's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the NYISO's auditors and the audit committee of NYISO's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the NYISO's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the NYISO's internal control over financial reporting.

<u>Disclosure Controls and Procedures</u>

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. The reporting process is designed to ensure that information required to be disclosed by the NYISO is recorded, processed, summarized and reported within the appropriate time periods. Based on that evaluation, we have concluded that the NYISO disclosure controls and procedures are functioning effectively to provide reasonable assurance that the NYISO can meet its disclosure obligations.

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

We have evaluated any change in our internal control over financial reporting that occurred during the fourth quarter of 2009, and have concluded that there was no change during the fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Date: March 17, 2010

Stephen G. Whitley
President & Chief Executive Officer

Mary McGarvey
Vice President & Chief Financial Officer

KPMG LLP
515 Broadway
Albany, NY 12207

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of New York Independent System Operator, Inc. (NYISO or the Company) as of December 31, 2009 and 2008, and the related statements of activities and statements of cash flows for the years then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, effective January 1, 2008, NYISO adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, related to the fair value measurements of financial assets and financial liabilities.

KPMG LLP

March 17, 2010

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

		2009	2008
Assets			
Current assets:			
Cash and cash equivalents	$	53,582,089	56,529,694
Restricted cash		371,162,251	285,476,866
Accounts receivable – net (note 2)		12,799,522	16,206,343
Prepaid expenses		4,180,713	6,051,561
Regulatory assets – current portion (note 3)		5,469,179	—
Other current assets		580,800	3,166
Total current assets		447,774,554	364,267,630
Noncurrent assets:			
Regulatory assets (note 3)		10,555,399	11,604,891
Property and equipment – net (note 4)		57,174,512	55,991,406
Other noncurrent assets		6,870,581	13,760,670
Total noncurrent assets		74,600,492	81,356,967
Total	$	522,375,046	445,624,597
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	$	23,633,450	16,331,310
Market participant prepayments		24,982,564	15,238,741
Market participant security deposits		341,578,621	263,728,426
Long-term debt – current portion (note 6)		21,342,581	19,696,570
Working capital reserve (note 10)		46,543,644	48,941,193
Deferred revenue (note 11)		3,243,681	4,556,769
Regulatory liabilities – current portion (note 12)		1,074,704	10,281,089
Other current liabilities		3,996,295	1,589,811
Total current liabilities		466,395,540	380,363,909
Noncurrent liabilities:			
Accrued pension liability (note 8)		4,084,576	6,506,665
Accrued postretirement liability (note 8)		5,900,528	5,616,569
Regulatory liabilities (note 12)		3,905,605	2,857,999
Other noncurrent liabilities (notes 7 and 8)		3,919,451	9,067,528
Long-term debt (note 6)		38,169,346	41,211,927
Total noncurrent liabilities		55,979,506	65,260,688
Commitments and contingencies (note 13)			
Total liabilities		522,375,046	445,624,597
Unrestricted net assets		—	—
Total liabilities and net assets	$	522,375,046	445,624,597

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND 2008

		2009	2008
Revenues:			
Rate Schedule 1 tariff charge	$	135,410,542	140,644,871
Interconnection studies revenue		2,928,825	1,807,610
Fees and services		883,788	749,849
Interest income		49,863	1,488,580
Total revenues		139,273,018	144,690,910
Operating expenses:			
Compensation and related benefits (note 8)		57,429,618	53,124,882
Professional fees and consultants		26,742,719	29,396,356
Maintenance, software licenses and facility costs		17,993,618	15,461,573
Depreciation and amortization		16,712,438	16,803,549
Federal Energy Regulatory Commission fees		9,980,421	8,854,182
Telecommunication expenses		3,531,688	3,981,689
Administrative and other expenses		3,148,969	2,753,913
Interest expense		3,131,547	3,568,235
Insurance expense		2,801,008	2,860,053
Training, travel, and meeting expenses		1,256,716	1,975,850
Northeast Power Coordinating Council fees		251,976	161,929
Change in fair value of interest rate swaps and caps		(3,707,700)	5,748,699
Total operating expenses		139,273,018	144,690,910
Change in unrestricted net assets		—	—
Unrestricted net assets, beginning of year		—	—
Unrestricted net assets, end of year	$	—	—

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

		2009	2008
Cash flows from operating activities:			
Net results of activities	$	—	—
Adjustments to reconcile net results of activities to net cash provided by operating activities			
Depreciation and amortization		16,712,438	16,803,549
Loss on disposal of fixed asset		—	35,242
Change in operating assets and liabilities:			
Decrease (increase) in accounts receivable and prepaid expenses		5,277,669	(4,252,578)
Increase in restricted cash		(85,685,385)	(8,463,962)
Increase in regulatory assets		(4,419,687)	(2,769,915)
Decrease in other assets		6,312,455	2,100,716
Increase in accounts payable and accrued expenses		3,013,317	2,725,298
Increase (decrease) in market participant prepayments		9,743,823	(46,426,604)
Increase in market participant security deposits		77,850,195	53,716,400
Decrease in working capital reserve		(2,397,549)	(2,997,679)
(Decrease) increase in regulatory liabilities		(8,158,779)	4,926,098
(Decrease) increase in deferred revenue and other liabilities		(6,192,811)	10,320,450
Net cash provided by operating activities		12,055,686	25,717,015
Cash flows from investing activities:			
Acquisition of property and equipment (including capitalized interest)		(13,606,721)	(17,088,126)
Proceeds from sale of assets		—	9,000
Net cash used in investing activities		(13,606,721)	(17,079,126)
Cash flows from financing activities:			
Proceeds from 2007 – 2010 budget facility loan		18,300,000	16,700,000
Repayment of mortgage and renovations loan		(753,903)	(311,642)
Repayment of 2004 – 2006 budget facility loan		(8,376,000)	(18,876,000)
Repayment of 2007 – 2010 budget facility loan		(10,566,667)	(5,000,000)
Net cash used in financing activities		(1,396,570)	(7,487,642)
Net (decrease) increase in cash and cash equivalents		(2,947,605)	1,150,247
Cash and cash equivalents – beginning of year		56,529,694	55,379,447
Cash and cash equivalents – end of year	$	53,582,089	56,529,694
Supplemental disclosure of cash flow:			
Information – cash paid during the year for interest net of capitalized interest	$	2,948,240	3,354,557
Noncash investing activities:			
Property and equipment additions which were accrued but not paid	$	4,820,759	531,936
Property and equipment additions previously accrued which were paid		531,936	1,448,615

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) **Summary of Significant Accounting Policies**

(a) Business Description

The New York Independent System Operator, Inc. (NYISO) was formed in April 1997 and commenced operations on December 1, 1999. NYISO is incorporated in the state of New York as a not-for-profit organization. NYISO assumed the responsibilities of its predecessor, the New York Power Pool (NYPP), which had coordinated the reliability of New York State's electric power grid for more than 30 years. Formed as a result of Federal Energy Regulatory Commission (FERC) policies, NYISO monitors a network of 10,892 miles of high-voltage transmission lines and serves approximately 400 market participants.

NYISO's mission, in collaboration with its stakeholders, is to serve the public interest by maintaining and enhancing the reliable, safe, and efficient operation of the New York State transmission system and promoting and operating a fair and competitive wholesale market for electricity in New York State while providing quality customer service. NYISO facilitates fair and open competition in the wholesale power market and creates an electricity commodity market in which power is purchased and sold on the basis of competitive bidding. NYISO utilizes a bid process for electricity and transmission usage, which enables New York State's utilities and other market participants to offer electricity at competitive prices, rather than regulated rates. Billing invoices are issued to each market participant by NYISO each month to settle transactions occurring in the previous month.

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

(b) Basis of Accounting

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

(c) Regulation

NYISO's financial statements are prepared in accordance with generally accepted accounting principles for rate-regulated entities, FASB ASC Topic 980, *Regulated Operations*. As such, regulators may permit specific incurred costs, typically treated as expenses by unregulated entities, to be deferred and expensed in future periods when it is probable that such costs will be recovered in customer rates. Incurred costs are deferred as regulatory assets when NYISO concludes that it is probable future revenues will be provided to permit recovery of the previously incurred cost. A regulatory liability is recorded when amounts that have been recorded by NYISO are likely to be refunded to customers through the rate-setting process.

(d) Revenue Recognition

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

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

NYISO's Rate Schedule 1 includes a timing mechanism that effectively meets the requirements of an alternative revenue program set forth in ASC Topic 980, *Regulated Operations*, Subtopic 602, *Revenue Recognition*. Accordingly, revenue is recognized for net financing obligations and capital costs incurred during the reporting period based on the revenue requirement formula in the tariffs. NYISO has recorded an Other Noncurrent Asset of $2,337,415 and $4,917,092, respectively, in the accompanying 2009 and 2008 Statements of Financial Position in connection with this rate-making recovery mechanism.

Revenues recorded as interconnection studies revenues arise from billing and collection services in the interconnection service agreement process performed by NYISO. These revenues are offset by the corresponding interconnection expenses, recorded in operating expenses, which were incurred in performing such studies.

(e) Cash and Cash Equivalents

NYISO considers short-term marketable securities with original maturities of three months or less to be cash equivalents. The cash equivalents at December 31, 2009 and 2008 were held in money market accounts invested primarily in shortterm U.S. government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve, amounts due to market participants for overcollections on the voltage market, amounts collected for Transmission Congestion Contract (TCC) auctions, amounts for funding employee benefit plans, and for general operating purposes.

(f) Restricted Cash

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

(g) Other Assets

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

(h) Property and Equipment

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

In accordance with ASC topic 350, *Intangibles – Goodwill and Other*, Subtopic 40, *Internal Use Software*, labor, overhead, interest, consulting, and related costs incurred to acquire and develop computer software for internal use are capitalized and amortized using the straight-line method over three years. Costs incurred prior to the determination of feasibility of developed software and following the in-service date of developed software are expensed.

Long-lived assets are recorded at cost, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is not aware of any events or changes in circumstances that would necessitate a review of any long-lived assets as of the years ended December 31, 2009 and 2008.

(i) Working Capital Reserve

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

(j) Market Participant Prepayments

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

(k) Deferred Revenue

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

(l) Income Taxes

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

(m) Fair Value of Financial Instruments

On January 1, 2008, NYISO adopted the provisions of FASB Statement No. 157, *Fair Value Measurements*, included in ASC Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities. Statement 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 (SFAS No. 157) also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

On January 1, 2009, NYISO adopted the provisions of ASC Topic 820 (SFAS No. 157) to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The adoption of these provisions did not have any effect on NYISO's financial statements.

ASC Topic 820 (SFAS No. 157) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

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

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

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

The following table presents the carrying amounts and estimated fair values of NYISO's financial instruments at December 31, 2009 and 2008:

		2009		2008	
		Carrying Amount	**Fair Value**	**Carrying amount**	**Fair Value**
Financial assets:					
Interest rate caps	$	291	291	2,075	2,075
Financial liabilities:					
Interest rate swaps	$	3,919,451	3,919,451	7,428,686	7,428,696

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

Effective January 1, 2008, NYISO adopted the Fair Value Option provisions of the Subsections of ASC Subtopic 825-10, *Financial Instruments – Overall*, included in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. ASC Subtopic 825-10 (SFAS No. 159) 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. The adoption of ASC Subtopic 825-10 (SFAS No. 159) in 2008 did not have any effect on NYISO's financial statements.

(n) Concentration of Credit Risk

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

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

Beginning with the January 2007 settlement invoice, settlement invoices could be adjusted for up to six months after the date of original issuance, and these invoices could be challenged for an additional one month after the issuance of all settlement adjustment invoices. Beginning with the January 2009 settlement invoice, the adjustment period has been shortened to four months. As of December 31, 2009, the adjustments and true-ups of all settlement invoices through March 2009 were completed.

(o) Derivative Financial Instruments

NYISO records derivative financial instruments in accordance with ASC Topic 815, *Derivatives and Hedging*. ASC Topic 815 requires that all derivative financial instruments be recognized as either assets or liabilities, measured at fair value. The accounting for changes in fair value of derivatives (i.e., gains and losses) depends on the intended use of the derivative and the corresponding designation. The fair values of NYISO's derivative instruments are quoted by external sources. The changes in the fair value of these derivatives are recorded as change in fair value of interest rate swaps and caps. Due to NYISO's regulated rates, the offset to the changes in fair value of these derivatives is recorded as either other current assets or other noncurrent assets. See additional details in note 7.

(p) Use of Estimates

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

(q) Reclassifications

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

(r) New Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168), which replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. FASB Statement No. 168 modifies U.S. GAAP by establishing two levels of GAAP, authoritative and nonauthoritative, in contrast with the levels of GAAP that existed prior to SFAS 168. The FASB accomplished this change in the GAAP hierarchy by authorizing the FASB Accounting Standards Codification (ASC or Codification) to become the single source of authoritative, nongovernmental U.S. GAAP. The Codification brings together in one place the authoritative accounting standards that currently exist in a number of formats including FASB Statements and Interpretations, Emerging Issues Task Force Abstracts, FASB Staff Positions, and American Institute of Certified Public Accountants (AICPA) Statements of Positions and Accounting and Auditing Guides. All other nongrandfathered accounting literature not included in the Codification will become nonauthoritative. The Codification is effective for financial statements issued for annual periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on NYISO's financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161), updating ASC Topic 812. SFAS No. 161 amends ASC Topic 815, requiring enhanced disclosures about an entity's derivative and hedging activities thereby improving the transparency of financial reporting. SFAS No. 161's disclosures provide additional information on how and why derivative instruments are being used. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. NYISO adopted the provisions of SFAS No. 161 in 2009.

In 2009, the FASB issued Financial Accounting Standards Board (FASB) Statement of Position 481 a definition of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FAS 109* (FIN 48), amending ASC Topic 740, *Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 in 2009 did not have any effect on NYISO's financial statements.

(2) **Accounts Receivable**

NYISO's accounts receivable at December 31, 2009 and 2008, consisted of the following:

		2009	2008
Billed:			
Past due settlement invoices	$	1,081,672	5,068,261
Miscellaneous billed receivables		289,097	368,076
Reserve for doubtful accounts – past due settlement invoices		(1,072,539)	(1,134,187)
		298,230	4,302,150
Unbilled:			
Operating expenses for December		11,928,715	11,538,473
Miscellaneous unbilled receivables		546,368	339,511
Bad debt losses recoverable from market participants		25,903	25,903
Replenishments of working capital reserve		306	306
		12,501,292	11,904,193
Total	$	12,799,522	16,206,343

Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from market participants and provides guidance on the provisions of such recoveries. NYlSO's reserve for doubtful accounts at December 31, 2009 and 2008, results primarily from past due settlement invoices related to a subsidiary of Enron Corporation. As of December 31, 2009 and 2008, NYISO recorded unbilled receivables of $25,903 to reflect amounts yet to be recovered from remaining market participants in connection with other bad debt losses.

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

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

(3) Regulatory Assets

At December 31, 2009 and 2008, regulatory assets were comprised of the following:

		2009	2008
Deferred pension plan asset	$	8,127,363	9,527,335
Voltage support service (reactive power) market		5,469,179	—
Funding for deferred charges		2,428,036	1,710,636
Deferred postretirement plan asset		—	366,920
Total		16,024,578	11,604,891
Less current portion		(5,469,179)	—
Long-term portion	$	10,555,399	11,604,891

In order to maintain acceptable transmission voltages on the New York State transmission system, certain market participants within the New York Control Area produce or absorb voltage support service (reactive power). Payments to market participants supplying voltage support service and recoveries from other market participants are assessed via Rate Schedule 2 of the OATT and Services Tariff. Differences between the timing of recoveries and payments for voltage support service that result in under collections are reflected as regulatory assets. At December 31, 2009 and 2008, respectively, NYISO recognized a regulatory asset of $5,469,179 and a regulatory liability of $2,314,198 related to such timing differences.

ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined pension benefit or post-retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2009 and 2008 the amounts were $8,127,363 and $9,527,335, respectively for the defined pension plan and $(25,489) and $366,920, respectively for the defined postretirement plan.

(4) Property and Equipment

As of December 31, 2009 and 2008, property and equipment consisted of the following:

		2009	2008
Software developed for internal use	$	99,917,173	88,554,051
Computer hardware and software		59,343,272	55,917,646
Building, building improvements, and leasehold improvements		32,642,392	32,392,758
Work in progress		4,358,910	4,431,779
Machinery and equipment		4,221,036	3,692,980
Furniture and fixtures		2,846,672	2,763,214
Land and land improvements		2,091,376	2,065,571
		205,420,831	189,817,999
Accumulated depreciation and amortization		(148,246,319)	(133,826,593)
Property and equipment – net	$	57,174,512	55,991,406

Property and equipment includes interest of $80,730 and $25,574 capitalized during 2009 and 2008, respectively. Depreciation expense for the years ended December 31, 2009 and 2008 was $16,712,438 and $16,803,549, respectively.

(5) **ShortTerm Debt**

On July 21, 2005, NYISO entered into a $50.0 million Revolving Credit Facility that expires on July 21, 2010. The proceeds from this facility are to be used for working capital purposes. Interest on borrowings under this agreement is based on NYISO's option of varying rates of interest tied to either the prime rate or the London Interbank Offered Rate (LIBOR). At December 31, 2009 and 2008, respectively, there were no amounts outstanding on the Revolving Credit Facility.

(6) **LongTerm Debt**

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

At December 31, 2004, $42.0 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in February 2005 with monthly principal and interest payments payable beginning March 2005. As of December 31, 2008, these borrowings were fully repaid, with $3.1 million representing voluntary prepayments against this debt. At December 31, 2008 the interest rate on these borrowings was at the cap level of 4.8%. During 2005, an additional $18.0 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in February 2006 with monthly principal and interest payments payable from March 2006 through December 2009. As of December 31, 2009, these borrowings were fully repaid. At December 31, 2008, the interest rate on these borrowings was 2.23%. During 2006, an additional $15.5 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in March 2007 with monthly principal and interest payments payable through December 2010. At December 31, 2009 and 2008, the interest rate on these borrowings was 1.04% and 2.23%, respectively.

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

On January 23, 2007, NYISO entered into four interest rate swap agreements to fix interest payments on $60 million of the $80 million available on this line of credit facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions. See additional information in note 7.

During 2007, $15.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2008 with monthly principal and interest payments payable from January 2008 through December 2010. At December 31, 2009 and 2008, the interest rate on these borrowings was fixed at 5.726%. During 2008, an additional $16.7 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2009 with monthly principal and interest payments payable from January 2009 through December 2011. At December 31, 2009, the interest rate on $10 million of these borrowings was fixed at 5.642% and the remaining $1.1 million was at 0.885%. At December 31, 2008, the interest rate on $15 million of these borrowings was fixed at 5.392% and the remaining $1.7 million was at 1.831%. During 2009, an additional $18.3 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2010 with monthly principal and interest payments payable from February 2010 through December 2012. At December 31, 2009, the interest rate on $15 million of these borrowings was fixed at 5.446% and the remaining $3.3 million was at 0.635%.

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 18month period, beginning in July 2005 (Renovations Loan).

The Mortgage has principal and interest payments payable over 20 years, beginning September 2005. Principal and interest payments on borrowings made during the Renovations Loan draw period are payable over 20 years, beginning in January 2007. During 2005, $14.7 million was borrowed on the Mortgage, and during 2006, $10.0 million was drawn on the Renovations Loan. Both agreements are secured by liens on the building and subsequent capitalized renovations. Interest on borrowings under both facilities is due monthly and is based on varying rates of interest tied to LIBOR plus 100 basis points. On February 15, 2005, NYISO entered into an interest rate swap agreement on the Mortgage, which fixed the interest rate on this loan at 5.79%. On February 15, 2005, NYISO also entered into an interest rate swap agreement on the Renovations Loan, which fixed the interest rate on these borrowings at 5.96%, beginning on January 1, 2007.

At December 31, 2009, the following amounts were outstanding on NYISO's long-term debt:

		2004 – 2006 Budget Facility loan	2007 – 2010 Budget Facility loan	Mortgage	Renovations	Total
Outstanding balance	$	3,876,000	34,433,334	12,026,321	9,176,272	59,511,927
Less current portion		(3,876,000)	(16,666,667)	(482,901)	(317,013)	(21,342,581)
Long-term portion	$	—	17,766,667	11,543,420	8,859,259	38,169,346

At December 31, 2008, the following amounts were outstanding on NYISO's long-term debt:

		2004 – 2006 Budget Facility loan	2007 – 2010 Budget Facility loan	Mortgage	Renovations	Total
Outstanding balance	$	12,252,000	26,700,000	12,481,756	9,474,741	60,908,497
Less current portion		(8,376,000)	(10,566,667)	(455,434)	(298,469)	(19,696,570)
Long-term portion	$	3,876,000	16,133,333	12,026,322	9,176,272	41,211,927

At December 31, 2009, scheduled maturities of NYISO's long-term debt were as follows:

		2004 – 2006 Budget Facility loan	2007 – 2010 Budget Facility loan	Mortgage	Renovations	Total
2010	$	3,876,000	16,666,667	482,901	317,013	21,342,581
2011		—	11,666,667	512,025	336,709	12,515,401
2012		—	6,100,000	541,065	356,162	6,997,227
2013		—	—	575,536	379,757	955,293
2014		—	—	610,246	403,352	1,013,598
Thereafter		—	—	9,304,548	7,383,279	16,687,827
Total	$	3,876,000	34,433,334	12,026,321	9,176,272	59,511,927

(7) Derivatives and Hedging Activities

The fair values of NYISO's derivative instruments, which are freestanding agreements, are quoted by external sources. The changes in the fair value of these derivatives are recorded in change in fair value of interest rate swaps and caps. 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). This agreement expired in February 2008. For the year ended December 31, 2008, NYISO recorded interest income of $4,795 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, 2009 and 2008, the fair value of the interest rate cap was $291 and $2,075, and is recorded in Other Current Assets. For the years ended December 31, 2009 and 2008, NYISO recorded interest income of $198,466 and $187,274, respectively, related to this derivative instrument.

In February 2005, NYISO entered into two interest rate swap agreements with a commercial bank to fix interest rate payments on the financing of a new office building purchase. The notional amount of debt on the swap agreement for the Mortgage was $14,708,750, and NYISO pays a fixed interest rate of 5.79% on the outstanding principal amount of this financing on payments from August 2005 through August 2025. The notional amount of debt on the swap agreement for the Renovations Loan was $10,000,000, and NYISO pays a fixed interest rate of 5.96% on payments from January 2007 through January 2027. As of December 31, 2009 and 2008, the fair value of these interest rate swap agreements was ($924,922) and ($2,375,734) for the Mortgage and ($818,738) and ($2,068,308) for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2009 and 2008, NYISO recorded interest income of $2,700,382 and interest expense of $4,014,234, respectively, related to these two swap agreements.

In January 2007, NYISO entered into four interest rate swap agreements with a commercial bank to fix interest rate payments on the 2007 – 2010 Budget Facility. The notional amount of debt on the swap agreements was $60,000,000. NYISO pays fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions from March 2007 through December 2013. As of December 31, 2009 and 2008, the fair value of these interest rate swap agreements was ($2,175,791) and ($2,984,644), respectively, recorded in other noncurrent liabilities. For the years ended December 31, 2009 and 2008, NYISO recorded interest income of $808,853 and interest expense of $1,926,534, related to these four swap agreements. Gains and losses on market values are recorded in the statement of activities as change in fair value of interest rate swaps and caps.

		Notional amount at inception	Notional amount at December 31, 2009	Fair value at December 31, 2008	Fair value at December 31, 2009	2009 Loss on market value
Loan:						
2004 – 2006 Budget Facility	$	82,000,000	3,876,000	2,075	291	(1,784)
2007 – 2010 Budget Facility		60,000,000	30,000,000	(2,984,644)	(2,175,791)	808,853
Mortgage		14,708,750	12,026,321	(2,375,734)	(924,922)	1,450,812
Renovations		10,000,000	9,176,272	(2,068,308)	(818,738)	1,249,570

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

(8) **Employee Benefit Plans**

(a) ***Pension and Postretirement Plans***

NYISO has a defined benefit qualified pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by NYPP member companies. Employees become vested in pension benefits after five years of credited service. Effective January 1, 2008, the vesting period was reduced from five years to three years of credited service to conform to requirements of the Pension Protection Act of 2006. NYISO expects to contribute $1.3 million to the qualified pension plan in 2010. In 2008, NYISO adopted changes to its pension plan to end the accrual of future benefits for most employees, effective December 1, 2009. Certain grandfathered employees will continue to accrue benefits until attaining age 55. NYISO plans to replace the defined benefit accruals with equivalent contributions to employee 401(k) plan accounts after December 1, 2009. As a result of the amendment to stop most accruals for future benefits, NYISO recorded a curtailment gain of $1,368,980 in 2008.

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, 2009 and 2008, and the change in benefit obligations for NYlSO's qualified pension and postretirement plans for the years ended December 31, 2009 and 2008.

		Pension plan		Postretirement plan	
		2009	2008	2009	2008
Change in benefit obligation:					
Benefit obligation – beginning of year	$	23,144,321	20,985,149	5,809,707	4,688,623
Service cost		1,953,821	1,894,157	485,532	408,135
Interest cost		1,301,037	1,257,442	321,037	281,201
Actuarial (gain) loss		882,665	1,490,415	(412,275)	482,540
Participant contributions		—	—	110,966	96,333
Curtailment		—	(1,368,980)	—	—
Benefits paid		(1,203,116)	(1,113,862)	(180,269)	(147,125)
Benefit obligation – end of year		26,078,728	23,144,321	6,134,698	5,809,707
Change in plan assets:					
Fair value of plan assets – beginning of year		16,637,656	16,637,656	—	—
Actual return on plan assets		3,652,088	(3,621,163)	—	—
Employer contributions		3,035,294	4,500,000	69,303	50,792
Participant contributions		—	—	110,966	96,333
Benefits paid		(1,203,116)	(1,113,862)	(180,269)	(147,125)
Expenses paid		(127,770)	(109,790)	—	—
Fair value of plan assets – end of year		21,994,152	16,637,656	—	—
Funded status	$	(4,084,576)	(6,506,665)	(6,134,698)	(5,809,707)

Amounts recognized in the 2009 and 2008 statements of financial position consist of:

		Pension plan		Postretirement plan	
		2009	2008	2009	2008
Benefit obligation	$	(4,084,576)	(6,506,665)	(6,134,698)	(5,809,707)
Regulatory asset or (liability)		8,127,363	9,527,335	(25,489)	366,920
Projected benefit obligation	$	(26,078,728)	(23,144,321)	(6,134,698)	(5,809,707)
Fair value of assets		21,994,152	16,637,656	—	—
Unfunded projected benefit obligation	$	(4,084,576)	(6,506,665)	(6,134,698)	(5,809,707)

The unfunded projected benefit obligation for the postretirement plan at December 31, 2009 and 2008 is recorded as $234,170 and $193,138, respectively, in other current liabilities and $5,900,528 and $5,616,569, respectively, in accrued postretirement liability.

Amounts recognized in the statements of activities consist of:

		Pension plan		Postretirement plan	
		2009	2008	2009	2008
The components of net periodic pensions and postretirement cost are as follows:					
Service cost	$	1,953,821	1,894,157	485,532	408,135
Interest cost		1,301,037	1,257,442	321,037	281,201
Recognized loss due to curtailments		—	1,125,270	—	—
Expected return on plan assets		(1,594,489)	(1,347,956)	—	—
Amortization of unrecognized prior service cost		51,424	157,007	—	—
Amortization of unrecognized loss		301,384	162,146	(19,866)	(34,488)
Total	$	2,013,177	3,248,066	786,703	654,848

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 $25,110,241 and $21,933,275 at December 31, 2009 and 2008, respectively.

The following table as of December 31, 2009 and 2008, shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension plan		Postretirement plan	
	2009	2008	2009	2008
Benefit obligations:				
Discount rate	5.70%	5.75%	5.95%	5.75%
Rate of compensation increases	4.00	4.00	4.00	4.00
Net cost or credit:				
Discount rate	5.75%	6.29%	5.75%	6.00%
Rate of compensation increases	4.00	4.00	4.00	4.00
Expected return on plan assets	7.75	7.75	N/A	N/A

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

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

	Target	December 31	
Category	allocation	2009	2008
Fixed income	40%	39%	46%
International and emerging equities	22	22	19
Large cap equities	22	23	19
Mid cap equities	10	10	8
Small cap equities	6	6	5
Cash equivalents	—	—	3
Total	100%	100%	100%

The actual rate of return for the pension plan's assets as of December 31, 2009 and 2008 were:

	Annual Returns December 31	
Category	2009	2008
Fixed income	9.4%	0.9%
International and emerging equities	19.7	(34.9)
Large cap equities	26.1	(37.3)
Mid cap equities	39.3	(33.4)
Small cap equities	40.7	(36.9)
Cash equivalents	0.1	1.8
Total portfolio	21.3%	(21.2)%

The table below shows the level of input used to determine the fair value of assets:

		Fair value measurements at December 31, 2009			
Category		Fair value	Level 1	Level 2	Level 3
Fixed income	$	8,612,178	—	8,612,178	—
International and emerging equities		4,825,000	—	4,825,000	—
Large cap equities		4,996,545	—	4,996,545	—
Mid cap equities		2,229,008	—	2,229,008	—
Small cap equities		1,354,450	—	1,354,450	—
Cash equivalents		(23,029)	—	(23,029)	—
Total	$	21,994,152	—	21,994,152	—

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

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

The assumed health care cost trend rates for the postretirement plan are 9% for 2009 decreasing to 4.75% in 2019, and 9% for 2008 decreasing to 4.75% in 2018. A onepercentage point change in the assumed health care cost trend rate would change the 2009 postretirement benefit obligation as follows:

		1% increase	1% decrease
Effect on postretirement benefit obligation	$	376,800	(343,800)
Effect on total of service and interest cost components		68,800	(63,500)

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

		Pension plan	Postretirement plan
2010	$	1,675,388	241,036
2011		1,924,947	317,368
2012		1,938,109	345,249
2013		1,992,146	381,432
2014		2,127,457	435,483
2015 – 2019		10,834,104	2,909,137

(b) 401(k)Plan

NYISO has a 401(k) Retirement and Savings Plan open to all nontemporary employees. This plan provides for employee contributions up to specified limits. NYISO matches 100% of the first 3% of employee contributions, and 50% of the next 2% of employee contributions. Beginning December 1, 2009, NYISO also contributes funds to employee 401(k) plan accounts equivalent to defined benefit accruals formerly earned in the qualified pension plan.

Employees are immediately vested in NYISO's matching contributions and become vested in other employer contributions after three years of credited service. The total NYISO contributions to the 401(k) plan were $1,993,192 and $1,424,834 for 2009 and 2008, respectively.

(c) ***Long-Term Incentive Plan***

NYISO's Long-Term Incentive Plan provides certain members of senior management with deferred compensation benefits. Benefits are based upon the achievement of three-year performance goals established by the Board of Directors, with participants becoming fully vested and distributions payable for these deferred amounts after the completion of the audited financial statements for the third year. Accrued LongTerm Incentive Plan benefits included in other noncurrent liabilities at December 31, 2009 and 2008, were $0 and $1,585,340, respectively. The shortterm portion of such liability, included in other current liabilities, at December 31, 2009 and 2008, was $2,484,980 and $0, respectively.

(9) Lease and Other Commitments

Operating Leases

During 2008, NYISO entered into obligations under two operating lease agreements for the use of computer hardware. Expenses related to these leases totaled $2,991,277 and $1,066,500 in 2009 and 2008, respectively. The remaining obligations of the NYISO with respect to these leases are as follows:

2010	$ 3,194,640
2011	2,928,420
Total	$ 6,123,060

Other Commitments

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

(10) Working Capital Reserve

At December 31, 2009 and 2008, the working capital reserve consisted of:

		2009	2008
Market participant contributions through Rate Schedule 1	$	46,440,347	46,440,345
Interest on market participant contributions		103,297	2,500,848
Total	$	46,543,644	48,941,193

(11) Deferred Revenue

Deferred revenue at December 31, 2009 and 2008, consisted of the following:

		2009	2008
Advance payments received on interconnection studies	$	2,859,981	4,163,169
Governance participation fees		383,700	393,600
Total	$	3,243,681	4,556,769

(12) **Regulatory Liabilities**

At December 31, 2009 and 2008, NYISO recorded the following amounts as regulatory liabilities:

		2009	2008
Funding for deferred charges	$	3,880,116	2,857,999
Rate Schedule 1 underspending		1,074,704	1,505,215
Deferred postretirement plan liability		25,489	—
Rate Schedule 1 transactional volume overcollections		—	6,461,676
Voltage support service (reactive power) market		—	2,314,198
Total		4,980,309	13,139,088
Less current portion		(1,074,704)	(10,281,089)
Long-term portion	$	3,905,605	2,857,999

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.

ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined benefit or postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2009 and 2008 the amounts were $(25,489) and $366,920, respectively.

(13) **Commitments and Contingencies**

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

New York State Electric and Gas (NYSEG) filed a civil suit against the NYISO in September of 2000, seeking recovery of $6.6 million in compensatory damages and unspecified punitive damages, associated with allegedly excessive payments for reserves of electricity during the period January to March 2000. The case, filed in the U.S. District Court for the Northern District of New York, was stayed pending the outcome of related proceedings at the FERC and the D.C. Circuit Court of Appeals. In those proceedings, the D.C. Circuit Court of Appeals rendered a decision on December 18, 2007 affirming FERC's determination to deny refunds, and no further related appellate or regulatory proceedings are anticipated. On February 23, 2010, NYISO and NYSEG executed and filed a stipulation dismissing the civil suit in the U.S. District Court for the Northern District of New York.

NYISO is defending a civil suit that is pending in New York State Supreme Court, Albany County. The suit, which named the NYISO and two individuals as defendants, was filed by a former employee, seeking reinstatement, as well as compensatory and punitive damages totaling $5 million, as relief for certain events alleged to have occurred during this individual's NYISO employment. On September 24, 2007, the Supreme Court granted, in part, a motion to dismiss the complaint and dismissed all claims asserted directly against the NYISO, leaving in place a single claim against a NYISO employee, the plaintiff's former supervisor. On December 31, 2009, the Third Department of the New York State Appellate Division reversed the Supreme Court's dismissal of some of the causes of action against the NYISO and the other defendants. Discovery was completed as of December 18, 2009, with dispositive motions to be filed by March 2010. No trial date has been set.

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

NYISO was also a defendant in a civil suit, pending in U.S. District Court for the Southern District of New York, commenced by 330 Fund I, L.P. In the suit, the plaintiff alleged that NYISO had failed to timely post certain information regarding transmission system changes and outages on NYISO's Open Access Same-Time Information System, in violation of NYISO's OATT, which allegedly resulted in plaintiff incurring unspecified losses in connection with several transmission congestion contracts. By mutual agreement of the parties, the suit was dismissed, with prejudice, on April 22, 2009.

(14) **Subsequent Events**

NYISO considers events and transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on March 17, 2010 and subsequent events have been evaluated through that date.

The New York Independent System Operator

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.

The NYISO is governed by an independent Board of Directors and a committee structure comprised of a diverse array of stakeholder representatives. It is subject to the oversight of the Federal Energy Regulatory Commission (FERC) and regulated in certain aspects by the New York State Public Service Commission (NYSPSC). NYISO operations are also overseen by electric system reliability regulators, including the North American Electric Reliability Corporation (NERC), Northeast Power Coordinating Council (NPCC), and the New York State Reliability Council (NYSRC).

The members of the NYISO's 10-member Board of Directors have backgrounds in electricity systems, finance, academia, information technology, communications, and public service. The members of the Board, as well as all employees, have no business, financial, operating, or other direct relationship to any market participant or stakeholder. The NYISO does not own power plants or transmission lines.

The NYISO's independence means that its actions and decisions are not based on profit motives, but on how best to enhance the reliability and efficiency of the power system, and safeguard the transparency and fairness of the markets.

The mission of the NYISO, in collaboration with its stakeholders, is to serve the public interest by:

- *Maintaining and enhancing regional reliability*
- *Promoting and operating a fair and competitive electric wholesale market*
- *Planning for the power system of the future*
- *Providing objective and independent technical information on energy issues*

The NYISO manages the efficient flow of power on nearly 11,000 miles of electric transmission lines on a minute-to-minute basis, 24 hours-a-day, seven days-a-week. As the administrator of the competitive wholesale markets, the NYISO conducts auctions that match the retail electric service companies looking to purchase power and the suppliers offering to sell it.

In addition to these functions, the NYISO has an expanding and increasingly important planning function to assess New York's electricity needs and evaluate the ability of planned new power facilities and other options to meet those needs. This planning process involves stakeholders, regulators, public officials, consumer representatives, and energy experts who provide vital information and input from a variety of viewpoints.

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