

# 2010 Annual Report

*New York Independent System Operator*



RELIABILITY  
RESPONSIBILITY  
SUSTAINABILITY

**NYISO** NEW YORK  
INDEPENDENT  
SYSTEM OPERATOR



## NYISO Mission Statement

The mission of the New York Independent System Operator, in collaboration with its stakeholders, is to serve the public interest and provide benefit to consumers by:

- ◆ *Maintaining and enhancing regional reliability*
- ◆ *Operating open, fair and competitive wholesale electricity markets*
- ◆ *Planning the power system for the future*
- ◆ *Providing factual information to policy makers, stakeholders and investors in the power system*



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## Letter from the Board Chair and President & CEO

2010 was another good year for the NYISO and our customers. We kept the power flowing through one of the hottest months on record, while continuing to deliver value for the people of New York.

Our operators met the challenge of the summer of 2010 when heat waves made July a record-setting month for electricity use. Power system reliability is vital to the 19 million people and thousands of businesses and organizations we serve; but reliability is no accident. It is the result of careful resource planning, top-notch operator training and constant vigilance every hour of every day, year after year.

The NYISO's planning process helps lay the groundwork for reliability by performing a variety of power system assessments, including an annual analysis of future reliability needs. The *2010 Reliability Needs Assessment* found a positive outlook for New York's electric system through 2020, assuming a few key variables remained in check.

In addition to being the defining commitment of the NYISO, the state's power system reliability is also subject to the scrutiny of several regulatory entities that establish many of our reliability metrics and procedures. We underwent a rigorous audit in 2010, and came through with flying colors. The comprehensive audit found that the NYISO meets national and regional reliability standards and compliance requirements.

While still below pre-recession levels, statewide electric energy use increased 3.0 percent from 2009. The value of transactions in the NYISO's wholesale electricity markets also increased in 2010, totaling \$6.9 billion compared to \$5.6 billion in 2009.

The NYISO's competitive wholesale markets continue to deliver environmental and economic benefits for New York. Since 2000, markets have encouraged the development of demand-side programs that reduce peak demand and provide nearly 2,500 megawatts of new alternatives to traditional generation and transmission resources. More than 8,600 megawatts of cleaner, more efficient generation have been built by public and private suppliers. In addition, significant new interstate transmission capability has been added. These new resources have been predominantly sited in high-use regions of the state where

2,500 megawatts of  
new alternatives

to traditional generation and transmission  
resources



they are most needed. Encouraged by the price signals provided by the NYISO's market design, much of the added capacity is in the form of emission-free wind power and more efficient natural gas combined cycle units. Also spurred by competitive markets, plant operators have improved their units' efficiency, adding to savings and environmental benefits. Working in tandem with air quality regulations, power markets have helped to make the emissions rates of New York State's electricity generation among the lowest in the U.S.

We continue to support New York State's effort to cultivate clean energy resources. A study we completed in 2010 found that New York's wind generation could be increased more than five-fold, providing economic and environmental benefits, and paving the way to achieve the State's goal of having 30 percent of the state's electricity supplied by renewable resources by 2015. Complementary energy storage technologies are being developed and we have implemented innovative changes in market design to integrate the new technologies. In 2010, developers of energy storage systems, responding to NYISO market innovations, took pioneering steps with advanced battery and fly-wheel systems in New York State.

As part of the continuing evolution of the NYISO's market design, various software improvements were deployed in 2010 to increase the market's timeliness, accuracy, and transparency. Some of these improvements involved procedures to foster broader regional markets, capacity market enhancements, and upgraded demand response information systems. We also made progress in our efforts to deploy smart grid technologies on New York's power grid.

The NYISO's roles and responsibilities are also constantly evolving and so, in 2010, did its mission, with an added focus on consumer awareness. The focus of our mission, which includes reliability, markets, and planning, was sharpened to explicitly reference our "benefit to consumers." In service of that enhanced focus on consumers, we created a dedicated consumer interest liaison position and took steps to create a Consumer Advisory Council. Both will facilitate the exchange of information between the NYISO and electricity consumers.


As part of our commitment to serve as an authoritative source of energy information, our 2010 Annual Symposium looked at "Planning the Sustainable Grid of the Future." Regulators, legislators, energy industry officials, and members of academia shared diverse perspectives on the increasingly broad and complex energy landscape, and the evolving energy challenges facing our nation.

In 2010, we expanded our regional markets and interregional planning efforts to lay the groundwork for exchanging information, optimizing resources, increasing efficiencies and achieving savings. The Federal Energy Regulatory Commission gave conditional approval to the Broader Regional Markets initiatives we developed in collaboration with our neighboring grid operators, giving a boost to our plans for regional market efficiencies that are expected to provide millions of dollars in annual savings throughout the region.

In addition to increasing our consumer outreach, we collaborate with an ever-expanding population of market participants, neighboring grid operators, regulators, policymakers and other stakeholders. Our unique shared governance system has drawn praise for its effectiveness. With continued, vigorous collaboration, we will increase our success in maintaining and building reliability, bolstering open and competitive markets, and planning for reliable, responsible, and sustainable resources to serve the Empire State.



Karen Antion, Board Chair



Stephen G. Whitley, President & CEO





Photo courtesy of New York Power Authority

## 2010 in Review

### RELIABILITY

Operating a reliable electric grid is at the heart of what we do. It affects the lives and livelihoods of everyone in New York State – and we fulfill that responsibility with a dedication to excellence. This was demonstrated yet again in 2010, when New York’s electric system successfully met the highest monthly electric demand on record. In July 2010, New Yorkers consumed 17,312 gigawatt-hours of electricity; beating the previous monthly usage record set in August 2005 and soaring 19 percent higher than power usage in July 2009. New York came close to setting another record, for peak demand, on July 6, when the system recorded an hourly average peak load of 33,452 megawatts, the third highest peak on record.

We were reminded that the key to reliably meeting summer demand is preparation. We meet reliability standards requiring that sufficient generating resources are available, and rigorous operator training to make sure our operators keep the power flowing.

July 2010

**17,312 gigawatt-  
hours**

highest monthly demand on record

The NYISO received high marks as the result of a comprehensive audit in 2010 conducted by the Northeast Power Coordinating Council (NPCC). The audit, which reviewed national and regional reliability requirements found us to be compliant with all pertinent North American Electric Reliability Corporation (NERC) reliability standards and requirements.



Commenting on the NYISO's compliance culture, the audit said, "During all contact, the NYISO staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability and security. For those that participated in the audit, it was clear that all were committed to both compliance and the improved reliability and security that a strong compliance program leads to."

### **POSITIVE OUTLOOK THROUGH 2020**

The NYISO's reliability responsibilities are performed in tandem with its planning processes to forecast future demand and evaluate the adequacy of the resources needed to meet it. Central to these efforts is the Comprehensive System Planning Process, which examines New York's bulk power system over the next ten years. Planning studies are conducted in concert with the NYISO's stakeholder process, which provides input from regulators and the market participants who produce, supply, use, transmit, and trade electricity in New York's wholesale electricity markets.

Our *2010 Reliability Needs Assessment* (RNA) reported that electric power resources (generation, transmission and demand response programs) are expected to meet the state's electric reliability needs through 2020, assuming energy efficiency programs and planned resource additions proceed as anticipated and no significant facilities are retired from service. With the finding of no reliability needs, no requests for reliability solutions were solicited. However, the NYISO continues to monitor all industry developments and risk scenarios – including the pace of economic growth and the economic impact of proposed environmental regulations on existing facilities – that have the future potential to impact reliability.

In January 2010, we issued a first-of-its kind economic analysis of transmission congestion on New York's bulk power system; serving as an invitation to developers of transmission, generation and demand response projects to propose solutions in the three most congested corridors.

As a complement to the NYISO's planning process, the owners of

the interconnected electricity transmission facilities in New York initiated a joint study of the reliability of the bulk power system to help address future electric needs, support the growth of renewable energy sources, and protect the reliability of the power system. Called the New York State Transmission and Reliability Study (STARS), the project is evaluating the lifecycle of New York's transmission assets – with much transmission built decades ago – and identifying potential economically beneficial transmission projects that would reliably support the state's energy needs. STARS will provide potential investment costs and quantify benefits that may be realized from identified transmission projects for various scenarios over a 20-year horizon.

### **ADVANCED TECHNOLOGY AND SMART GRID**

We have been working to make the grid smarter since the NYISO's inception, with technological innovation as one of our core strategic objectives. We have deployed communications and data management advances that have optimized the dispatch of power on the bulk system



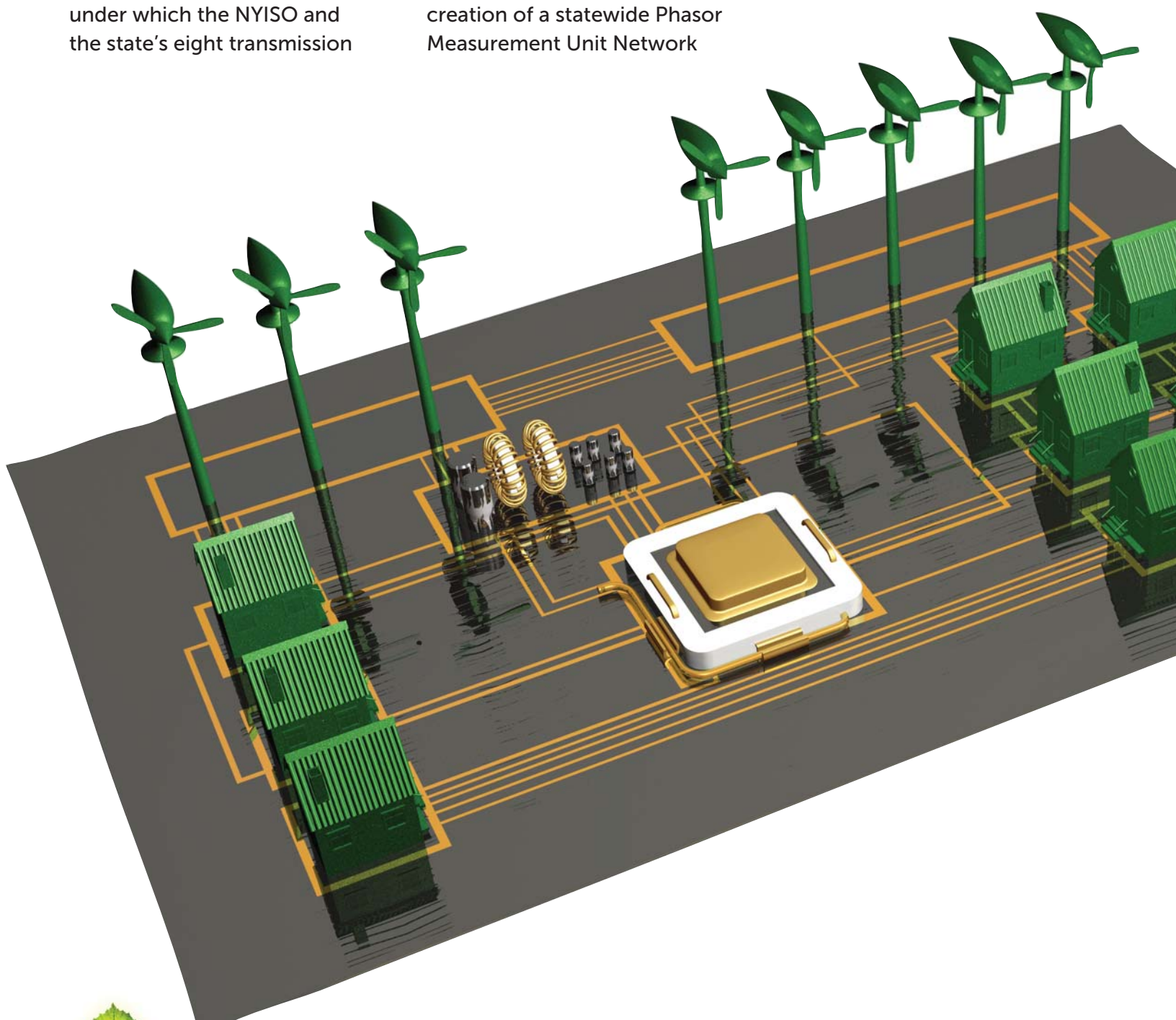
Photo courtesy of New York Power Authority

in ways that would have been inconceivable a generation ago. Our pioneering efforts include advanced technologies to enable demand response, integrate wind power, and incorporate energy storage.

In 2010, we completed an agreement with the U.S. Department of Energy (DOE), under which the NYISO and the state's eight transmission

owners will receive \$37 million from the DOE to deploy smart grid technologies on New York's power grid. The federal funds, provided under the Smart Grid Investment Grant (SGIG) program, will support a \$75 million smart grid project to enhance the reliability and efficiency of the state's power grid. The project features the creation of a statewide Phasor Measurement Unit Network

to obtain faster and more in-depth system monitoring data, and the installation of new capacitor banks that can be deployed as needed in key locations throughout the state. These investments will provide the foundation for further development of smart grid infrastructure in New York State.



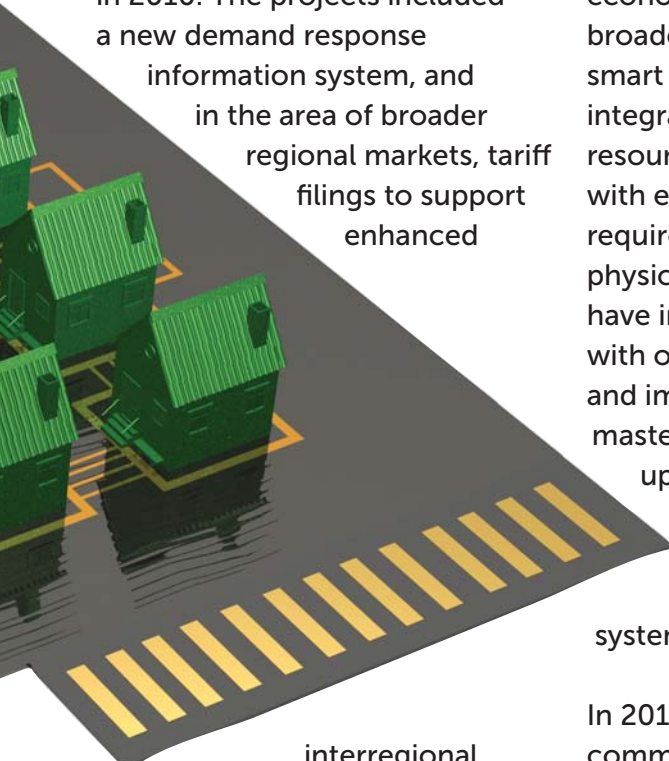


## Smart Grid Investment Grant

# \$37 million

federal funding to deploy smart grid technologies on New York's power grid

We deployed many software improvements to enhance markets, reliability, and the transparency of our operations in 2010. The projects included a new demand response information system, and in the area of broader regional markets, tariff filings to support enhanced



interregional transaction coordination. We filed our first fully electronic tariff with the FERC in June, becoming the first ISO/RTO to have its electronic filing accepted under FERC's new eTariff system.

### **INFRASTRUCTURE MASTER PLAN**

Given our expanding responsibilities in areas such as economic and resource planning, broader regional markets, smart grid implementation, the integration of variable, renewable resources and compliance with evolving reliability requirements, the NYISO's physical infrastructure needs have increased. We have worked with our stakeholders to devise and implement an infrastructure master plan. Providing the most up-to-date facilities and system infrastructure is an important component of maintaining power system and market reliability.

In 2010, the NYISO commissioned studies that indicate significant opportunities for efficiency gains through modernization and consolidation, including development of a new Data Center, which could yield up to \$200,000 in annual power use efficiencies.

A study of the 40-year-old Power Control Center found that while it accommodates existing responsibilities, a new center must be built to address the NYISO's expanded responsibilities, and recommended converting the current facility into a sustainable back-up control center. In late 2010, we submitted a petition for approval of long-term financing of the infrastructure plans to the New York State Public Service Commission.



## RESPONSIBILITY

### STRATEGIC PLANNING

To develop, implement and assess our success in fulfilling the NYISO's mission, we conduct comprehensive, integrated corporate planning. The process of developing the NYISO five-year Strategic Plan, annual Business Plan, annual Corporate Goals and Objectives and yearly individual performance plans build upon and reinforce one another. The long-range vision of the Strategic Plan sets overall objectives, the implementation of which is detailed in the specific projects contained in the annual Business Plan, and in the metrics established by the annual goals and objectives. These elements inform the individual performance plans of each NYISO employee.

### LEADERSHIP TEAM

We are committed to excellence and continued improvement of our ability to respond to near-term and long-range challenges. That effort includes enhancement of our management structure. In 2010, we named Rick Gonzales to the new position of Senior Vice President and Chief Operating Officer (COO) -- second in command to the President and CEO -- and responsible for system operations, system planning and

information technology. Rick has been with the NYISO since its inception, and most recently served as Vice President of Operations. Our management restructuring also included the promotion of two team members to key leadership positions. Rich Dewey was named Senior Vice President and Chief Information Officer, and Rana Mukerji was named Senior Vice President of Market Structures.

We prepared for the transition of Board leadership scheduled to take place in April 2011.

At the Annual Meeting of the Board of Directors in April 2010, Karen Antion was re-elected by the Board to continue her role as Chair for a year. She has served on the NYISO Board since its inception and has served as Board Chair since April 2006. Robert A. Hiney was elected by the Board of Directors to serve as Vice Chair until he assumes the responsibility of chairing the Board at the completion of Karen Antion's term as Board Chair in 2011. Mr. Hiney has been a member of the NYISO Board since April 2006.

The Board also decided in 2010 to return to a more traditional governance structure. When the Board appointed a new President and CEO in July 2008, the duties of the Board Chair were expanded to focus on strategic and public policy matters. In the role as working chair, Karen Antion was





instrumental in guiding the NYISO's success as it capped a decade of accomplishments with one of our best years ever in 2009. The working chair position, which was intended as transitional, has been retired.

In 2010, the Board also retained former FERC commissioner Suedeen Kelly to serve as a strategic energy policy advisor, providing guidance on issues of strategic importance to the NYISO and New York's energy future.

### **REGULATION AND OVERSIGHT**

Committed to transparency in all its forms, the NYISO is regulated by the Federal Energy Regulatory Commission (FERC) and the New York State Public Service Commission (PSC). We are also subject to the rigorous oversight of the North American Electric Reliability Corporation (NERC), the Northeast Power Coordinating Council (NPCC), and the New York State Reliability Council (NYSRC).

The NYISO has a number of controls in place to make sure that we are doing the best job possible. For nine consecutive years, we have received an unqualified SAS (Statement on Auditing Standards) 70 Type 2 audit opinion from an independent accounting firm.

The audits scrutinize the controls related to the NYISO's settlement processes and systems for bidding, accounting, billing and settlements of energy, regulation, capacity, transmission, reserves and related market transactions. "The NYISO's record of consistently obtaining unqualified audit opinions highlights our commitment to excellence in the operation of the bulk electricity grid and administration of the wholesale electricity markets in New York State," NYISO President & CEO Stephen Whitley commented in 2010.

### **COMPETITIVE, COMPREHENSIVE AND EFFICIENT MARKETS**

Our wholesale electricity markets were found to be competitive, comprehensive and efficient in the *2010 State of the Market Report: New York ISO Electricity Markets* by Potomac Economics, which serves as the NYISO's external Market Monitoring Unit.

## 9 Consecutive Years

unqualified SAS (Statement on Auditing Standards) 70 Type 2 audit opinions from an independent accounting firm



"The energy, capacity, operating reserves, and regulation markets performed competitively in 2010," the report said. The market monitor's assessment highlighted some of the unique attributes of our markets that contribute to efficient operations. These include systems that optimize generation dispatch and a mechanism that allows demand-response resources to set energy prices when they are needed.

The report also noted that on-going market efficiency improvements are underway. These improvements include the reduction of "uplift" charges, and the implementation of the Broader Regional Market initiatives.

below 2008 when costs averaged \$95/MWh. The market monitor's report found that higher fuel costs and higher load levels, due to increased economic activity and hotter weather, were responsible for increases in energy prices in 2010.

Uplift charges decreased 21 percent from \$287 million in 2009 to \$228 million in 2010, according to the market monitor's report. Contributing to the decline was a reduction in supplemental generator resource commitments for reliability in New York City, and operational enhancements that we have implemented. Uplift is a broad category of charges applied to all market participants for costs incurred in reliable operation of the grid. They are not set through a competitive mechanism.

The report found that congestion-exacerbating Lake Erie loop flows in New York fell by 65 percent from 2009 to 2010. In addition, the NYISO is developing market enhancements that will help improve the efficiency of flows among neighboring control areas. "The Broader Regional Market Initiatives developed by the NYISO and other RTOs around Lake Erie will improve the efficiency with which these flows are managed," the report states.

## More than 4,000 Customers

registered to participate in demand response programs

The average cost of wholesale electricity in New York was \$59 per megawatt-hour (MWh) in 2010. While that represents an increase over 2009's historic low (\$49/MWh), it is considerably





### **ENCOURAGING INNOVATION AND OPTIMIZING RESOURCES**

Competitive wholesale electricity markets have fostered reliability, yielded environmental benefits, and provided significant additional power resources in New York State. Investments have targeted high-demand areas -- New York City, Long Island and the Hudson Valley -- where they are needed the most. Such investment in high-demand areas has saved an estimated \$500 million from avoided costs of transmission congestion and power line construction.

Innovative programs enlisting consumers to reduce their power during times of peak demand have added nearly 2,500 megawatts of demand response resources. More than 4,000 customers have registered to participate in these programs, which help the NYISO manage system peaks with demand-side alternatives to traditional power supply resources.

Since 2000, New York has added more than 8,600 megawatts of new, more efficient generation capacity – built by public power and private developers – with 80 percent sited in the high-demand regions of southeastern New York. In addition, nearly 1,300 megawatts of new transmission capability has been added to bring

more power from out of state, all of it serving southeastern New York.

### **ENHANCED CONSUMER FOCUS**

As part of the continuing evolution of the NYISO, we took several steps in 2010 to sharpen our focus on the ways wholesale electricity markets affect end-use consumers. We moved to strengthen our outreach to ultimate consumers to increase our understanding and awareness of their interests, as well as promote their understanding of what the NYISO does and how it affects them. We revised the NYISO mission statement in 2010 to specifically reference providing benefit to consumers and we moved to enhance attention to consumer concerns through the appointment of a consumer interest liaison. This role serves as a key point of contact for consumer interests and is responsible for developing and programs to promote mutual understanding of how developments in our competitive wholesale markets provide value to end-use consumers. The consumer liaison acts as the primary spokesperson with state and local government consumer agencies and coordinates the NYISO's expanding consumer-related initiatives.



In 2010, we also set the stage for creation of a Consumer Advisory Council in 2011. The council is intended to provide a forum for the exchange of information with electricity consumers, with a focus on information sharing, outreach and education. The council will study the current activities being undertaken by the NYISO, become familiar with the NYISO's strategic plan, learn about anticipated developments in the electric industry and provide the NYISO Board of Directors with recommendations as to how we can best serve New York's electricity consumers.

### **AUTHORITATIVE INFORMATION**

The NYISO has long been considered a model ISO; with a market design second to none and the successful operation of a highly complex power system. Since our founding, more than 1,200 visitors representing hundreds of companies and governments from 65 nations around the world have toured our power control center and received briefings on our grid operations, wholesale electricity markets, and system planning. In 2010, representatives of electric utilities, grid operators, and energy officials from Brazil, China, Ghana, Japan, Norway, South Korea, and Ukraine were among those visiting the NYISO.

As an authoritative source of information on key energy issues, we continue to actively provide objective data and unbiased analysis. In 2010, these efforts were facilitated by a redesigned website providing easier access to a wide array of information on grid operations, market conditions, and the proceedings of the shared governance process. NYISO personnel provided over 50 presentations and briefings to state, regional, national and international energy industry conferences, regulatory proceedings and other governmental forums.

We hosted our own annual symposium on evolving energy issues, *Planning the Sustainable Grid of the Future*, featuring expert panelists and over 300 attendees from government, industry and the academic community. *(A summary of the symposium proceedings is provided later in this report.)*



## SUSTAINABILITY

Competition in wholesale electricity markets has helped to stimulate investments in cleaner generation, increased the use of renewable resources – such as wind and solar power – and encouraged improvement in the overall efficiency of power plants. The system-wide heat rate of New York’s fossil-fueled power plants has improved over the past decade. A lower heat rate means that less fuel is burned – and fewer emissions are created – to produce the same amount of electricity. Power plant availability has also improved, adding megawatts to the system without additional capital costs or environmental impacts.

Significant positive environmental impacts have resulted from market forces complementing the goals of air quality regulations to reduce emissions. In New York State, the rate of power plant emissions of Sulfur Dioxide (SO<sub>2</sub>), Nitrogen Oxides (NOx), and Carbon Dioxide (CO<sub>2</sub>) has sharply declined since 1999. The SO<sub>2</sub> rates have seen the most dramatic decline, dropping more than 80 percent. NOx rates dropped more than 60 percent and CO<sub>2</sub> rates dropped by 25 percent. The emission rates of New York State’s electricity generation – measured in tons per megawatt-hour – rank among the

lowest in the continental United States. New York’s CO<sub>2</sub> emissions rate ranks 10th lowest; its NOx and SO<sub>2</sub> emissions rates rank 12th lowest.

Through our advanced market design and efficient grid operations, the NYISO has helped New York State take the lead in the integration of cleaner and greener power resources.

To reliably address the growth of wind generation, the NYISO has implemented pioneering measures such as a centralized wind forecasting initiative. The NYISO is also the first grid operator in the nation to institute a wind dispatch system based on the offers of individual generators.

In 2010, we completed a multi-year study, which found that wind generation could be increased by over five times the amount currently operating in New York. The report looked at expanding New York wind generating capacity from

Since 1999

**80 percent**  
SO<sub>2</sub> emission rate reduction



1,275 megawatts to as much as 8,000 megawatts by 2018. In 2010, more than 7,000 megawatts of proposed wind projects had been submitted to the NYISO for potential interconnection to the electric grid.

The study found that any operational requirements associated with integrating wind energy could be addressed in furthering New York State's goal of having 30 percent of the state's electricity supplied by renewable resources by 2015.

"30X15" goal

# 30 percent

of New York State's electricity supplied by renewable resources by 2015

The growth of wind power has led to significant additional research into complementary energy storage technologies, and the NYISO has implemented pioneering changes in market design to help accommodate them. The NYISO is the first grid operator in the nation to implement federally approved energy storage market rules to encourage their development.

Various companies are developing grid-scale energy storage facilities in the state based on

flywheel and battery technology. Beacon Power built a 20-megawatt flywheel energy storage facility in Stephentown. The flywheel system is a series of rotating mechanical devices that use electricity from the grid to store kinetic energy and then discharge electric energy to the power system to provide system regulation instantaneously balancing load and supply. AES Energy Storage completed the first phase of a planned three-phase 20-megawatt battery storage system. The facility, which entered commercial operation in January 2011, uses advanced lithium-ion batteries that convert electricity into chemical energy for storage and later release back to the power system.

### **ENVIRONMENTAL/ENERGY BALANCE**

We are especially cognizant of the close interrelationship of energy and environmental concerns. In 2004, we created an Environmental Advisory Council to provide guidance on the environmental consequences of NYISO practices and operations. We remain the only ISO/RTO with an advisory body focused exclusively on environmental matters.

The studies we conduct as part of our Comprehensive System Planning Process address environmental considerations. Among the risk scenarios examined by recent reliability assessments is the potential cumulative impact of emerging state and







federal environmental regulations affecting power plant air emissions and water withdrawals and discharges.

The NYISO and its stakeholders will continue to work with state and federal energy and environmental policymakers to make sure they are aware of all the options and impacts, and to keep environmental concerns foremost in mind while sustaining the reliable supply of electricity.

### **BROADER REGIONAL MARKETS**

In 2010, we made significant progress with our Broader Regional Markets initiatives to improve coordination among regional grid operators, resolve seams issues, and reduce costs to consumers. At the beginning of the year, we proposed a series of initiatives to the FERC, encompassing the grid operators serving the Mid-Atlantic, Midwest, and New England regions of the U.S., as well as the Canadian Provinces of Ontario and Quebec. Proposed new procedures would allow grid operators to use lower-cost resources from neighboring systems to address congestion. Also under the proposals, schedulers of inter-area transactions would be charged for the cost of congestion based on the physical flow of power, unlike the current settlement determination that is based only on the contract path. In addition, transaction schedul-

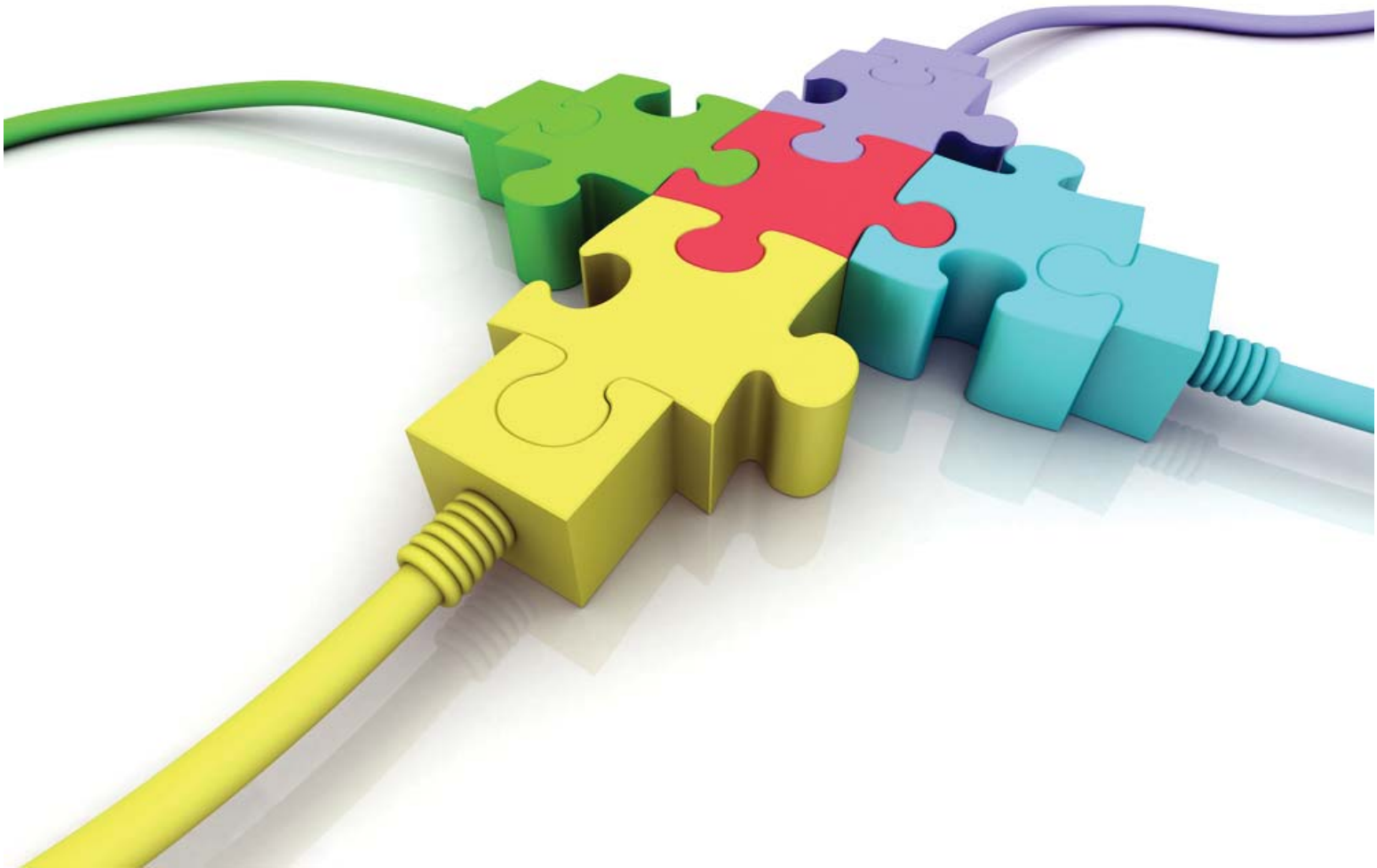
ing timing would be coordinated to allow market participants to more quickly adjust to market-to-market pricing patterns.

In July 2010, FERC approved these initiatives, which included modeling and mechanisms for interregional transaction coordination, market-to-market coordination and alleviating transmission congestion. In its approval order, FERC noted, "... these planned regional initiatives will be designed to reduce uplift costs and lower total system operating costs ..." The FERC order further stated, "We commend the NYISO and the entities with whom it has collaborated in developing the recommendations and proposals. We agree that these planned regional initiatives, taken as a whole, appear to represent a constructive, workable solution for minimizing the occurrence of the Lake Erie region loop flow."

Loop flows had exacerbated congestion in New York in 2008. The NYISO, in addition to curtailing the transactions that contributed to the problem, initiated enhanced modeling and analysis processes. Unscheduled flows moderated and "uplift costs" were reduced.

A September 2010 analysis by Potomac Economics of the impact of broader regional markets initiatives estimated annual regional savings of

estimated annual regional savings of  
**\$362 million a year**  
from broader regional markets initiatives



approximately \$362 million a year, with the estimated savings associated with New York at \$193 million a year.

## **EXPANDED INTERREGIONAL PLANNING**

Our efforts to plan the future of the grid, and meet the power needs of New York's consumers, extend beyond our state's borders. We are a leader in the Eastern Interconnection Planning Collaborative (EIPC), with NYISO President and CEO Stephen Whitley chairing the EIPC Executive Committee. The EIPC is a pioneering, grassroots effort being developed and led by 26 planning authorities from the US and Canada to conduct transmission analyses at the interconnection level. Working with federal funding awarded by the Department of Energy, the EIPC is focused on the roll-up, integration, and analysis of existing regionally developed plans.

In 2010, the EIPC announced the formation of a 29-member stakeholder steering committee to provide strategic input into the interconnection-wide transmission analysis and planning efforts. The stakeholder committee structure was developed through a series of discussions among consumers, environmentalists, electricity suppliers, transmission providers, energy service companies, public power entities, renewable energy inter-

ests, demand response providers, and representatives of state, provincial and federal governments.

On regional and nationwide levels, we also participate in other grid groups who exchange information and engage in collaborative planning. One of these is the ISO/RTO Council (IRC), comprised of ten Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs) in North America. These organizations serve two-thirds of electricity consumers in the US and more than half of Canada's population. The IRC works collaboratively to develop effective processes, tools and methods for improving competitive markets across North America. The goal is to balance reliability considerations with market practices, resulting in efficient, robust markets that provide competitive and reliable service to electricity users.

## **"CONTINUING VALUE TO CONSUMERS ..."**

In another project involving both interregional planning and broader regional markets, the NYISO and the six other ISO/RTOs regulated by the FERC devoted extensive time and effort in 2010 jointly compiling a comprehensive metrics report for the regulatory agency. It was compiled as part of the FERC's efforts to develop

standardized measures to track the performance of grid operations and power markets. The *2010 ISO/RTO Metrics Report* was submitted to the FERC in December and provided extensive data, including 50 separate metrics providing information on electric system reliability, wholesale electricity market benefits and organizational effectiveness. The metrics initiative is also helping the NYISO sustain and enhance transparency, identify strengths and gaps in order to address challenges, and maintain and bolster collaborative efforts with stakeholders, regulators and policymakers.

Commenting on the report, FERC Chairman Jon Wellinghoff said, "The total body of this information validates not only the transparency and efficiency of these organized wholesale electric markets, but their continuing value to consumers."

As outlined in this report, New York and the nation face many complex energy and economic challenges and choices that are best overcome by united, collaborative efforts. In the future, the NYISO will continue to serve the public interest and provide benefits to consumers by fulfilling – with excellence – our core mission and growing responsibilities on behalf of the people of New York.



PSC Chairman Garry Brown in discussion with (from left to right) Gordon van Welie, President and CEO, ISO New England; Terry Boston, President and CEO, PJM; Stephen Whitley, President and CEO, NYISO; and Kevin Burke, President and CEO, Con Edison

## Planning the Sustainable Grid of the Future 2010 Symposium

Energy policy makers, regulators and industry leaders from New York and around the country met at the NYISO’s annual symposium in April for discussions on a range of topics related to the future of energy. The event featured a keynote address by FERC Commissioner Marc Spitzer, as well as three panel discussions.



NYISO President & CEO Stephen Whitley delivers Opening Remarks.

NYISO President and CEO Stephen Whitley opened the conference with remarks about building a sustainable economic recovery. He noted that a variety of factors would affect the nature of the recovery, including state and federal policies promoting energy efficiency, new technologies, increased use of renewable

energy, and expanded environmental regulation of power production.

Creating a smarter grid, he said, involves a new vision of the interaction between the power system and the consumer. “Customers will be empowered with access to detailed pricing information, while system operators such as the NYISO will have more and better tools to manage an increasingly sophisticated bulk electricity system.”

“Technology and teamwork will be vital to the effort,” Whitley noted as he stressed the need to remove barriers to trade and improve the flow of power between regional power markets. The use of variable energy resources, such as wind power, and storage would be enhanced by increased collaboration and cooperation among grid operators, he said.

### **BROADER REGIONAL MARKETS**

New York State Public Service Commission Chairman Garry Brown moderated a panel that focused on the value of enhanced regional power markets as well as the benefits and challenges associated with improving



PSC Chairman Garry Brown (left) moderates panel on Broader Regional Markets. Also pictured are Gordon van Welie (center), ISO-NE President & CEO, and Terry Boston (right), PJM President & CEO



regional market efficiency. Panelists included Gordon van Welie, President and CEO, ISO New England; Terry Boston, President and CEO, PJM Interconnection; Stephen Whitley, President and CEO, NYISO; Kevin Burke, President and CEO, Con Edison; and Assemblyman Kevin Cahill, Chair, NYS Assembly Energy Committee.

The panel discussed the need for the interests of end-use consumers to be considered in planning broader regional markets. They encouraged a dialog with customers in terms of the smart grid, the role of grid operators, and the benefits of broader regional markets, noting that broader regional markets will help resolve “seams” issues between grid control areas and optimize the value of variable energy resources.

#### **KEYNOTE ADDRESS BY FERC COMMISSIONER MARC SPITZER**



FERC Commissioner Marc Spitzer delivers keynote address.

Commissioner Spitzer stressed that a three-pronged approach of market-based solutions, infrastructure improvements and consistent application of the rule of law is the most effective way to enhance and sustain a reliable grid. He said that successes in New York State are due to collaborative efforts between

utilities, regulators, policymakers and the NYISO. He said that while there continue to be challenges in adopting new federal energy and climate change policies, it is important to reflect on the progress being made at the state level, including the successes of the NYISO. “New Yorkers should be proud of their commitment to energy markets, reliability and the rule of law,” Spitzer said.

#### **CARBON CONTROLS**

The second panel, The Carbon Constrained Economy, was moderated by Paul DeCotis, Vice President of Power Markets, Long Island Power Authority (LIPA). The panel discussed the technology, challenges, and benefits associated with greenhouse gas reduction initiatives. Panelists included Arshad Mansoor, Vice President of Power Delivery and Utilization, Electric Power Research Institute (EPRI); Gavin Donohue, President and CEO, Independent Power Producers of New York (IPPNY); Senator George Maziarz, Chair, NYS Senate Energy Committee; Frank Murray, President and CEO, New York State Energy Research and Development Authority; Marilyn Brown, Professor, School of Public Policy, Georgia Institute of Technology, and member of the National Academies of Science Board on Energy and Environmental Systems; and Odin Knudsen, Managing Director of Carbon Strategy and Business Development, JP Morgan.

The panelists discussed which of the various measures -- cap and trade, a carbon tax, and/or increased energy efficiency -- would be the best way to achieve carbon reduction.



LIPA VP Paul DeCotis moderates panel on Carbon Controls.

#### **TRANSMISSION PLANNING**

The final panel was moderated by Maureen Harris, Commissioner, NYS Public Service Commission. It focused on the need for a collaborative planning process for broader regional planning. Panel participants included Tom Congdon, NYS Deputy Secretary for Energy; David Whiteley, Executive Director, Eastern Interconnection Planning Collaborative (EIPC); Patricia Hoffman, Principal Deputy Assistant Secretary, U.S. Department of Energy; William Hogan, Professor, John F. Kennedy School of Government, Harvard University, and Research Director, Harvard Energy Policy Group; and Mary Ellen Paravalos, Vice President, Transmission and Commercial Services, National Grid.

Panelists expressed agreement that expanded interregional planning means sharing information about emerging energy needs and working together to develop solutions. The enhancement of interregional planning will provide a wider horizon for improvements in reliability.



## NYISO 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, Board Vice Chair**

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 – New York Independent System Operator





## NYISO Leadership Team Corporate Officers

**Stephen G. Whitley**  
President and CEO

**Rick Gonzales**  
Senior Vice President and Chief Operating Officer

**Richard Dewey**  
Senior Vice President and Chief Information Officer

**Rana Mukerji**  
Senior Vice President, Market Structures

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

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

**Diane L. Egan**  
Board Secretary and Corporate Secretary

**Robert E. Fernandez**  
General Counsel

**Mary McGarvey**  
Vice President and Chief Financial Officer

**Thomas J. Rumsey**  
Vice President, External Affairs

# Shared Governance Leadership

Under a unique shared governance system, the NYISO is governed jointly by an independent Board of Directors, working with market participants – transmission owners, generation owners, other suppliers, end-use consumers, public power and environmental parties.

The NYISO has three standing stakeholder committees: the Management Committee, the Business Issues Committee, and the Operating Committee. Each of these committees oversees its own set of subject-matter specific working groups and subcommittees. These committees provide stakeholders with the opportunity to participate in a forum where issues regarding the administration of the markets, the operation of the New York's bulk power system, and future system planning are discussed, debated, and voted on. In 2010, the NYISO conducted 250 meetings, involving monthly sessions of the major committees and frequent meetings of sub-committees, task forces, and working groups.

The NYISO's governing documents establish specific responsibilities for the stakeholder committees. The committees perform such responsibilities in accordance with each committee's by-laws and in coordination with work performed by NYISO management and staff. Stakeholders perform an array of duties in the shared governance process, including:

- ◆ *preparing the NYISO's annual budget,*
- ◆ *reviewing and recommending candidates for Board vacancies,*
- ◆ *developing and adopting technical guidelines for operation of the bulk power system,*
- ◆ *developing and adopting enhancements in market design, and*
- ◆ *developing and reviewing system planning reports.*

Notably, NYISO stakeholders share responsibility with the NYISO Board in developing and approving proposed changes to the NYISO's governing documents, including its federally-approved tariffs. The Management Committee must endorse any proposed change sought by the Board to the NYISO's governing documents that will be filed for FERC review under Section 205 of the Federal Power Act.

A FERC order in 2008 cited the collaborative results of the NYISO's shared governance system, stating, "The Commission commends NYISO and the stakeholders for working together to resolve many issues..."

By maintaining an open, collaborative process, the various elements of NYISO's mission and expanding roles are understood by all who participate. This interdependent system and commitment to consensus building is an invaluable asset as the NYISO moves forward to meet future challenges.





# 2010 Committee Chairs and Co-Chairs

## Management Committee

Glen McCartney - *Chair*  
(Constellation)

Stu Nachmias - *Vice Chair*  
(Con Ed)

## Business Issues Committee

Glenn Haake - *Chair*  
(Dynegy)

Bart Franey - *Vice Chair*  
(National Grid)

## Operating Committee

John Marczewski - *Chair*  
(East Coast Power)

Brad Kranz - *Vice Chair*  
(NRG)

# MARKET PARTICIPANTS

330 Investment Management LLC  
3M Company  
AB Energy NY, Pty.Ltd.  
Absolute Energy Inc.  
Accent Energy Midwest II, LLC  
Accent Energy Midwest, LLC  
Ace Energy Company, Inc.  
AES Eastern Energy, L.P.  
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  
Arctos Capital LLC  
Astoria Energy II, LLC  
Astoria Energy LLC  
Astoria Generating Company, L.P.  
Athens Generating Company  
Atlantic Energy Services, Inc.  
August Power, LLC  
Automated Energy, Inc.  
Axon Energy  
Bank of America NA  
Barclay's Bank PLC  
BBPC, LLC, d/b/a Great Eastern Energy  
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, LP  
Brookfield Renewable Energy Marketing  
US LLC  
Brown's Energy Services  
Bruce Power Inc.  
Buy Energy Direct, LLC  
Calpine Energy Service L.P.  
Cambridge Valley Enterprises LLC  
Canandaigua Power Partners, LLC  
Canastota Wind Power, LLC  
Cargill Power Markets, LLC  
Carr Street Generating Station  
Castleton Power, LLC  
Catskill Mts.Energy Corp.  
CBA Endeavors, LLC  
CBK Group, Ltd.  
CECONY-LSE  
Centaurus Energy Master Fund  
Central Hudson Gas & Electric  
Central Vermont Public Service Corp.  
Centre Lane Trading Ltd  
CHI Power Marketing, Inc.  
Chief Energy Corporation  
Citadel Energy Investments Ltd.  
Citadel Energy Strategies LLC  
Citigroup Energy Inc.  
Citizens Choice Energy, LLC  
City of Niagara Falls  
City Power Marketing, LLC  
Clearview Electric, Inc.  
Columbia Utilities Power, LLC  
Commerce Energy, Inc.  
Conoco Phillips Company  
Conservation Services Group  
Consolidated Edison Company of NY, Inc.  
Consolidated Edison Energy, Inc.  
Consolidated Edison Solutions, Inc.  
Consolidated Hydro New York  
Constellation Energy Commodities  
Constellation NewEnergy 1123-DADRP  
Constellation NewEnergy, Inc.  
Core Equities, Inc.  
County Energy Services, LLC  
County of Erie  
County of Niagara  
Covanta Niagara, LP  
CP Energy Marketing (US) Inc. f/k/aEP-  
COR Energy Marketing (US) Inc.  
Credit Suisse (USA) Inc.  
Credit Suisse Energy, LLC  
Crucible Specialty Metals  
Cummings Inc.  
Cutone & Company Consultants, LLC  
DART Premiums  
David Sholk, LLC  
Day Automation Systems, Inc.  
DB Energy Trading LLC  
DC Energy New England, LLC  
DC Energy New York, LLC  
DC Energy, LLC  
Delaware County Electric Cooperative, Inc.  
Demand Response Partners, Inc.  
Direct Energy Marketing, Inc.  
Direct Energy Services LLC  
Discount Energy LLC  
Dominion Retail, Inc.  
drop 18 Energy  
DTE Energy Trading Inc.  
Dynamic PL, LLC  
Dynamis ETF, LLC  
Dynergy Marketing and Trade, LLC (DMT)  
Dynergy Power Marketing, Inc.  
Eagle Creek Hydro Power, LLC  
Eagle Creek RE Management, LLC  
Eagle Power, LLC  
East Coast Power LLC  
EDF Industrial Power Services (NY), LLC  
EDF Trading North America, LLC  
Edison Mission Mktng & Trading  
E-Energy, Inc.  
eKapitol NY, LLC  
Emera Energy Services Inc.



Emera Energy Services Subsidiary No. 1, LLC  
 Emera Energy U.S. Subsidiary No. 2, Inc.  
 Emera Energy US Sub. No. 1  
 Empire Generating Company LLC  
 Empire Natural Gas Corp.  
 Empire Power Systems LLC  
 Endure Energy, LLC  
 Energetix, Inc.  
 Energy Connect, Inc.  
 Energy Conservation & 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. dba US  
 Gas & Electric  
 Energy Solutions Group LLC  
 Energy Spectrum, Inc.  
 EnerNOC, Inc.  
 Enerwise Global Technologies, Inc.  
 Engage Networks, Inc.  
 Enhanced Energy Services  
 Energy Nuclear Fitzpatrick, LLC  
 Energy Nuclear IP-2 LLC  
 Energy Nuclear IP-3 LLC  
 Energy Nuclear Power Marketing, LLC  
 Energy Solutions, LLC  
 Erie Blvd. 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  
 Fluent Energy Corporation  
 Franklin Power LLC  
 Freeport Electric  
 Frontier Utilities Inc. (NY)  
 Future Energy, LLC  
 Galt Power, Inc.  
 Gateway Energy Services Corporation  
 GDF Suez Energy Resources, NA, Inc.  
 GEM Capital Management, LLC  
 Gemsys LLC  
 General Electric Plastics  
 Glacial Energy New York, Inc.  
 Glens Falls Lehigh Cement  
 GNL Trading, LLC  
 Good Energy, LP  
 Gotham Energy Marketing, LP  
 Grant Energy, Inc.  
 Green Mountain Energy Company  
 Gridway Energy Corp  
 Griffith Energy, Inc  
 Grunwald Fund  
 Hampshire Paper Co., Inc.  
 Hardscrabble Wind Power LLC  
 Hess Corporation  
 Horizon Power, Inc.  
 Horizon Wind Energy  
 HQ Energy Services US  
 HSBC Bank USA  
 Hudson Energy Services, LLC  
 Hudson Valley Trading Group, Inc.  
 Iberdrola Renewables, Inc  
 IDT Energy, Inc.  
 Indeck-Corinth, L.P.  
 Indeck-Energy Svs of Silver Springs  
 Indeck-Olean, L.P.  
 Indeck-Oswego, L.P.  
 Indeck-Yerkes, L.P.  
 Innovative Energy Systems, Inc.  
 Innoventive Power, LLC  
 Integrys Energy Services of New York, Inc.  
 Integrys Energy Services, Inc.  
 International Paper  
 International Renewables Group, LLC  
 ISO Trader, LLC  
 J Aron and Company  
 Jamestown Board of Public Utilities  
 JDME, LLC  
 JP Morgan Ventures Energy Corp.  
 Jump Power, LLC  
 Just Energy New York Corp  
 Kaleida Health  
 Kansas Energy LLC  
 Keyspan Ravenswood Inc.  
 Keystone Energy Partners, LP  
 KeyTex Energy LLC  
 Koch Supply & Trading, LP  
 KW Control Systems, Inc.  
 Laissez Faire Enterprises, LLC  
 Lavand and lodge, LLC  
 Lexington Power & Light LLC  
 Liberty Power Holdings LLC  
 Lighthouse Energy Trading Co., Inc.  
 Linde Energy Services, Inc.  
 Linden VFT LLC  
 Lockport Energy Associates  
 Long Island Power Authority  
 Louis Dreyfus Energy Services L.P.  
 Lynx Technologies, Inc.  
 Lyonsdale Biomass, LLC  
 Macquarie Energy LLC  
 Madison Windpower, LLC  
 MAG Energy Solutions Inc.  
 Major Energy Electric Service, LLC  
 Manitou Energy, LLC  
 Massena Electric Department  
 Mercuria Energy America, Inc  
 Merrill Lynch Commodities, Inc.  
 MG Industries  
 Mirabito Gas & Electric  
 Mirant Energy Trading LLC  
 ML Partnership, LLC  
 MM Albany Energy LLC  
 Model City Energy, LLC

# MARKET PARTICIPANTS

Modern Innovative Energy LLC  
Monroe County  
Morgan Stanley Capital Group Inc.  
Morgan Stanley Management Services II, Inc.  
MPower Energy LLC  
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  
NextEra Energy Services Massachusetts, LLC  
NextEra Energy Services New York, 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  
NMPC\_DADRP  
Noble Altona Windpark, LLC  
Noble Americas Gas & Power Corp  
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 America Power Partners LLC  
Northbrook New York, LLC  
Northeast Utilities Services Company  
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.  
OPD Energy LLC  
Orange & Rockland Utilities, Inc.  
ORU - LSE  
Pacific Summit Energy LLC  
Pepco Energy Services  
Petra Technical Consultant Group, LLC  
Pine Bush Energy Trading, LLC  
Pirin Solutions, Inc.  
Plant-E Corp  
Plymouth Rock Energy, LLC  
Potential Energy Consulting  
Power Bidding Strategies, LLC  
Power City Partners, L.P.  
Power G Inc  
Powerex  
PP&L EnergyPlus Co.  
Praxair, Inc.  
Premier Energy Services, LLC  
Project Orange Associates  
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 Mkt. 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.  
S.J. Energy Partners, Inc.  
Sanctorum Energy Inc.  
Saracen Energy East LP  
Saracen Energy Power Trading LP  
Saracen Power LP  
Saranac Power Partners, LP  
Schools & Municipal Energy Co- Op  
Select Energy, Inc.  
Selkirk Cogen Partners, L.P.  
Sempra Energy Solutions - DRP  
Sempra Energy Solutions LLC  
Sempra Energy Trading LLC  
Seneca Energy II, LLC  
Seneca Power Partners, L.P.  
SESCO Enterprises LLC  
Seven Bells LLP  
Sheldon Energy LLC  
Shell Energy North America (US), LP  
SIG Energy LLLP  
Site Controls, LLC  
Sithe Independence Power Partners L.P.  
Smart One Energy, LLC  
Sol Energy, LLC  
Solios Power LLC  
South Jersey Energy Company  
Spark Energy L.P.  
Spartan Electricity Futures, Inc  
Specialized Energy Services, Inc.  
SREC Generating Company, Inc  
Standard Binghamton LLC  
Starion Energy NY, Inc  
StatArb Investment LLC  
State of New York  
State University of New York  
State University of NY at Buffalo  
Stealth Energy Company  
Stephentown Regulation Services, LLC.  
Sterling Power Partners, L.P.  
Strategic Energy LLC



Stuyvesant Energy LLC dba Hess Small Business Services  
Suez Energy Marketing NA, Inc.  
Sumer Capital Partners LP  
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 Market, Inc.  
TransAlta Energy Marketing (US) 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  
VC Marketing, Inc.  
Velocity American Energy Master I, L.P.  
Verisae, Inc.  
Viasyn, Inc.  
Village of Hilton  
Village of Rockville Centre  
Viridian Energy NY, LLC  
Viridity Energy, Inc.  
Virtual Energy LLC  
Vitol Inc  
Watchtower Bible and Tract Society of New York  
West Oaks Energy NY/NE, LP  
Western New York Wind Corp.  
Wheelabrator Westchester  
Whiteside Energy Fund LP  
Windy Bay Power, LLC

# FINANCIAL STATEMENTS 2010

I certify that:

1. I have reviewed this report of the NYISO for the year ended December 31, 2010;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the NYISO as of, and for, the periods presented in this report;
4. The NYISO's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for NYISO and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the NYISO is made known to us by others within the NYISO, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the NYISO's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the NYISO's internal control over financial reporting that occurred during the NYISO's most recent fiscal quarter (the NYISO's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the NYISO's internal control over financial reporting; and
5. The NYISO's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the NYISO's auditors and the audit committee of NYISO's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the NYISO's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the NYISO's internal control over financial reporting.

## **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. The reporting process is designed to ensure that information required to be disclosed by the NYISO is recorded, processed, summarized and reported within the appropriate time periods. Based on that evaluation, we have concluded that the NYISO disclosure controls and procedures are functioning effectively to provide reasonable assurance that the NYISO can meet its disclosure obligations.

## **Management's Report of Internal Control over Financial Reporting**

We have evaluated any change in our internal control over financial reporting that occurred during the fourth quarter of 2010, and have concluded that there was no change during the fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Date: March 17, 2011



Stephen G. Whitley  
President & Chief Executive Officer



Mary McGarvey  
Vice President & Chief Financial Officer





KPMG LLP  
515 Broadway  
Albany, NY 12207

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of position of the New York Independent System Operator, Inc. (NYISO or the Company) as of December 31, 2010 and 2009, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

March 17, 2011

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

# FINANCIAL STATEMENTS 2010

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2010 AND 2009

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

See accompanying notes to financial statements.





## STATEMENTS OF ACTIVITIES

### YEARS ENDED DECEMBER 31, 2010 AND 2009

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

See accompanying notes to financial statements.

# FINANCIAL STATEMENTS 2010

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

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

See accompanying notes to financial statements.



## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### *a. Business Description*

The New York Independent System Operator, Inc. (NYISO) was formed in April 1997 and commenced operations on December 1, 1999. NYISO is incorporated in the state of New York as a not-for-profit organization. NYISO assumed the responsibilities of its predecessor, the New York Power Pool (NYPP), which had coordinated the reliability of New York State's electric power grid for more than 30 years. Formed as a result of Federal Energy Regulatory Commission (FERC) policies, NYISO monitors a network of 10,877 miles of high-voltage transmission lines and serves approximately 425 market participants.

NYISO's mission, in collaboration with its stakeholders, is to serve the public interest and provide benefit to consumers by maintaining and enhancing regional reliability, operating open, fair and competitive wholesale electricity markets, planning the power system for the future, and providing factual information to policy makers, stakeholders and investors in the power system. NYISO facilitates fair and open competition in the wholesale power market and creates an electricity commodity market in which power is purchased and sold on the basis of competitive bidding. NYISO utilizes a bid process for electricity and transmission usage, which enables New York State's utilities and other market participants to offer electricity at competitive prices, rather than regulated rates. Billing invoices are issued to each market participant by NYISO each month to settle transactions occurring in the previous month.

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

#### *b. Basis of Accounting*

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

#### *c. Regulation*

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

#### *d. Revenue Recognition*

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

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

NYISO's Rate Schedule 1 includes a timing mechanism that effectively meets the requirements of an alternative revenue program set forth in ASC Topic 980, *Regulated Operations*, Subtopic 602, *Revenue Recognition*. Accordingly, revenue is recognized for net financing obligations and capital costs incurred during the reporting period based on the revenue requirement formula in the tariffs. NYISO has recorded an Other Noncurrent Liability of (\$4,304,947) and an Other Noncurrent Asset of \$2,337,415, respectively, in the accompanying 2010 and 2009 Statements of Financial Position in connection with this rate-making recovery mechanism.

Revenues recorded as interconnection studies revenues arise from billing and collection services in the interconnection service agreement process performed by NYISO. These revenues are offset by the corresponding interconnection expenses, recorded in operating expenses, which were incurred in performing such studies. Effective January 1, 2010, a portion of the deposit related to feasibility studies are nonrefundable and recorded as revenue when received.

## ***e. Government Grants***

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

## ***f. Cash and Cash Equivalents***

NYISO considers short-term marketable securities with original maturities of three months or less to be cash equivalents. The cash equivalents at December 31, 2010 and 2009 were held in money market accounts invested primarily in short-term U.S. government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve, amounts due to market participants for overcollections on the voltage market, amounts collected for Transmission Congestion Contract (TCC) auctions, amounts for funding employee benefit plans, and for general operating purposes. In accordance with certain loan agreements, NYISO is required to maintain compensating balances.

## ***g. Restricted Cash***

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



***h. Other Assets***

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

***i. Property and Equipment***

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

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

Long-lived assets are recorded at cost, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is not aware of any events or changes in circumstances that would necessitate a review of any long-lived assets as of the years ended December 31, 2010 and 2009.

***j. Working Capital Reserve***

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

***k. Market Participant Prepayments***

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

***l. Deferred Revenue***

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

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## *m. Income Taxes*

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

## *n. Fair Value of Financial Instruments*

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

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

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

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

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

The following table presents the carrying amounts and estimated fair values of NYISO's financial instruments at December 31, 2010 and 2009:

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

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



***o. Concentration of Credit Risk***

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

NYISO's tariffs establish specific periods for the adjustment of settlement invoices as originally billed and for challenges to amounts billed for a particular service month. Settlement invoices can be adjusted for up to four months after the date of original issuance, and these invoices can be challenged for an additional one month after the issuance of all settlement adjustment invoices. Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed. After all true-up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service month. If NYISO agrees with the provisions of the challenge, a final invoice is issued for that service month. As a result, NYISO is exposed to credit risk until all settlement adjustment and final invoices for each service month are finalized and liquidated. As of December 31, 2010, the adjustments and true-ups of all settlement invoices through March 2010 were completed. However, Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from remaining market participants in future billings.

***p. Derivative Financial Instruments***

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

***q. Use of Estimates***

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

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## 2. Accounts Receivable

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

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

Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from market participants and provides guidance on the provisions of such recoveries. NYISO's reserve for doubtful accounts at December 31, 2010 and 2009, results primarily from past due settlement invoices related to a subsidiary of Enron Corporation. As of December 31, 2010 and 2009, NYISO recorded unbilled receivables of \$25,903 to reflect amounts yet to be recovered from remaining market participants in connection with other bad debt losses.

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

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





### 3. Regulatory Assets

At December 31, 2010 and 2009, regulatory assets were comprised of the following:

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

In order to maintain acceptable transmission voltages on the New York State transmission system, certain market participants within the New York Control Area produce or absorb voltage support service (reactive power). Payments to market participants supplying voltage support service and recoveries from other market participants are assessed via Rate Schedule 2 of the OATT and Services Tariff. Differences between the timing of recoveries and payments for voltage support service that result in under collections are reflected as regulatory assets. At December 31, 2010 and 2009, respectively, NYISO recognized a regulatory liability of \$2,951,407, and a regulatory asset of \$5,469,179, related to such timing differences.

ASC Topic 715 requires an employer to recognize the overfunded or underfunded status of a defined pension benefit or postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of December 31, 2010 and 2009, the amounts were \$7,951,665 and \$8,127,363, for the NYISO defined benefit pension plan.

### 4. Property and Equipment

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

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

# FINANCIAL STATEMENTS 2010

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

## 5. Short-Term Debt

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

## 6. Long-Term Debt

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

At December 31, 2005, \$18.0 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in February 2006 with monthly principal and interest payments payable from March 2006 through December 2009. As of December 31, 2009, these borrowings were fully repaid. During 2006, an additional \$15.5 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in March 2007 with monthly principal and interest payments payable through December 2010. As of December 31, 2010, these borrowings were fully repaid. At December 31 2009, the interest rate on these borrowings was 1.04%.

On January 22, 2007, NYISO entered into an unsecured \$80.0 million line of credit facility (2007 – 2010 Budget Facility), the proceeds of which may be drawn until January 2011 to fund capital purchases and the development of significant projects during 2007 – 2010. NYISO must convert each year's annual borrowings to term loans, with principal and interest payments payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to LIBOR plus 40 basis points for borrowings during the draw periods, LIBOR plus 65 basis points for borrowings converted to term loans, or the prime rate. Interest payments on borrowings are due monthly.

On January 23, 2007, NYISO entered into four interest rate swap agreements to fix interest payments on \$60.0 million of the \$80.0 million available on this line of credit facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions. See additional information in note 7.



During 2007, \$15.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2008 with monthly principal and interest payments payable from January 2008 through December 2010. At December 31, 2010 these borrowings were fully repaid. At December 31 2009, the interest rate on these borrowings was fixed at 5.726%. During 2008, an additional \$16.7 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2009 with monthly principal and interest payments payable from January 2009 through December 2011. At December 31, 2010, the interest rate on \$5 million of these borrowings was fixed at 5.642% and the remaining \$0.6 million was at 0.907%. At December 31, 2009, the interest rate on \$10.0 million of these borrowings was fixed at 5.642% and the remaining \$1.1 million was at 0.885%. During 2009, an additional \$18.3 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2010 with monthly principal and interest payments payable from February 2010 through December 2012. At December 31, 2010, the interest rate on \$10.0 million was fixed at 5.696% and the remaining \$2.2 million was at 0.907%. At December 31, 2009, the interest rate on \$15 million of these borrowings was fixed at 5.446% and the remaining \$3.3 million was at 0.635%. During 2010, an additional \$23.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2011 with monthly principal and interest payments payable from February 2011 through December 2013. At December 31, 2010, the interest rate on \$15.0 million of these borrowings was fixed at 5.515% and the remaining \$8.0 million was at 0.66%.

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

On July 23, 2010, NYISO entered into three interest rate swap agreements to fix interest payments on \$60.0 million of the \$75.0 million available on this line of credit facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 3.28% to 4.7725%. See additional information in note 7.

On July 8, 2005, NYISO entered into two financing agreements to purchase and renovate a 140,000-square foot office building. The first agreement is a \$14.7 million mortgage to finance the building purchase (Mortgage), and the second agreement represents a \$10.0 million line of credit for renovations during an 18-month period, beginning in July 2005 (Renovations Loan). The Mortgage has principal and interest payments payable over 20 years, beginning September 2005. Principal and interest payments on borrowings made during the Renovations Loan draw period are payable over 20 years, beginning in January 2007. During 2005, \$14.7 million was borrowed on the Mortgage, and during 2006, \$10.0 million was drawn on the Renovations Loan. Both agreements are secured by liens on the building and subsequent capitalized renovations. Interest on borrowings under both facilities is due monthly and is based on varying rates of interest tied to LIBOR plus 100 basis points. On February 15, 2005, NYISO entered into an interest rate swap agreement on the Mortgage, which fixed the interest rate on this loan at 5.79%. On February 15, 2005, NYISO also entered into an interest rate swap agreement on the Renovations Loan, which fixed the interest rate on these borrowings at 5.96%, beginning on January 1, 2007.

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At December 31, 2010, the following amounts were outstanding on NYISO's long-term debt:

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

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

		2004 – 2006 Budget	2007 – 2010 Budget			
		facility loan	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		<u>(3,876,000)</u>	<u>(16,666,667)</u>	<u>(482,901)</u>	<u>(317,013)</u>	<u>(21,342,581)</u>
Long-term portion	\$	<u>—</u>	<u>17,766,667</u>	<u>11,543,420</u>	<u>8,859,259</u>	<u>38,169,346</u>

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

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

## 7. Derivatives and Hedging Activities

The fair values of NYISO's derivative instruments, which are free-standing agreements, are quoted by external sources. The changes in the fair value of these derivatives are recorded in the Statement of Activities as a change in



fair value of interest rate swaps and caps. In March 2004, NYISO entered into interest rate cap agreements with a commercial bank to cap interest payments at 4.60% for draws and 5.00% for term loans (4.525% and 4.80% after refinancing on April 8, 2005) on its 2004 – 2006 Budget Facility. The notional amount of the debt on the date of the cap agreements was \$82,000,000. Under the cap agreements, NYISO pays a variable interest rate tied to LIBOR on the draws and term loans of the 2004 – 2006 Budget Facility from March 2005 through December 2010; however, this variable interest rate cannot exceed 4.525% for draws or 4.80% for term loans. This agreement expired in December 2010. As of December 31, 2010 and 2009, the fair value of the interest rate cap was \$0 and \$291, respectively, and was recorded in Other Current Assets. For the years ended December 31, 2010 and 2009, NYISO recorded interest income of \$114,213 and \$198,466, respectively, related to this derivative instrument.

In February 2005, NYISO entered into two interest rate swap agreements with a commercial bank to fix interest rate payments on the financing of a new office building purchase. The notional amount of debt on the swap agreement for the Mortgage was \$14,708,750, and NYISO pays a fixed interest rate of 5.79% on the outstanding principal amount of this financing on payments from August 2005 through August 2025. The notional amount of debt on the swap agreement for the Renovations Loan was \$10,000,000, and NYISO pays a fixed interest rate of 5.96% on payments from January 2007 through January 2027. As of December 31, 2010 and 2009, the fair value of these interest rate swap agreements was (\$1,429,380) and (\$924,922) for the Mortgage, respectively, and (\$1,226,662) and (\$818,738), respectively, for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2010 and 2009, NYISO recorded interest expense of \$912,382 and interest income of \$2,700,382, respectively, related to these two swap agreements.

In January 2007, NYISO entered into four interest rate swap agreements with a commercial bank to fix interest rate payments on the 2007 – 2010 Budget Facility. The notional amount of debt on the swap agreements was \$60,000,000. NYISO pays fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term loan conversions from March 2007 through December 2013. As of December 31, 2010 and 2009, the fair value of these interest rate swap agreements was (\$1,512,775) and (\$2,175,791), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2010 and 2009, NYISO recorded interest income of \$663,016 and \$808,853, respectively, related to these four swap agreements.

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

# FINANCIAL STATEMENTS 2010

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

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

## 8. Employee Benefit Plans

### a. Pension and Postretirement Plans

NYISO has a defined benefit qualified pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by NYPP member companies. Employees become vested in pension benefits after three years of credited service. NYISO expects to contribute \$1.6 million to the qualified pension plan in 2011. Effective December 1, 2009, NYISO adopted changes to its pension plan to end the accrual of future benefits for most employees, effective December 1, 2009. Certain grandfathered employees will continue to accrue benefits until attaining age 55. NYISO replaced the defined benefit accruals with equivalent contributions to employee 401(k) plan accounts after December 1, 2009.

NYISO sponsors a defined benefit postretirement plan to provide medical and life insurance benefits for eligible retirees and their dependents. Substantially all employees who retire from NYISO become eligible for these benefits provided they have been credited with at least ten years of NYISO service (5 years of NYISO service for those employees hired before January 1, 2005). The benefits are contributory based upon years of service, with NYISO paying up to 50% of costs for retired employees and up to 25% for their dependents (subject to specified dollar limits). Medical coverage becomes secondary upon Medicare eligibility and life insurance coverage is reduced upon reaching age 65.

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



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

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

# FINANCIAL STATEMENTS 2010

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

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

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

Amounts recognized in the statements of activities consist of:

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

NYISO uses a December 31 measurement date for its pension and postretirement benefit plans. NYISO's accumulated benefit obligation for the defined benefit pension plan is \$27,644,552 and \$25,110,241 at December 31, 2010 and 2009, respectively.



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

	Pension plan		Postretirement plan	
	2010	2009	2010	2009
Benefit obligations:				
Discount rate	5.20%	5.70%	5.50%	5.95%
Rate of compensation increases	3.00	4.00	3.00	4.00
Net cost or credit:				
Discount rate	5.70%	5.75%	5.95%	5.75%
Rate of compensation increases	4.00	4.00	4.00	4.00
Expected return on plan assets	7.75	7.75	N/A	N/A

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

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

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

# FINANCIAL STATEMENTS 2010

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# FINANCIAL STATEMENTS 2010

## *b. 401(k) Plan*

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

Employees are immediately vested in NYISO's matching contributions and become vested in other employer contributions after three years of credited service. The total NYISO contributions to the 401(k) plan were \$3,650,614 and \$1,993,192 for 2010 and 2009, respectively.

## *c. Long-Term Incentive Plan*

NYISO's Long-Term Incentive Plan provides certain members of senior management with deferred compensation benefits. Benefits are based upon the achievement of three-year performance goals established by the Board of Directors, with participants becoming fully vested and distributions payable for these deferred amounts after the completion of the audited financial statements for the third year. Beginning with the long-term incentive cycle starting January 1, 2010, benefits will be paid in installments over three years following the completion of the three year cycle. Accrued Long-Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2010 and 2009, were \$1,193,434 and \$0, respectively. The short-term portion of such liability, included in other current liabilities, at December 31, 2010 and 2009, was \$0 and \$2,484,980, respectively.

## 9. Lease and Other Commitments

### *Operating Leases*

During 2008, NYISO entered into obligations under two operating lease agreements for the use of computer hardware. Expenses related to these leases totaled \$3,194,640 and \$2,991,277 in 2010 and 2009, respectively. The NYISO's remaining obligation with respect to these leases for 2011 is \$2,928,420.

### *Other Commitments*

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

## 10. Working Capital Reserve

At December 31, 2010 and 2009, the working capital reserve consisted of:

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



## 11. Deferred Revenue

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

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

## 12. Regulatory Liabilities

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

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

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 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, 2010 and 2009 the amounts were \$218,227 and \$25,489, respectively.

## 13. Commitments and Contingencies

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

# FINANCIAL STATEMENTS 2010

NYISO defended a civil suit that had been pending in New York State Supreme Court, Albany County. The suit, which named the NYISO and two individuals as defendants, was filed by a former employee, seeking reinstatement, as well as compensatory and punitive damages totaling \$5 million, as relief for certain events alleged to have occurred during this individual's NYISO employment. On September 24, 2007, the Supreme Court granted, in part, a motion to dismiss the complaint and dismissed all claims asserted directly against the NYISO, leaving in place a single claim against a NYISO employee, the plaintiff's former supervisor. On December 31, 2009, the Third Department of the New York State Appellate Division reversed the Supreme Court's dismissal of some of the causes of action against the NYISO and the other defendants.

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

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

## 14. Smart Grid Investment Grant

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

## 15. Eastern Interconnection Planning Collaborative Grant

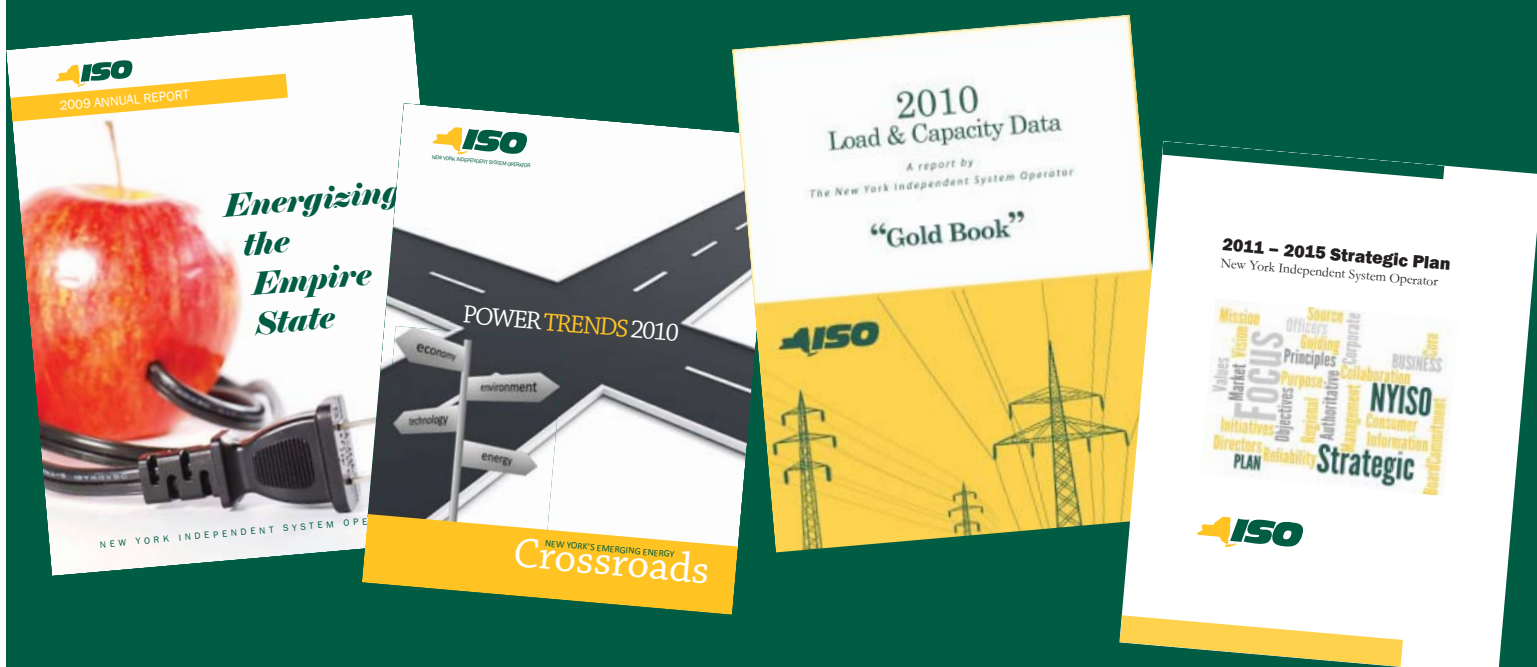
On December 18, 2009, the U.S. Department of Energy (DOE) announced that the Eastern Interconnection Planning Collaborative would receive \$16 million (the DOE Award) in federal stimulus funding to promote collaborative long-term analysis and planning for the Eastern electricity interconnection, which will help states, utilities, grid operators, and others prepare for future growth in energy demand, renewable energy sources, and Smart Grid technologies. As the prime recipient of the DOE Award, PJM Interconnection, L.L.C. (PJM), is responsible for administering the overall project on behalf of itself and seven other "Participating Principal Investigators" including the NYISO. The Cooperative Agreement with DOE includes provisions for funding and other requirements. The agreement with DOE was executed on July 20, 2010 and the project obligations became effective on July 15, 2010. NYISO has a separate agreement with PJM and the other Participating Principal Investigators (the EIPC Agreement) which specifies the



parties' obligations under the DOE Award. Consistent with the requirements of the DOE Cooperative Agreement, NYISO is eligible to receive reimbursement of \$868,000 from DOE for expenditures incurred from March 1, 2010. Through December 31, 2010, NYISO incurred \$154,000 of expenses, and has invoiced \$127,000. Under the PJM agreement with the Participating Principal Investigators, PJM's obligation to reimburse the NYISO is only for the amount that PJM receives from DOE in respect of NYISO's request for reimbursement.

## **16. Subsequent Events**

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



## NYISO At-a-Glance

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, Inc. (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 focused 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 and provide benefit to consumers by:

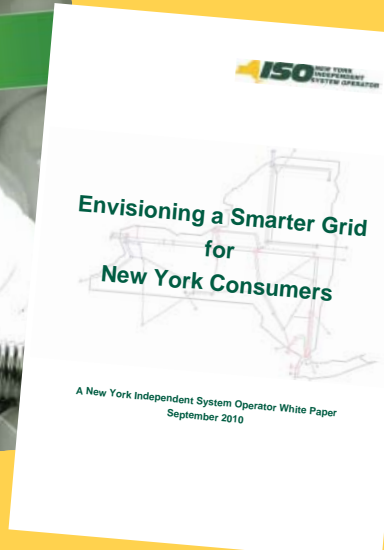
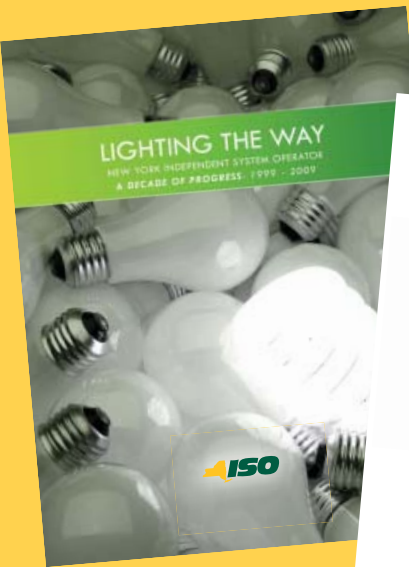
- *Maintaining and enhancing regional reliability*
- *Operating open, fair and competitive wholesale electricity markets*
- *Planning the power system for the future*
- *Providing factual information to policy makers, stakeholders and investors in the power system*

The NYISO manages the efficient flow of power on 11,000-plus miles of electric transmission lines on a continuous 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.







## NYISO Publications

In addition to the Annual Report, we issue a number of publications related to the power grid and electricity markets. They are available on our website, [www.nyiso.com](http://www.nyiso.com).

### Power Trends

Power Trends is our annual analysis of the forces and factors influencing the future of New York's bulk electricity grid and its competitive wholesale electricity markets.

### The "Gold Book"

Published annually, the Load & Capacity Data Report (commonly referred to as the "Gold Book") presents New York Control Area system, transmission and generation data and NYISO load forecasts. It includes forecasts of peak demand, energy requirements, energy efficiency, and demand response; existing and proposed resource capacity; and existing and proposed transmission facilities.

### Comprehensive Planning Reports

As part of our Comprehensive System Planning Process, the NYISO regularly publishes its Reliability Needs Assessment, Comprehensive Reliability Plan, and Congestion Assessment and Resource Integration Study.

### Strategic Plan

Each year, we review and renew our five-year Strategic Plan, which outlines the NYISO's vision, mission, core values, and guiding principles, as well identifies specific goals and initiatives.

### White Papers

In order to inform the dialogue on matters relating to the electric system, we issue periodic "white papers" that address specific energy issues. White paper topics have included Envisioning a Smarter Grid for New York Consumers, Energy Storage in the New York Electricity Market, Integration of Wind into System Dispatch, and Dynamic Pricing: Potential Wholesale Market Benefits in New York State.

### NYISO Connection

This quarterly newsletter for market participants provides information on evolving developments in the wholesale electricity markets and summaries of the activities of the NYISO.



Reliable,  
Responsible,  
Sustainable  
Electricity  
for the  
Empire State

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.



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