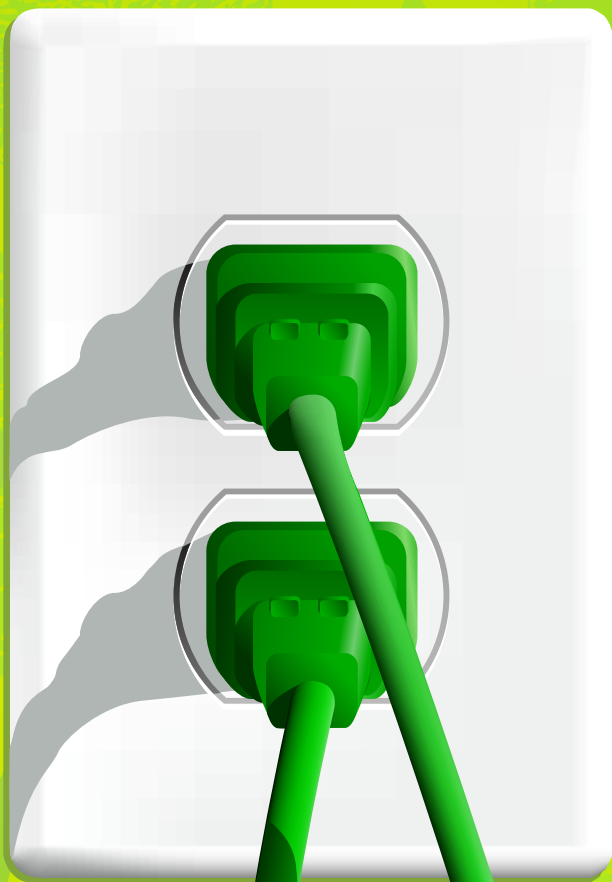


The background of the cover is a grid of interlocking puzzle pieces. The pieces are arranged in a way that a central sunburst pattern is visible, with rays of light emanating from the center. The puzzle pieces are a light blue color, and the sunburst is a darker blue. The overall effect is one of a complex, interconnected system.

# **2011 Annual Report**

## **New York Independent System Operator**

*Meeting today's challenges  
Preparing for tomorrow's needs*



## The NYISO Mission

The mission of the New York Independent System Operator, in collaboration with its stakeholders, is to serve the public good 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*

## TABLE OF CONTENTS

Letter from the Board Chair and President & CEO .....	1
2011 Year in Review	
• Sustaining Reliability .....	3
• <i>Shaving the Peak</i> .....	3
• Advancing Technology .....	4
• <i>Groundbreaking Developments</i> .....	5
• Evolving Markets .....	6
• <i>Broader Regional Markets</i> .....	7
• Focusing on Consumers .....	8
• <i>Consumer Impact Analysis</i> .....	8
• Planning for the Future .....	10
• <i>Greening the Grid</i> .....	11
• Sharing Our Expertise .....	12
• <i>ISO Energy Conference</i> .....	12
Board of Directors .....	14
Leadership Team .....	15
Shared Governance Leadership .....	16
Market Participants .....	18
Annual Financial Statements .....	23
About the NYISO .....	46
NYISO Publications .....	47



## LETTER FROM THE BOARD CHAIR AND PRESIDENT & CEO

In 2011, the New York Independent System Operator (NYISO) successfully addressed a series of challenges to the reliability of the grid, while continuing our initiatives to advance the sophistication of the wholesale electricity markets and power system.

We maintained a reliable power system in the face of dramatic weather events that included a hurricane, an earthquake, flooding and extreme heat. New York's power system would have reached a new all-time peak demand record during a July heat wave, were it not for our use of demand response resources.

Forging ahead with initiatives to optimize power resources and produce savings for electricity consumers, we made significant progress on Broader Regional Markets measures in conjunction with neighboring grid operators; programs that will improve coordination of power transactions and further enhance the efficiency of our markets.

We planned for the future of the power system, both in New York State and with our regional neighbors. In New York, we completed our economic planning process, worked with transmission owners on a 20-year outlook to replace and upgrade infrastructure, and – under provisions of a new state law – became a non-voting member of the State Energy Planning Board. Looking beyond our borders, the NYISO led the Eastern Interconnection Planning Collaborative effort to conduct the first-ever analysis of the North American power system east of the Rocky Mountains, which found that grid reliability is sound.

We took several steps to sharpen our focus on consumers – a process we began two years ago by revising our mission statement

to underscore their importance. In 2011, we formed Consumer Advisory Council, appointed a Consumer Interest Liaison, and initiated a Consumer Impact Analysis process to provide information about the ways significant market rule changes may affect consumers.

We successfully switched from monthly to weekly billing, reducing the credit exposure of market participants, and implemented a variety of other credit reforms to help facilitate the management of credit risks.

The average cost of wholesale electric energy in 2011 was moderately lower than 2010. Contributing to the lower prices were continuing low natural gas prices and a warmer-than-normal December that lessened demand.

Our reputation as a model ISO continued to grow in 2011, as visitors from around the world visited us to learn how we operate the grid and manage competitive power markets. Our executives and staff lent their expertise to numerous electricity industry conferences and energy forums. We were honored in June by an invitation to participate in a White House meeting on energy policy and smart grid implementation.

The findings of the annual independent State of the Market report included, among its conclusions, that “The NYISO markets are at the forefront of market design and have been a model for market development ...” and that they provide “substantial benefits to the region.” The report cited several market leadership “firsts” for the NYISO, and noted various ways in which our markets are unique.

In the company of government and industry officials, we broke ground

in August on a state-of-the-art new control center that will replace our existing 42-year-old facility -- with upgrades and modernizations that will lead to even greater efficiency. At the same event, we highlighted our Smart Grid initiative – partially funded by the U.S. Department of Energy and conducted in partnership with utilities around the state – which involves the deployment of new capacitor banks and state-of-the-art grid monitoring technology on the bulk transmission system.

The year also featured a very successful energy conference in New York City. Conducted jointly with ISO-New England, the November event was attended by more than 300 energy industry officials, policy makers, regulators, legislators, and members of academia from across the nation.

Going forward, we will build on the successes of 2011. With the active collaboration of our market participants and stakeholders, we will progress even further in bringing the latest technologies to the grid, enhancing consumer awareness, fostering grid reliability, and expanding regional collaboration.

With planning to enhance our vision, and execution focused on excellence, we will continue to deliver value to New Yorkers as we meet current challenges and prepare to address future needs.

Robert A. Hiney  
Board Chair

Stephen G. Whitley  
President and CEO





## 2011 YEAR IN REVIEW

### SUSTAINING RELIABILITY

#### Shaving the Peak

Friday, July 22, was the fifth day of Summer 2011's record-breaking heat wave. Temperatures had been climbing steadily since Monday. Even though temperatures had been forecast to ease somewhat on Friday, by later that morning, it looked like we were going to shatter the all-time record peak for the state.

During the noon hour, the load was already 33,767 MW – only 172 MW short of the record peak of 33,939 MW set on August 2, 2006. Given the way load typically grows throughout the day, the system was on track to exceed a new peak load of nearly 35,000 MW later that afternoon.

However, at 1:00 p.m. Friday, end-users around the state were shutting off lights, idling machinery and raising their thermostats. These energy-saving steps came about as a result of the activation of NYISO demand response programs. All together, they combined to reduce peak load by more than 1,400 MW. As the afternoon wore on, electric demand topped out at 33,865 MW.

Demand response programs encourage large power customers and aggregated sets of smaller consumers to reduce their power use during times of peak demand.

The events of July 2011 show that demand response has become a vital part of managing the grid. These resources have proven their ability to “shave the peak” and help maintain system reliability.

**At the core of what we do is the reliability of the electric grid serving New York's nine million residents, its public institutions, and its private enterprises. Grid reliability directly relates to economic vitality. Business and industry depend on a secure, sustained supply of power. The reliability of New York's electric grid – and the dependability of the quality of the power it provides – gives the Empire State a competitive edge in the worldwide competition for jobs.**

Much of the nation was subjected to dramatic weather events in 2011, and New York was no exception. Our grid performance overcame the challenges of extreme heat, an earthquake, and Hurricane Irene. Contributing to our success was a highly skilled operations staff that undergoes comprehensive training above and beyond regulatory requirements.

#### **Robust Response**

During a July heat wave, we experienced our third highest peak demand – 33,865 MW – and reached a record weekend peak. The summer heat would have set a new record peak had we not activated our demand response resources to reduce power consumption.

While the average load on our system was down slightly in 2011, New York experienced more hours of extreme high load conditions (load exceeding 32,000 MW) than in recent years.

New York State benefited from the contributions that wholesale electricity markets made in sustaining the reliability of the power system. When electricity demand reached near-record levels, almost every power plant in the state made itself ready and available for us to dispatch to meet the electricity needs of New York consumers. This underscored the success of our market incentives, which have greatly increased the availability of generation by encouraging power producers to keep their plants ready to run – especially during high-demand periods.

The onset of competitive markets has spurred the development of robust demand response resources, which played an important role in maintaining reliability in 2011. More than 5,800 registered customers, capable of providing nearly 2,200 MW of demand response resources, participated in our demand response programs in the summer of 2011.

In addition, over the past decade the resources available to serve New York's electricity needs have expanded with the addition of nearly 9,200 MW of new generating capacity and 1,640 MW of new transmission capability.

We undertook rigorous preparations for Hurricane Irene in late August, ensuring minimal impact on the bulk electricity system. In advance of the storm, we cancelled all transmission line maintenance outages and scheduled generation outages. We coordinated closely with the Northeast Power Coordinating Council, New York Transmission Owners and others to keep the grid running. As a result of all these measures, the bulk electric system remained stable and provided the backbone for restoration of local electric service impacted by the hurricane.

## ADVANCING TECHNOLOGY

**We have been at the forefront of groundbreaking technologies since our inception. Our initiatives have enhanced the efficiency of the markets and the electric system and furthered development of a smarter grid.**

### *Smart Grid Developments*

Two major, interrelated projects in 2011 highlighted our leadership in advanced technologies on behalf of our stakeholders: unveiling the details of a \$74 million Smart Grid Initiative funded in part by the DOE, and breaking ground on our new primary power control center. These initiatives were presented together at an August event that drew participation and commendations from federal, state, and local government officials and energy industry representatives.

Under the Smart Grid Initiative, we are working with individual utilities around the state to install capacitor banks and phasor measurement units (PMUs) on the high-voltage transmission system. The capacitor banks will improve efficiency by reducing the amount of electricity that is lost when carried over long distances. The PMUs monitor the grid on a real-time basis much faster than before, and will improve grid operators' system visualization capabilities and situational awareness. Eventually, the state's PMU network will connect with PMU networks in New England, the mid-Atlantic, the Midwest and Ontario, Canada to create an even broader situational awareness throughout the eastern US and Canada. Once complete, the Smart Grid project may help to avoid future disturbances like the 2003 northeast regional blackout.

### *New Power Control Center to Address Expanding Responsibilities*

The Smart Grid project and other important energy initiatives will be enhanced further by our new primary control center, under construction next to our headquarters building near Albany. The new control center will help us address our expanded responsibilities in the markets, planning and on the electric grid, and will replace our current, 42-year old control center. With upgrades and modernization, that facility will house a new data center and be maintained as a fully functional backup control center as required by regulation.

Much has changed in New York since the original facility opened in 1969. Complex wholesale electricity markets have been inaugurated, the amount of electricity used by New Yorkers has increased 70 percent, the electric system's peak load has more than doubled, and the power resources available to serve consumer demand have grown more than two-fold.

Federal, state and local officials praised the new center's contribution to the state's economy, including supporting hundreds of construction jobs, creating additional permanent positions, and updating the energy grid to provide a more secure foundation for economic growth.







## Groundbreaking Developments

In August 2011, the NYISO conducted a groundbreaking ceremony to mark the start of construction of its new primary power control center.

The 64,000-square-foot control center to be built adjacent to the Krey Corporate Center will serve as the primary power control center for the operation of New York's bulk electricity grid and wholesale electricity markets. The new facility is being developed to replace a four-decades-old power control center. That facility's systems will be upgraded, allowing the NYISO to continue meeting the requirement of having fully functional primary and backup control centers as its responsibilities grow.

"Today, we're not just breaking ground on a state-of-the-art facility, we're flipping on an economic light switch for the Capital Region," said U.S. Senator Charles Schumer. "This project is going to support hundreds of construction jobs, 20 new jobs when all is said and done, and will help update our energy grid to spur even more economic development across upstate New York. This is a great day for the Capital Region and the NYISO."

"This groundbreaking marks the first step in building a new foundation for New York's energy infrastructure that will lead us to incorporating smart grid technologies and renewable energy sources into our power delivery system," said U.S. Congressman Paul Tonko.

The New York State Public Service Commission, in April 2011, approved the NYISO's request to borrow up to \$45 million to build its new control center and modernize the older control center

"Our new control center will serve as a solid foundation for establishing a smarter, more reliable electric grid that is vital to the state's economic future," said Stephen G. Whitley, the NYISO's president and CEO.

## EVOLVING MARKETS

### The value of transactions in the NYISO's wholesale electricity markets in 2011 totaled \$6.7 billion.



We operate the most complete set of energy markets in the country, and we continue to refine, improve, and expand them. Our competitive wholesale electricity markets continue to bring investment, efficiency, and transparency to the state's energy sector. Incentives we have built into the markets have served as catalysts to improve the efficiency and availability of New York's power plants. Our market signals have helped to spur investment in new plants in areas of the state where they are most needed, and contributed to improving the resource mix of generation, including significant growth of "green power" from wind projects. The open, competitive marketplace for wholesale electricity led to more developed demand side programs that provide the ability to reduce consumption at critical times.

Market advancements in 2011 were highlighted by the successful transition from monthly to weekly invoicing of market settlements and the launch of other credit reforms designed to reduce risk. These developments, complex in implementation and long in development, responded to requirements by the Federal Energy Regulatory Commission (FERC) designed to reform credit practices in wholesale electricity markets. Such invoicing helps to protect market participants and consumers against the adverse effects of default.

The weekly billing cycle will help reduce our market participants' credit exposure. With payments coming due four or five times each month rather than once a month, the more frequent payment structure serves to limit the magnitude of potential defaults. Other credit reforms implemented in 2011 will help manage credit risks and reduce exposure to potential bad debt losses. These reforms included establishing minimum participation criteria for all market participants based on risk management, training, responsiveness, and capitalization.

#### ***Model Markets Delivering Significant Benefits***

Highly anticipated each year is the "report card" on our management of the wholesale electricity markets, in the form of a comprehensive analysis by Potomac Economics, which serves as our external Market Monitoring Unit. The 2011 State of the Market Report for the New York ISO Markets stated, "The NYISO markets are at the forefront of market design and have been a model for market development in a number of areas."

The report found that our markets continued to perform competitively. It cited many national "firsts" for the NYISO in market development, and noted our leadership in advanced systems that contribute to market efficiency and transparency.

"These markets provide substantial benefits to the region by ensuring that the lowest-cost supplies are used to meet demand in the short term and by establishing transparent, efficient price signals that govern investment and retirement decisions in the long term," the market monitor's report noted.

Average electricity prices fell 6 to 8 percent below 2010 levels across the various zones of the New York power markets, due primarily to lower fuel prices and new capacity additions. The report found that natural gas prices fell an

average of 8 percent in 2011 as domestic production increased and mild winter temperatures late in the year reduced demand.

Lower electricity prices, primarily due to lower natural gas fuel prices and mild weather impacts, mirrored national trends as identified by the Federal Energy Regulatory Commission's own *2011 State of the Markets Report*.

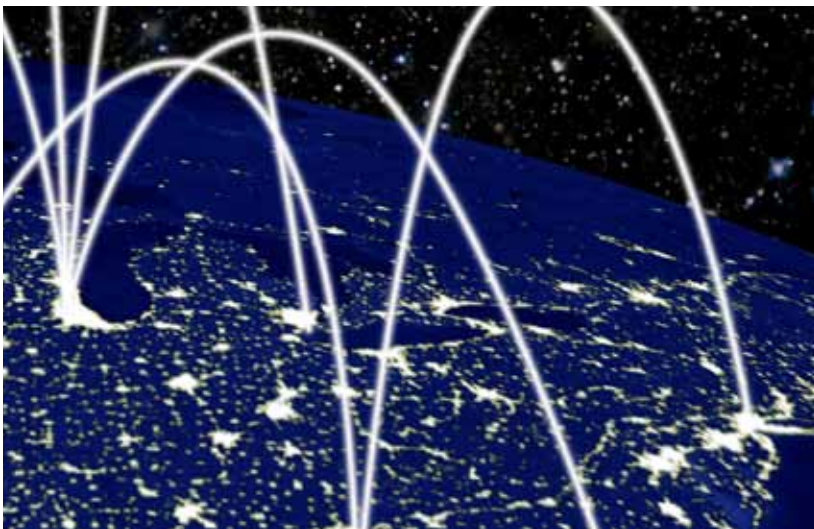
### ***Mending "Seams" in the Grid***

We made significant progress in 2011 in furthering our broader regional markets initiatives that, when fully implemented, will result in better coordination among regional grid operators, resolve "seams" issues with our neighboring power systems, and produce significant savings for New York and throughout the region.

A highlight of 2011 was an agreement with Quebec to accelerate power transactions and facilitate more efficient use of transmission connections, saving New York State an estimated \$20 million annually through reduced transmission congestion costs, better integration of renewable and intermittent resources, and lower system operation costs.

The arrangement, with supporting tariff revisions approved by FERC, will reduce scheduling and pricing times from hourly to once every 15 minutes at a key interface between New York and Québec, allowing power flows and prices to better reflect system conditions.

Also as part of the broader regional markets effort, we are in the process of working with neighboring grid operators to implement similar pricing and scheduling changes.



## **Broader Regional Markets**

While interconnected, the various power grids and wholesale electricity markets serving the United States and Canada developed separately and reflect differences in geography, climate, local (or regional) reliability requirements, and available power resources.

These differences – “seams” in the overall fabric of the grid – can lead to market inefficiencies and inhibit efficient coordination of grid operations.

The Broader Regional Markets initiative is an effort to mend seams, enhance efficiency of existing resources, and reduce costs for power consumers.

In addition to the NYISO, the regional initiative involves Ontario's Independent Electricity System Operator, the Midwest Independent Transmission System Operator, PJM Interconnection, ISO New England, and Hydro Québec.

A September 2010 analysis by Potomac Economics estimated that these initiatives will produce regional savings of \$362 million a year and savings associated with New York of \$193 million annually.

The savings come from a number of different improvements, including reducing the need to use more expensive local power if less costly power is available from a neighboring grid operator; and shortening the time commitment for moving power into and out of the state – allowing faster responses to changing conditions.

The collaborative effort among the region's grid operators will help to optimize the use of existing resources and complement the development of new resources within New York and among our neighboring regions.

## FOCUSING ON CONSUMERS

### Consumer Impact Analysis

The NYISO Consumer Interest Liaison is tasked with enhancing consumer awareness of the impact of changes in wholesale electricity market design. To carry out this responsibility, the NYISO conducts an analysis when implementing a major new project and reviews the impacts on reliability, cost/market efficiencies, environment/new technology, and transparency.

The reliability analysis examines how a new project improves the reliability of the current system. No proposed project would be implemented if found to cause reliability issues or concerns.

The cost impact/market efficiency analysis looks at the overall costs and benefits of implementing a proposed project. It also reviews whether the project improves market operations and produces proper price signals to help spur investment.

The market transparency analysis assesses the extent to which the project will impact the transparency and clarity of market rules.

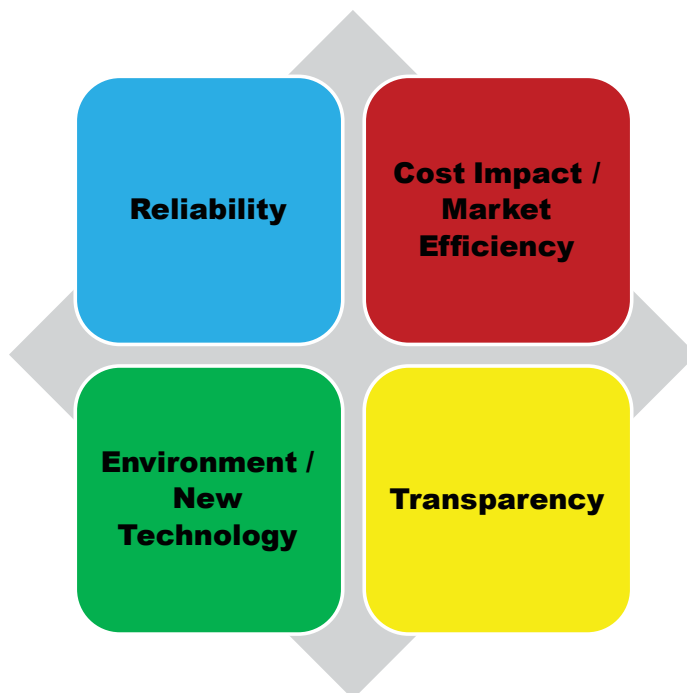
The environment/new technology analysis reviews how the project may affect the environment, focusing primarily on emission levels. The review also considers the extent to which the project relates to New York State's energy and environmental policies such as "45 X 15" Clean Energy Strategy and the Regional Greenhouse Gas Initiative (RGGI).

**In 2011, we took several steps to sharpen our focus on the ways wholesale electricity markets affect end-use consumers; a comprehensive effort that began with highlighting the importance of consumer impacts in our mission statement two years ago. We committed to increase our understanding and awareness of consumer interests, and to help develop end users' knowledge of what the NYISO does and how it affects them.**

We inaugurated our Consumer Advisory Council in 2011. The independent panel is comprised of knowledgeable individuals representing a broad spectrum of academic, environmental, industry and consumer interests from across the nation. After immersing themselves in the NYISO's operations, markets and planning responsibilities, the Council members will provide us with their vision and recommendations as to how we can further sharpen our focus on the concerns of New York's electricity consumers.

We followed through on our commitment to appoint a Consumer Interest Liaison, naming Tariq N. Niazi, a 30-year veteran of the state's Consumer Protection Board, to the post. In that role, he serves as the key point of contact for end-use customers, and is responsible for promoting a mutual understanding of how developments in our competitive wholesale markets may affect consumers.

The NYISO's Consumer Impact Analysis process, launched in 2011, is designed to provide a balanced review of how significant market rule changes may affect consumers; highlighting areas where consumers can achieve lower energy costs. The initiative is designed to provide all Market Participants with objective analyses of qualitative and quantitative consumer impacts prior to votes on proposed market rule changes in the NYISO's inclusive shared governance process.





## PLANNING FOR THE FUTURE

**The NYISO's planning responsibilities have expanded significantly since its inception. We now engage in planning on statewide, regional, and interregional levels. Our comprehensive efforts now include reliability planning, economic planning, and planning studies conducted in concert with other grid operators, system planning authorities, and government entities.**

In a process central to our comprehensive planning, we take a look at the ten years ahead to evaluate the future reliability of New York's bulk power system. We work with market participants and other stakeholders to identify potential needs and we issue our findings in a report called the Reliability Needs Assessment (RNA). We solicit solutions to identified needs and evaluate them. All resource types – generation, transmission, and demand side measures – are considered on a comparable basis as potential solutions. We then develop the Comprehensive Reliability Plan (CRP), setting forth the plans and schedules for meeting the identified needs.

Our most recent CRP was conducted in 2010 and issued in January 2011. It found that New York's electric power resources are expected to meet the state's electricity reliability needs through 2020, assuming energy efficiency programs and planned resource additions proceed as anticipated, and no significant facilities unexpectedly retire from service. While no reliability needs were identified in that study, we continue to monitor potential reliability risks and other issues that may have the ability to affect the outlook for New York's electric system.

In addition to planning focused on reliability, we also conduct economic planning. The Congestion Assessment and Resource Integration Study (CARIS) is part of our Comprehensive System Planning Process, developed according to Federal Energy Regulatory Commission (FERC) requirements. CARIS serves to screen the array of options available to address transmission congestion, including new or upgraded transmission, additional generation, or demand-side measures. It helps to set the stage for further, detailed analysis of specific transmission solutions offered by developers, investors, utilities, and public authorities seeking cost recovery under the NYISO's tariffs.

As a complement to the NYISO's planning processes, the owners of the interconnected electricity transmission facilities in New York State initiated a joint study of the state's high-voltage transmission system to help economically address future electric needs, support the growth of renewable energy resources, and protect the reliability of the power system. With support from the NYISO, the New York State Transmission Assessment and Reliability Study (STARS) is evaluating the lifecycle of New York's existing transmission assets and identifying potential transmission projects that would economically and reliably support New York State's energy needs over the next 20 years and beyond.

Under the provisions of a 2009 law, the NYISO was named as a non-voting member of the New York State Energy Planning Board. The law requires a new State Energy Plan to be adopted every four years, with the next plan scheduled for completion by March 2013. The law also requires a detailed study of the overall reliability of the state's electric transmission and distribution system to be completed by September 2012. We are actively participating in the completion of that study, providing technical data and system modeling expertise.



### **Cultivating Green Power**

New York State has a “45 X 15” Clean Energy Strategy aimed at meeting 45 percent of New York’s forecasted electricity demand through efficiency and renewable energy by 2015 – 15 percent through more efficient energy use and 30 percent through renewable electric generation.

By the end of 2011, New York State had over 1,400 MW of wind-powered generation in operation. In addition, nearly 4,000 MW of windpower projects have been proposed for interconnection with New York’s bulk electricity grid.

In November 2011, the Long Island Solar Farm, the largest photovoltaic array in the eastern United States, began operating at Brookhaven National Laboratory. To address the integration of grid-scale solar resources, we also took steps to develop appropriate market designs and grid procedures.

### **Expanding Planning Horizons**

Our planning efforts extend well beyond the borders of New York State. In conjunction with other energy and planning authorities, the NYISO participates in regional, interregional and nationwide planning projects, all aimed at exchanging information and engaging in collaborative planning intended to see that a robust, efficient, and reliable bulk power system meets the future energy needs of all consumers.

We are a founding member of the Eastern Interconnection Planning Collaborative (EIPC) – an effort being developed and led by 26 planning authorities from the US and Canada – with NYISO President and CEO Stephen Whitley serving as chair of the Executive Committee. With funding provided by the Department of Energy (DOE), the EIPC seeks to build on regional planning efforts to model the impact on the extended grid of various policy options determined to be of interest by state, provincial and federal policy makers and other stakeholders.

Focusing initially on transmission analyses at the interconnection level, the EIPC reached a milestone in 2011 with the submission of its Phase 1 Report to the DOE, targeting three scenarios encompassing diverse views of the future for further, comprehensive study in Phase 2 of the project. The second phase of the transmission planning study will be completed in 2012.

Increasingly, national and global energy trends and issues affect New York, and our collaborative efforts with the world outside our borders will continue to grow, bringing benefits to New York consumers.



### **Greening the Grid**

NYISO efforts contributing to the development of renewable power resources in New York State have included:

- *Establishing a centralized wind forecasting system to enable fuller integration of wind energy by forecasting the availability and timing of wind-powered generation.*
- *Pioneering the economic dispatch of wind power, fully balancing the reliability requirements of the power system with the use of the least costly power available.*
- *Creating innovative market designs to facilitate integration of new energy storage systems, including flywheels and advanced batteries – which store energy to complement the variable nature of renewable resources.*
- *Developing market designs that address the variable nature of solar power.*

## SHARING OUR EXPERTISE

**An increasingly important part of our mission involves serving as an unbiased, authoritative source on energy issues to assist policy makers, regulators, electricity consumers, power producers, investors, and energy service providers as they plan for the future and make long-term energy decisions.**



We serve as a model ISO for those wishing to learn about state-of-the-art market design, planning and reliable grid operations. From the NYISO's beginning in late 1999 through the end of 2011, more than 4,122 visitors representing hundreds of companies and governments from 65 nations around the world have toured our operations. Among those visiting the NYISO in 2011 were representatives from electric utilities, grid operators, and energy officials from Norway, New Zealand, China, Japan, South Africa, Ukraine, and South Korea. In addition, NYISO personnel provided over four dozen presentations to state, regional and international energy industry conferences, regulatory proceedings and other public forums.

In June, NYISO President and CEO Stephen Whitley was invited to participate in a special meeting at the White House on energy policy and smart grid implementation, in which he participated in discussions of long-term planning and transmission development issues. This high-level event demonstrated the priority of electricity issues among the nation's policy agenda and the NYISO's participation indicated our growing reputation as a well-respected leader in the field.



In 2011, we conducted the first-ever joint NYISO/ISO-New England energy conference (See following section). We also issued an array of publications on energy issues, including planning reports, newsletters, conference presentations, and other informative materials. Central to these is the annual publication of the Power Trends report, which looks at the forces and factors affecting New York State's energy future.

### ***ISO Conference Spotlights Historic Change***

More than 300 energy leaders, regulators and policy makers came together on November 1 in New York City for a day-long symposium entitled, *"Energy Synergy: Competition and Innovation,"* co-sponsored by the NYISO and ISO-New England.

The event featured remarks by New York State Public Service Commission Chairman Garry Brown, a keynote address by Paul Browning, President and CEO of Thermal Products for General Electric, and two panel discussions focused on competition and innovation.

The major drivers of change discussed included the impacts of vastly increased natural gas supplies from shale (a development described by many participants throughout the day as a "game changer" for the industry), the outlook for renewables and energy storage technologies, stricter environmental regulations, and a sharper focus on consumer interests.

NYISO President and CEO Stephen G. Whitley opened the event by noting the vital links between electricity and the economy. "Electricity is the lifeblood of modern economies and ISOs play a key role in sustaining and enhancing the health of the electric systems that support the economic vitality and serve the



electricity consumers of the Northeast. The reliability of our electric grid – and the dependability of the quality of the power it provides – is essential to our region’s success in the worldwide competition for jobs,” he remarked.

Chairman Brown covered a broad range of evolving energy issues, including “the interplay between electricity markets and public policy,” and the benefits and challenges of broader regional markets.

The day’s first panel discussion, moderated by Consolidated Edison Chairman, President and CEO Kevin Burke, focused on the impact of new technologies, the role of consumers, and the investor’s perspective. Panelists included Gabriel Alonso, CEO, EDP Renewables North America; Beacon Power CEO Bill Capp; Dan Delurey, Executive Director, Demand Response and Smart Grid Coalition; and John Kelly, Executive Director, Galvin Electricity Initiative.

Panel members spoke about energy innovation and progress in the renewables industry, building a smarter grid, increasing demand response resources, and making more information available to ISOs, utilities and consumers. They noted that, for innovation to continue, investment is needed and investors require clearer signals – from fair and transparent market rules – to understand how to manage the risks and get the desired return on their investment.

The symposium’s second panel discussed a broad range of energy topics, including broader regional planning to increase value and benefit consumers, and the outlook for generation and transmission in light of increased gas supplies and more stringent environmental regulations. Anastasia Song of the Hoaglund Group served as the panel’s moderator, and panelists included Richard Doying, Vice President of Operations - Midwest ISO; Paul Murphy, CEO of Ontario’s Independent Electric System Operator; Andy Ott, senior vice president of markets for PJM Interconnection; ISO-New England CEO Gordon van Welie, and NYISO CEO Stephen Whitley.

Panelists agreed that competitive wholesale electricity markets have provided a valuable foundation for efficiencies and incentives for innovation, and noted the potential value of broader regional market initiatives.

Many of the issues discussed at the symposium are global phenomena, said keynote speaker Paul Browning. He noted that worldwide trends in energy include the long-term role of natural gas for power generation, increasing renewables resources, the need for cleaner energy to meet emerging markets’ demand, and more rapid product introduction. Expanding the synergies between natural gas and renewables is a priority, he said, and renewables will become increasingly important globally.

Gordon van Welie provided the day’s summary observations, noting we have exciting opportunities as we work through various issues to dramatically improve the operational performance and efficiency of the grid, and that competitive markets will continue to drive efficiencies. “Our challenge will be to make sure our market rules provide the right incentives to get the right technology investments in the right locations,” he said.



## 2011 BOARD OF DIRECTORS (AS OF DECEMBER 31, 2011)

### **Robert A. Hiney, Board Chair**

Former Executive Vice President for Power Generation of the New York Power Authority (NYPA)

### **Karen Antion**

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

### **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

## **2011 LEADERSHIP TEAM – CORPORATE OFFICERS (AS OF DECEMBER 31, 2011)**

**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 & 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

**Wesley Yeomans**  
Vice President, Operations

## SHARED GOVERNANCE

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 electricity grid, and future system planning are discussed, debated, and voted on. In 2011, 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 electricity 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.

By maintaining an open, collaborative process, the various elements of the NYISO's mission and expanding roles are better 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.

## 2011 COMMITTEE CHAIRS AND VICE CHAIRS

### Management Committee

Stuart Nachmias – Chair  
Consolidated Edison

Howard Fromer – Vice Chair  
PSEG

### Business Issues Committee

Bart Franey – Chair  
National Grid

Alan Ackerman – Vice Chair  
Customized Energy Solutions

### Operating Committee

Brad Kranz – Chair  
NRG

Bill Palazzo – Vice Chair  
New York Power Authority

## MARKET PARTICIPANTS

3M Company  
AB Energy NE Pty, Ltd.  
ABN Energy, LLC  
Accent Energy Midwest II LLC  
AES Eastern Energy LP  
AES ES Westover LLC  
Affordable Power, L.P.  
AG Energy, L.P.  
Agway Energy Services, LLC  
Albany Energy LLC  
Aleph One, Inc.  
Alpha Gas and Electric, LLC  
Ambit New York, LLC  
American Power & Gas LLC  
Ameristar Energy LLC  
Amherst Utility Cooperative (AUC)  
AP Gas & Electric (NY), LLC dba APG&E  
Astoria Energy II, LLC  
Astoria Energy LLC  
Astoria Generating Company L.P.  
Athens Generating Company, L.P.  
Axon Energy, LLC  
Barclays Bank PLC  
Bayonne Energy Center, LLC  
BBPC, LLC, d/b/a Great Eastern Energy  
Beacon Power Corporation  
BG Energy Merchants, LLC  
BJ Energy LLC  
Black Oak Energy LLC  
Bluco Energy, LLC  
Blue Rock Energy, Inc.  
Bluefin Electricity Trading II LLC  
BNP Paribas Energy Trading GP  
Borex Hydro Operations Inc  
Borex New York LP  
BP Energy Company  
Brookfield Energy Marketing LP  
Brookfield Renewable Energy Marketing US LLC  
Broome Energy Resources, LLC  
Brown's Energy Services LLC  
Bruce Power Inc.  
Buy Energy Direct, LLC  
Calpine Energy Services LP  
Canandaigua Power Partners, LLC  
Canastota Windpower LLC  
Cargill Power Markets, LLC  
Carr Street Generating Station LP  
Castleton Power, LLC  
Censtar Energy Corp  
Central Hudson Gas & Electric Corp.  
Central Vermont Public Service Corp.  
Centre Lane Trading Limited  
CHI Power Marketing, Inc  
Chief Energy Power, 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 d/b/a Amigo Energy  
Con Edison Solutions, Inc.  
ConocoPhillips Company  
Consolidated Edison Co. of New York, Inc.  
Consolidated Edison Energy, Inc.  
Consolidated Hydro New York, Inc.  
Constellation Energy Commodities Group, Inc.  
Constellation NewEnergy, Inc.  
Corporate Services Support Corp.  
County of Erie NY  
County of Niagara NY  
Covanta Niagara, LP  
CP Energy Marketing (US) Inc.  
Credit Suisse (USA) Inc.  
Credit Suisse Energy LLC  
Cummins Inc  
Cutone & Company Consultants, LLC  
DB Energy Trading LLC  
DC Energy LLC  
DC Energy New England, LLC  
DC Energy New York, LLC  
Demand Response Partners, Inc.  
Digital Energy Corp  
Direct Energy Business, LLC  
Direct Energy Marketing Inc  
Direct Energy Services, LLC  
Discount Energy LLC  
Dominion Retail, Inc.  
DTE Energy Supply, Inc.  
DTE Energy Trading Inc  
Dynamic PL, LLC  
Dynamis ETF, LLC  
Dynergy Marketing and Trade, LLC (DMT)  
Dynergy Power Marketing, LLC  
Eagle Creek Hydro Power, LLC  
Eagle Power Authority, Inc

East Coast Power and Gas, LLC  
 East Coast Power, LLC  
 EDF Industrial Power Services (NY), LLC  
 EDF Trading North America, LLC  
 Edison Mission Marketing & Trading, Inc.  
 eKapital NY, LLC  
 Emera Energy Services Subsidiary No. 1, LLC  
 Emera Energy Services, Inc  
 Emera Energy U.S. Subsidiary No. 1, Inc.  
 Emera Energy U.S. Subsidiary No. 2, Inc.  
 Empire Generating Co, LLC  
 Empire Natural Gas Corp.  
 Endure Energy, L.L.C.  
 Energetix, Inc.  
 Energy Cooperative of America, Inc d/b/a  
 Energy Cooperative of New York  
 Energy Curtailment Specialists, Inc.  
 Energy Plus Holdings LLC  
 Energy Services Providers, Inc  
 d/b/a U.S.Gas & Electric  
 Energy Spectrum Inc.  
 EnerNOC, Inc.  
 Enerwise Global Technologies, Inc.  
 Energy Nuclear Fitzpatrick, LLC  
 Energy Nuclear IP-2 LLC  
 Energy Nuclear IP3, LLC  
 Energy Nuclear Power Marketing LLC  
 Energy Solutions LLC  
 Erie Boulevard Hydropower LP  
 Exelon Generation Company LLC  
 Family Energy Inc  
 FC Energy Services Company, LLC  
 First Commodities International, Inc.  
 Flat Rock Windpower II LLC  
 Flat Rock Windpower LLC  
 Franklin Power LLC  
 Freeport Electric  
 Frontier Utilities Inc, (NY)  
 Galt Power Inc.  
 Gateway Energy Services Corporation  
 GDF Suez Energy Marketing NA, Inc  
 GDF Suez Energy Resources NA, Inc  
 GenOn Energy Management, LLC  
 Glacial Energy New York, Inc.  
 Green Mountain Energy Company  
 Gridway Energy Corp.  
 Griffiss Utility Services Corporation  
 Hampshire Paper Co., Inc.  
 Hardscrabble Wind Power LLC  
 Hess Corporation  
 Hess Small Business Services, LLC  
 HIKO Energy, LLC  
 Howard Wind LLC  
 HQ Energy Services (US)  
 HSBC Bank USA  
 Hudson Energy Services, LLC  
 Iberdrola Renewables, Inc  
 IDT Energy, Inc  
 Indeck Energy Svs of Silver Springs  
 Indeck-Corinth LP  
 Indeck-Olean LP  
 Indeck-Oswego LP  
 Indeck-Yerkes LP  
 Independence Energy Group LLC  
 Innovative Energy Systems, Inc.  
 Innoventive Power LLC  
 Integrys Energy Services of New York, Inc.  
 Integrys Energy Services, Inc.  
 International Paper Company  
 Islip Resource Recovery Agency  
 J Aron and Company  
 J. P. Morgan Ventures Energy Corporation  
 Jamestown Board of Public Utilities  
 Just Energy New York Corp  
 Kaleida Health  
 Lavand and Lodge, LLC  
 Lexington Power & Light, LLC  
 Liberty Power Holdings LLC  
 Linde Energy Services, Inc.  
 Lockport Energy Assoc.  
 Long Island Power Authority  
 Louis Dreyfus Energy Services L.P.  
 Lyonsdale Biomass, LLC  
 Macquaire Energy LLC  
 Madison Windpower, LLC  
 MAG Energy Solutions Inc.  
 Major Energy Electric Services, LLC  
 Marathon Power LLC  
 Massena Electric Department  
 Mercuria Energy America, Inc  
 Merrill Lynch Commodities, Inc.  
 MG Industries  
 Midwest Energy Trading East LLC  
 Mitchell Supreme Fuel Co.  
 Model City Energy LLC  
 Modern Innovative Energy, LLC

Monroe County NY  
 Monterey NY, LLC  
 Monterey NYF, LLC  
 Morgan Stanley Capital Group, Inc.  
 MPower Energy LLC  
 MxEnergy Electric Inc  
 Nationwide Energy, LLC  
 NetPeak Energy Group LLC  
 New Wave Energy Corp  
 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  
 Noble Altona Windpark, LLC  
 Noble Americas Energy Solutions 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 American Power and Gas, LLC  
 North American Power Partners LLC  
 Northbrook Lyons Falls LLC  
 Northbrook New York LLC  
 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  
 OCP Resources, LLC  
 Ontario Power Generation Energy Trading, Inc.  
 Ontario Power Generation, Inc.  
 OPD Energy LLC  
 Orange & Rockland Utilities, Inc.  
 Pacific Summit Energy LLC  
 Palmco Power NJ, LLC  
 Palmco Power NY, LLC  
 People's Power & Gas LLC  
 Pepco Energy Services  
 Planet Energy (New York) Corp  
 Plant-E Corp.  
 Plymouth Rock Energy, LLC  
 Power Bidding Strategies, LLC  
 Power City Partners, L.P.  
 Powerex Corporation  
 PP&L EnergyPlus Co. (EPLUS)  
 PSEG Energy Resource & Trade, LLC  
 Public Power, LLC  
 Pure Energy Inc  
 R.E. Ginna Nuclear Power Plant, LLC  
 Rainbow Energy Marketing Corp  
 RBC Energy Services LP  
 Reliant Energy Northeast LLC  
 Rensselaer Cogeneration LLC  
 Riverbay Corporation  
 Robison Energy, LLC  
 Rochester Gas & Electric Corp.  
 Royal Bank of Canada  
 S.J. Energy Partners, Inc.  
 Sanctorum Energy Inc.  
 Saracen Energy East LP  
 Saracen Power LP  
 Saranac Power Partners, L.P.  
 SBR Energy LLC  
 Schools & Municipal Energy Cooperative (SMEC)  
 Select Energy, Inc.  
 Selkirk Cogen Partners, L.P.  
 Seneca Energy II, LLC  
 Seneca Power Partners, L.P.  
 SESCO Enterprises LLC  
 Sheldon Energy LLC  
 Shell Energy North America (US), L.P.  
 SIG Energy, LLLP  
 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



SREC Generating Company, Inc  
Starion Energy NY, Inc  
StatArb Investment LLC  
State of New York  
State University of New York  
State University of New York at Buffalo  
Stephentown Spindle, LLC  
Sterling Power Partners, L.P.  
Superior Plus Energy Services Inc  
Tarachand Enterprises, Inc.  
TC Ravenswood, LLC  
Texas Retail Energy, LLC  
The Dayton Power and Light Company  
Time Warner Inc.  
Tops Markets, Inc.  
Trademark Merchant Energy, LLC  
TransAlta Energy Marketing (U.S.) Inc.  
TransCanada Power Marketing, Ltd.  
Trigen-Syracuse Energy Corp.  
Triton Power Company  
Twin Cities Power, LLC  
U.S. Energy Partners LLC  
UGI Energy Services, Inc  
University of Rochester  
Utility Expense Reduction, LLC  
Velocity American Energy Master I, L.P.  
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, Inc.  
West Oaks Energy NY/NE, LP  
Western New York Wind Corp.  
Wheelabrator Hudson Falls, LLC  
Wheelabrator Westchester, L.P.  
Windy Bay Power, LLC  
WM Renewable Energy, LLC  
XO Energy NY, LP

# FINANCIAL STATEMENTS 2011

# FINANCIAL STATEMENTS 2011

I certify that:

1. I have reviewed this report of the NYISO for the year ended December 31, 2011;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the NYISO as of, and for, the periods presented in this report;
4. The NYISO's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for NYISO and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the NYISO is made known to us by others within the NYISO, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the NYISO's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the NYISO's internal control over financial reporting that occurred during the NYISO's most recent fiscal quarter (the NYISO's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the NYISO's internal control over financial reporting; and
5. The NYISO's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the NYISO's auditors and the audit committee of NYISO's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the NYISO's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the NYISO's internal control over financial reporting.

## 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, 2011. The reporting process is designed to ensure that information required to be disclosed by the NYISO is recorded, processed, summarized and reported within the appropriate time periods. Based on that evaluation, we have concluded that the NYISO disclosure controls and procedures are functioning effectively to provide reasonable assurance that the NYISO can meet its disclosure obligations.

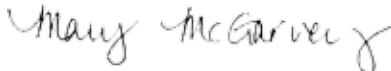
## Management's Report of Internal Control over Financial Reporting

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

Date: XXX, 2012



Stephen G. Whitley  
President & Chief Executive Officer



Mary McGarvey  
Vice President & Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

KPMG LLP  
515 Broadway  
Albany, NY 12207

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

We have audited the accompanying statements of position of the New York Independent System Operator, Inc. (NYISO or the Company) as of December 31, 2011 and 2010, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of NYISO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of NYISO as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*KPMG LLP*

March 19, 2012

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

**Statements of Financial Position**  
**December 31, 2011 and 2010**

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

See accompanying notes to financial statements.

**Statements of Activities**  
**Years ended December 31, 2011 and 2010**

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

See accompanying notes to financial statements.

**Statements of Cash Flows**  
**Years ended December 31, 2011 and 2010**

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

See accompanying notes to financial statements.

## 1. Summary of Significant Accounting Policies

### *a. Business Description*

The New York Independent System Operator, Inc. (NYISO) was formed in April 1997 and commenced operations on December 1, 1999. NYISO is incorporated in the state of New York as a not-for-profit organization. NYISO assumed the responsibilities of its predecessor, the New York Power Pool (NYPP), which had coordinated the reliability of New York State's electric power grid for more than 30 years. Formed as a result of Federal Energy Regulatory Commission (FERC) policies, NYISO monitors a network of 11,000 miles of high-voltage transmission lines and serves approximately 400 market participants.

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

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

### *b. Basis of Accounting and Presentation*

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

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

### *c. Regulatory Accounting*

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

### *d. Revenue Recognition*

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

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

NYISO's two FERC-approved tariffs, the Open Access Transmission Tariff (OATT) and the Market Administration and Control Area Services Tariff (Services Tariff), allow recovery of NYISO's capital requirements, operating expenses and debt service costs through a surcharge assessed to market participants. The revenue from this surcharge, Rate



Schedule 1, is earned when energy is scheduled and dispatched. Market participants are then billed for such charges in the subsequent settlement period's invoice.

NYISO's Rate Schedule 1 includes a timing mechanism that effectively meets the requirements of an alternative revenue program set forth in ASC Topic 980, *Regulated Operations*, Subtopic 602, *Revenue Recognition*. Accordingly, revenue is recognized for net financing obligations and capital costs incurred during the reporting period based on the revenue requirement formula in the tariffs. NYISO has recorded an Other Noncurrent Liability of \$3,222,136 and \$4,304,947, respectively, in the accompanying 2011 and 2010 Statements of Financial Position in connection with this rate-making recovery mechanism.

Revenues recorded as planning studies revenues arise from billing and collection services in the study service agreement process performed by NYISO. These revenues are offset by the corresponding study expenses, recorded in operating expenses, which were incurred in performing such studies. A portion of the deposits related to planning studies are nonrefundable and recorded as revenue when received.

***e. Government Grants***

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

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

NYISO considers short-term marketable securities with original maturities of three months or less be cash equivalents. The cash equivalents at December 31, 2011 and 2010 were held in certificates of deposit and money market accounts invested primarily in short-term U.S. government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve, amounts for funding employee benefit plans, and for general operating purposes. In accordance with certain loan agreements, NYISO is required to maintain compensating balances.

***g. Restricted Cash***

Restricted cash consists primarily of market participant security deposits held in escrow accounts, amounts prepaid by market participants in advance of settlement billing dates, amounts collected on settlement invoices, amounts due to market participants for overcollections on the voltage market, amounts collected for Transmission Congestion Contract (TCC) auctions, and amounts deposited for planning studies. Security deposits are invested at the market participant's choice in money market funds or short or intermediate-term bond funds. NYISO presents changes in restricted cash in the operating activities section of the Statements of Cash Flows instead of in the investing activities section. NYISO has determined that this classification is more suitable to the nature of the Company's operations.

***h. Other Assets***

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

***i. Property and Equipment***

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

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

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

Long-lived assets are recorded at cost, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is not aware of any events or changes in circumstances that would necessitate a review of any long-lived assets as of the years ended December 31, 2011 and 2010.

***j. Working Capital Reserve***

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

***k. Market Participant Prepayments***

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

***l. Deferred Revenue***

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

***m. Income Taxes***

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

***n. Fair Value***

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

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

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

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

***o. Pension and Other Postretirement Benefit Plans***

NYISO has a defined benefit pension plan covering certain of its employees. The benefits are based on years of service and employee's compensation during the five years before retirement. NYISO also sponsors a defined benefit health care plan for

retired employees and their dependents. NYISO records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare costs and trend rates. Assumptions are reviewed on an annual basis and modifications are made to the assumptions based on current rates and trends. The effect of modifications made to those assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

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

***p. Concentration of Credit Risk***

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

NYISO's tariffs establish specific periods for the adjustment of settlement invoices and for market participant challenges to amounts billed for a particular service period. Settlement invoices can be adjusted for up to four months after the date of the monthly invoice issuance, and these invoices can be challenged for an additional one month after the issuance of all settlement adjustment invoices. Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed. After all true-up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service period. If NYISO agrees with the provisions of the challenge, a final invoice is issued for that service period. As a result, NYISO is exposed to credit risk until all settlement adjustment and final invoices for each service period are finalized and liquidated. As of December 31, 2011, the adjustments and true-ups of all settlement invoices through March 2011 were completed. However, in the event of a market participant default and bad debt loss, Rate Schedule 1 of the OATT allows NYISO to recover bad debt losses from all remaining market participants on future invoices.

***q. Derivative Financial Instruments***

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

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

***r. Reclassifications***

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

## 2. Accounts Receivable

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

	2011	2010
Billed:		
Past due settlement invoices	\$ 998,673	1,063,604
Miscellaneous billed receivables	405,425	450,766
Grants billed receivables	28,036	43,924
Reserve for doubtful accounts – past due settlement invoices	(996,979)	(1,058,204)
	<u>435,155</u>	<u>500,090</u>
Unbilled:		
Rate Schedule 1 revenue for December	2,989,782	13,805,658
Miscellaneous unbilled receivables	821,230	808,608
Grants unbilled receivables	813,644	2,428,163
Bad debt losses recoverable from market participants	513	25,903
Replenishments of working capital reserve	306	306
	<u>4,625,475</u>	<u>17,068,638</u>
Total	<u>\$ 5,060,630</u>	<u>17,568,728</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, 2011 and 2010, results primarily from past due settlement invoices related to a subsidiary of Enron Corporation. As of December 31, 2011 and 2010, NYISO recorded unbilled receivables of \$513 and \$25,903, respectively, to reflect amounts yet to be recovered from remaining market participants in connection with other bad debt losses.

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

## 3. Regulatory Assets

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

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

ASC Topic 715, *Compensation – Retirement Benefits*, requires an employer to recognize the overfunded or underfunded status of a defined pension benefit or postretirement plan (other than a multiemployer plan) as an asset or liability in its Statement of Financial Position and to recognize changes in the funded status in the year in which the changes occur. For NYISO, this recognition creates a deferred noncurrent regulatory asset or liability for accumulated actuarial losses or gains to be recognized in future periods. As of

December 31, 2011 and 2010, the amounts were \$11,100,923 and \$7,951,665, respectively, for the NYISO defined benefit pension plan and \$1,771,465 and (\$218,227), respectively, for the NYISO defined benefit postretirement plan.

#### 4. Property and Equipment

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

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

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

#### 5. Short-Term Debt

On July 21, 2005, NYISO entered into a \$50.0 million Revolving Credit Facility that expired on July 21, 2010 and was replaced on July 21, 2010, with a new \$50.0 million Revolving Credit Facility that expires on December 31, 2013. The proceeds from these Revolving Credit Facilities are to be used for working capital purposes. Interest on borrowings under the Revolving Credit Facilities is based on NYISO's option of varying rates of interest tied to either the prime rate or the London Interbank Offered Rate (LIBOR). At December 31, 2011 and 2010, respectively, there were no amounts outstanding on the Revolving Credit Facilities.

#### 6. Long-Term Debt

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

During 2006, \$15.5 million was drawn on the 2004 – 2006 Budget Facility, which was converted to a term loan in March 2007 with monthly principal and interest payments payable through December 2010. As of December 31, 2010, these borrowings were fully repaid.

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

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

During 2007, \$15.0 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2008 with monthly principal and interest payments payable from January 2008 through December 2010. At December 31, 2010, these borrowings were fully repaid. During 2008, an additional \$16.7 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in January 2009 with monthly principal and interest payments payable from January 2009 through December 2011. At December 31, 2011, these borrowings were fully repaid. At December 31, 2010, the interest rate on \$5.0 million of these borrowings was fixed at 5.642% and the remaining \$0.6 million was at 0.907%. During 2009, an additional \$18.3 million was drawn on the 2007 – 2010 Budget Facility, which was converted to a term loan in February 2010 with monthly principal and interest payments payable from February 2010 through December 2012. At December 31, 2011, the interest rate on \$5.0 million of these borrowings was fixed at 5.696% and the remaining \$0.6 million was at 0.920%. At December 31, 2010, the interest rate on \$10.0 million of these borrowings was fixed at 5.696% and the remaining \$2.2 million was at 0.907%. During 2010, an additional \$23.0 million was drawn on the 2007 – 2010 Budget Facility and in January 2011, the remaining \$7.0 million was drawn on the 2007 – 2010 Budget Facility. The \$30.0 million in 2010 – 2011 borrowings were converted to a term loan in February 2011 with monthly principal and interest payments payable from February 2011 through December 2013. At December 31, 2011, the interest rate on \$10.0 million was fixed at 5.765% and the remaining \$10.6 million was at 0.920%. At December 31, 2010, the interest rate on \$15.0 million was fixed at 5.515% and the remaining \$8.0 million was at 0.66%.

On July 21, 2010, NYISO entered into an unsecured \$75.0 million line of credit facility (2011 – 2013 Budget Facility), the proceeds of which may be drawn between January 1, 2011 through December 31, 2013 to fund capital purchases and the development of significant projects during 2011 – 2013. NYISO must convert each year's annual borrowings to term loans, with principal and interest payments payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to LIBOR plus 175 basis points for borrowings, or the prime rate. Interest payments on borrowings are due monthly. During 2011, \$25.0 million was drawn on 2011 – 2013 Budget Facility, which was converted to a term loan in January 2012 with monthly principal and interest payments payable from January 2012 through December 2014. At December 31, 2011, the interest rate on \$20.0 million was fixed at 3.28% and the remaining \$5.0 million was at 2.043%.

On July 23, 2010, NYISO entered into three interest rate swap agreements to fix interest payments on \$60.0 million of the \$75.0 million available on the 2011 – 2013 Budget Facility. Under the swap agreements, NYISO will pay fixed interest rates ranging between 3.28% to 4.7725%. See additional information in note 7.

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

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

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

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

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

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

At December 31, 2011, scheduled maturities of NYISO's long-term debt were as follows:

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

## 7. Derivatives and Hedging Activities

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

In February 2005, NYISO entered into two interest rate swap agreements with a commercial bank to fix interest rate payments on the financing of a new office building purchase. The notional amount of debt on the swap agreement for the Mortgage was \$14,708,750, and NYISO pays a fixed interest rate of 5.79% on the outstanding principal amount of this financing on payments from August 2005 through August 2025. The notional amount of debt on the swap agreement for the Renovations Loan was \$10,000,000, and NYISO pays a fixed interest rate of 5.96% on payments from January 2007 through January 2027. As of December 31, 2011 and 2010, the fair value of these interest rate swap agreements was (\$2,390,695) and (\$1,429,380) for the Mortgage, respectively, and (\$2,088,765) and (\$1,226,662), respectively, for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2011 and 2010, NYISO recorded interest expense of \$1,823,418 and \$912,382, respectively, related to these two swap agreements.

In January 2007, NYISO entered into four interest rate swap agreements with a commercial bank to fix interest rate payments on the 2007 – 2010 Budget Facility. The notional amount of debt on the swap agreements was \$60,000,000. NYISO pays fixed interest rates ranging between 5.392% to 5.515% during the annual borrowing periods and 5.642% to 5.765% on the four annual term

loan conversions from January 2008 through December 2013. As of December 31, 2011 and 2010, the fair value of these interest rate swap agreements was (\$555,030) and (\$1,512,775), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2011 and 2010, NYISO recorded interest income of \$957,745 and \$663,016, respectively, related to these four swap agreements.

In July 2010, NYISO entered into three interest rate swap agreements with a commercial bank to fix interest rate payments on the 2011 – 2013 Budget Facility. The notional amount of debt on the swap agreements was \$60,000,000. NYISO pays fixed interest rates ranging between 3.280% to 4.7725% through December 2016. As of December 31, 2011 and 2010, the fair value of these interest rate swap agreements was (\$1,471,527) and \$46,099, respectively, recorded in Other Noncurrent Liabilities and Other Noncurrent Assets. For the years ended December 31, 2011 and 2010, NYISO recorded interest expense of \$1,517,626 and interest income of \$46,099, respectively, related to these three swap agreements.

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

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

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

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

## 8. Employee Benefit Plans

### a. Defined Benefit Pension and Postretirement Plans

NYISO has a defined benefit pension plan covering substantially all employees. Plan benefits are based on employee compensation levels and years of service, including service for certain employees previously employed by NYPP member companies. Employees become vested in pension benefits after three years of credited service. NYISO expects to contribute \$1.0 million to the pension plan in 2012. Effective December 1, 2009, NYISO adopted changes to its pension plan to end the accrual of future benefits for most employees. Certain grandfathered employees will continue to accrue benefits until attaining age 55. NYISO replaced the defined benefit accruals with equivalent contributions to employee 401(k) plan accounts after December 1, 2009.

NYISO sponsors a defined benefit postretirement plan to provide medical and life insurance benefits for eligible retirees and their dependents. Substantially all employees who retire from NYISO become eligible for these benefits provided they have been credited with at least ten years of NYISO service (5 years of NYISO service for those employees hired before January 1, 2005). The benefits are contributory based upon years of service, with NYISO paying up to 50% of costs for retired employees and up to 25% for their dependents (subject to specified dollar limits). Medical coverage becomes secondary upon Medicare eligibility and life insurance coverage is reduced upon reaching age 65. Effective December 31, 2011, NYISO terminated the life insurance benefit of the postretirement plan.



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

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

For payment of benefits under the postretirement plan, as noted above, the NYISO established a Voluntary Employee Benefit Association (VEBA) trust in January 2010. The assets held in the VEBA trust reduce the accumulated postretirement benefit obligation as reported on the NYISO's Statements of Financial Position. The VEBA trust held assets of \$3,921,198 and \$4,048,651 as of December 31, 2011 and 2010, respectively. As noted in the table below, current obligations are assumed to be paid out of the trust assets, with the remaining unfunded obligation to be reflected as a noncurrent liability.

The schedules that follow show the benefit obligations, the plan assets, and the funded status as of December 31, 2011 and 2010, and the change in benefit obligations for NYISO's pension and postretirement plans for the years ended December 31, 2011 and 2010.

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

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

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

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

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

NYISO uses a December 31 measurement date for its pension and postretirement benefit plans. NYISO's accumulated benefit obligation for the defined benefit pension plan is \$30,372,218 and \$27,644,552 at December 31, 2011 and 2010, respectively.

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

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

The rate of compensation increase for the postretirement plan was not applicable and 3% at December 31, 2011 and 2010

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

NYISO's expected rate of return on plan assets reflects anticipated returns on the pension plan's current and future assets. To determine this rate, NYISO considers historical returns for equity and debt securities, as well as current capital market conditions and projected future conditions.

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

The long-term investment objective for NYISO's pension plan is to maximize the total return on plan assets while limiting risk, reflected in volatility of returns, to prudent levels. To that end, NYISO's Retirement Board has appointed and regularly meets with an investment advisor to review asset performance, compliance with target asset allocation guidelines, and appropriate levels of asset diversification. NYISO's investment advisor operates under written guidelines provided by NYISO, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, and communication and reporting requirements. During 2011, the NYISO Retirement Board began the transition towards a revised investment strategy for pension plan investments to minimize the volatility in plan investments while balancing the long-term plan returns. The revised investment strategy is expected to be completed during 2012.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **b. 401(k) Plan**

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

Employees are immediately vested in NYISO's matching contributions and become vested in other employer contributions after three years of credited service. The total NYISO contributions to the 401(k) plan were \$4,306,383 and \$3,650,614 for 2011 and 2010, respectively.

### **c. Long-Term Incentive Plan**

NYISO's Long-Term Incentive Plan provides certain members of senior management with deferred compensation benefits. Benefits are based upon the achievement of three-year performance goals established by the Board of Directors, with participants becoming fully vested and distributions payable for these deferred amounts after the completion of the audited financial statements for the third year. Beginning with the long-term incentive cycle starting January 1, 2010, benefits will be paid in installments over three years following the completion of the three year cycle. Accrued Long-Term Incentive Plan benefits included in Other Noncurrent Liabilities at December 31, 2011 and 2010, were \$2,028,543 and \$1,193,434, respectively.

## **9. Lease and Other Commitments**

### **a. Operating Leases**

During 2008, NYISO entered into obligations under two operating lease agreements for the use of computer hardware. Expenses related to these leases totaled \$2,946,450 and \$3,194,640 in 2011 and 2010, respectively. The NYISO's remaining obligation with respect to these leases for 2012 is \$0.

### **b. Other Commitments**

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

## **10. Working Capital Reserve**

At December 31, 2011 and 2010, the working capital reserve consisted of:

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

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

## **11. Deferred Revenue**

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

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

## 12. Regulatory Liabilities

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

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

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

In order to maintain acceptable transmission voltages on the New York State transmission system, certain market participants within the New York Control Area produce or absorb voltage support service (reactive power). Payments to market participants supplying voltage support service and recoveries from other market participants are assessed via Rate Schedule 2 of the OATT and Services Tariff. Differences between the timing of recoveries and payments for voltage support service that result in under collections are reflected as regulatory assets or liabilities. At December 31, 2011 and 2010, respectively, NYISO recognized a regulatory liability of \$817,419 and \$2,951,407, related to such timing differences.

## 13. Commitments and Contingencies

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

## 14. Smart Grid Investment Grant

On October 27, 2009, the U.S. Department of Energy (DOE) announced that New York State will receive \$37.8 million (the SGIG Award) in federal stimulus funding to deploy advanced metering, new customer service enhancements and grid automation. As the prime recipient of New York's smart grid stimulus application, NYISO is responsible for administering the overall project on behalf of itself and the New York State transmission owners (NYTOs). NYISO is eligible to receive reimbursement of \$15.0 million and the NYTOs are eligible to receive reimbursement of \$22.8 million from DOE, which is 50% of the total project costs. The NYISO's agreement with DOE was executed on May 5, 2010 and the project obligations became effective on July 1, 2010. NYISO has a separate agreement with the NYTOs which specifies the portion of the total SGIG Award for which each party is eligible. Consistent with the requirements of the DOE agreement, in order to receive its respective portion of the SGIG Award, each party must expend a matching amount. Under the NYISO agreement with the NYTOs, NYISO's obligation to reimburse the NYTOs is only for the amount the NYISO receives from DOE in respect of the NYTOs request for reimbursement. NYISO and the NYTOs' are eligible to receive reimbursement for expenditures incurred from August 6, 2009.

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



## **15. Eastern Interconnection Planning Collaborative Grant**

On December 18, 2009, the DOE announced that the Eastern Interconnection Planning Collaborative (EIPC) would receive \$16.0 million (the EIPC Award) in federal stimulus funding to promote collaborative long-term analysis and planning for the Eastern electricity interconnection, which will help states, utilities, grid operators, and others prepare for future growth in energy demand, renewable energy sources, and Smart Grid technologies. As the prime recipient of the EIPC Award, PJM Interconnection, L.L.C. (PJM), is responsible for administering the overall project on behalf of itself and seven other “Participating Principal Investigators”, including the NYISO. The agreement with DOE for the EIPC Award was executed on July 19, 2010 and the project obligations became effective on July 16, 2010. NYISO has a separate agreement with PJM and the other Participating Principal Investigators (the EIPC Agreement) which specifies the parties’ obligations under the EIPC Award. Consistent with the requirements of the DOE agreement, NYISO is eligible to receive reimbursement of \$868,000 from DOE for expenditures incurred from March 1, 2010. Under the PJM agreement with the Participating Principal Investigators, PJM’s obligation to reimburse the NYISO is only for the amount that PJM receives from DOE in respect of NYISO’s request for reimbursement.

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

## **16. Subsequent Events**

NYISO considers events and transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on March 19, 2012 and subsequent events have been evaluated through that date.

## ABOUT THE NYISO

**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 (NYSPPSC). NYISO operations are also overseen by electric system reliability regulators, including the North American Electric Reliability Corporation (NERC), Northeast Power Coordinating Council (NPCC), and the New York State Reliability Council (NYSRC).

The members of the NYISO Board of Directors have backgrounds in electricity systems, finance, academia, information technology, communications, and public service. The members of the Board, as well as all employees, have no business, financial, operating, or other direct relationship to any market participant or stakeholder.

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

The mission of the New York Independent System Operator, in collaboration with its stakeholders, is to serve the public good 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 more than 11,000 circuit-miles of electric transmission lines on a continuous basis, 24 hours-a-day, seven days-a-week. As the administrator of the competitive wholesale electricity markets, the NYISO conducts auctions that match the retail electric service companies looking to purchase power and the suppliers offering to sell it. The value of transactions in the NYISO markets averages \$7.5 billion annually.

In addition to these functions, the NYISO has an expanding 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.

The NYISO is committed to transparency and trust in how it carries out its duties, in the information it provides, and in its role as the impartial broker of the state's wholesale electricity markets. In addition to conducting energy conferences, the NYISO issues a number of publications on grid operations, wholesale electricity markets, power system planning and new technologies. The publications and other information are available on the NYISO website, [www.nyiso.com](http://www.nyiso.com).



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for the  
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