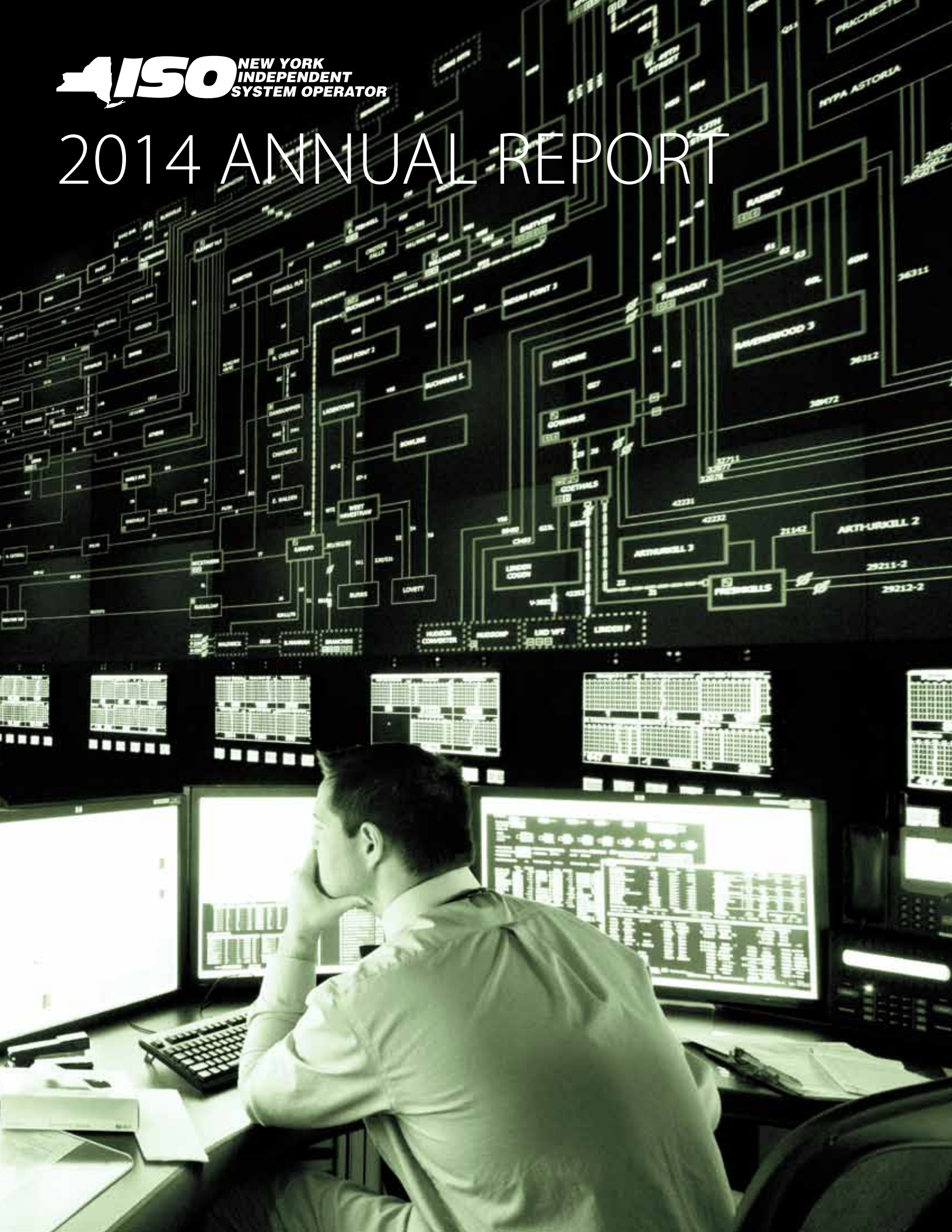


2014 ANNUAL REPORT





POWER YOU CAN RELY ON

To keep the lights on, the New York Independent System Operator manages the flow of electricity across New York so it is produced and transported to consumer utilities in exactly the right amount at exactly the right time.

Similar to the way air traffic controllers coordinate takeoffs and landings, the NYISO balances the supply and demand for electricity throughout New York.

To provide the lowest-cost power available to reliably meet consumer needs, the NYISO conducts and monitors competitive auctions of wholesale electricity every five minutes, every day of the year.

To sustain the reliable supply of electricity for many years to come the NYISO comprehensively plans for New York's energy future, providing the authoritative information public policymakers and private investors require to address emerging energy needs.

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Message from Board Chair/President & CEO

December 2014 marked the 15th anniversary of New York's pioneering launch of competitive wholesale electricity markets. In that decade and a half, the NYISO successfully addressed a number of challenges and achieved significant success. We are proud to mark the key milestones that demonstrate how well the NYISO has progressed in serving the public interest and providing benefit to consumers.

Indeed, the term "milestones" encapsulates most of the events of 2014. From historic cold weather, to the formal opening of our new Power Control Center, to advances in our regional collaborative efforts, 2014 stands out as one of our most successful in our 15-year history.

While operations from our new control center began at the end of 2013, extremely cold weather in the first months of 2014 quickly tested our new technologies. The Northeast – and large parts of the nation – experienced several Polar Vortex events that stressed resources and delivery services. The historic cold weather led to a new winter peak demand for electricity, and the use of electricity for the full month set a record for the highest January total in the 15-year history of the NYISO.

In April, we celebrated the formal opening of the new power control center with a ceremony that included U.S. Senator Schumer, Congressman Tonko, FERC Chair LaFleur, NYSPSC Chair Zibelman, and market stakeholders, who came together to recognize the leap forward that the state-of-the-art facility represents. The smart grid technology at our operators' fingertips helps provide more reliable and resilient grid operations, and we were grateful that federal and state regulators and lawmakers joined us in honoring that achievement.



The NYISO also continued to expand its cross-boundary collaborations. We completed more components of our Broader Regional Markets efforts in 2014, starting a new coordinated transaction service with the PJM market and preparing for a similar service with ISO New England in the near future. These achievements already have begun saving electricity consumers money.

Providing benefits to consumers is a vital part of our mission, and many NYISO-facilitated activities are leading to long-term savings. From Broader Regional Markets to the new Lower Hudson Valley Capacity Zone, competitive marketplace designs are leading to hundreds of millions in savings. Our planning efforts continue to demonstrate effective resource utilization across the entire grid.

We intend to maintain our role as a thought leader in the industry. Planning, market design, and smarter operations will only become more vital as new distributed energy resources and new market participants take their place on the grid. The numerous conferences in which we participated last year indicated that an independent operator remains crucial to the success of these resources.

As we consider the many achievements of 2014, we look forward to even more success in market design and operations next year and beyond.

Michael B. Bemis
Board Chair

Stephen G. Whitley
President and CEO

15 YEARS AGO



(Pictured left to right: Maureen Helmer, Clarence Rappleyea, William Museler, Richard J. Grossi, William J. Balet, John Buechler.)

On December 1, 1999 New York Power Pool officials transferred control of the New York bulk electric system to the NYISO and marked the launch of New York's wholesale electricity markets.

Since the inception of the competitive marketplace for electricity...

NYISO has achieved

\$6.4 billion

in reduced fuel costs due to system efficiency improvements that exceeded national efficiency gains by **300%**

\$540 million

in savings from reduced reserve requirements

25 million tons

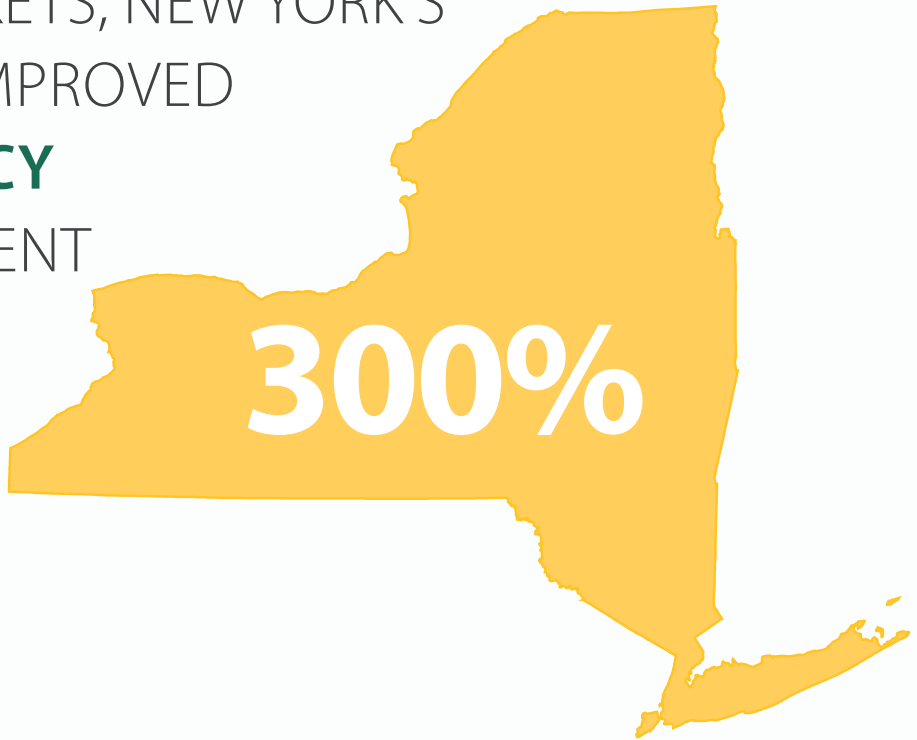
of carbon emissions avoided in 2013 versus 1999

Integrated enough wind generation to power **490,000** homes each year

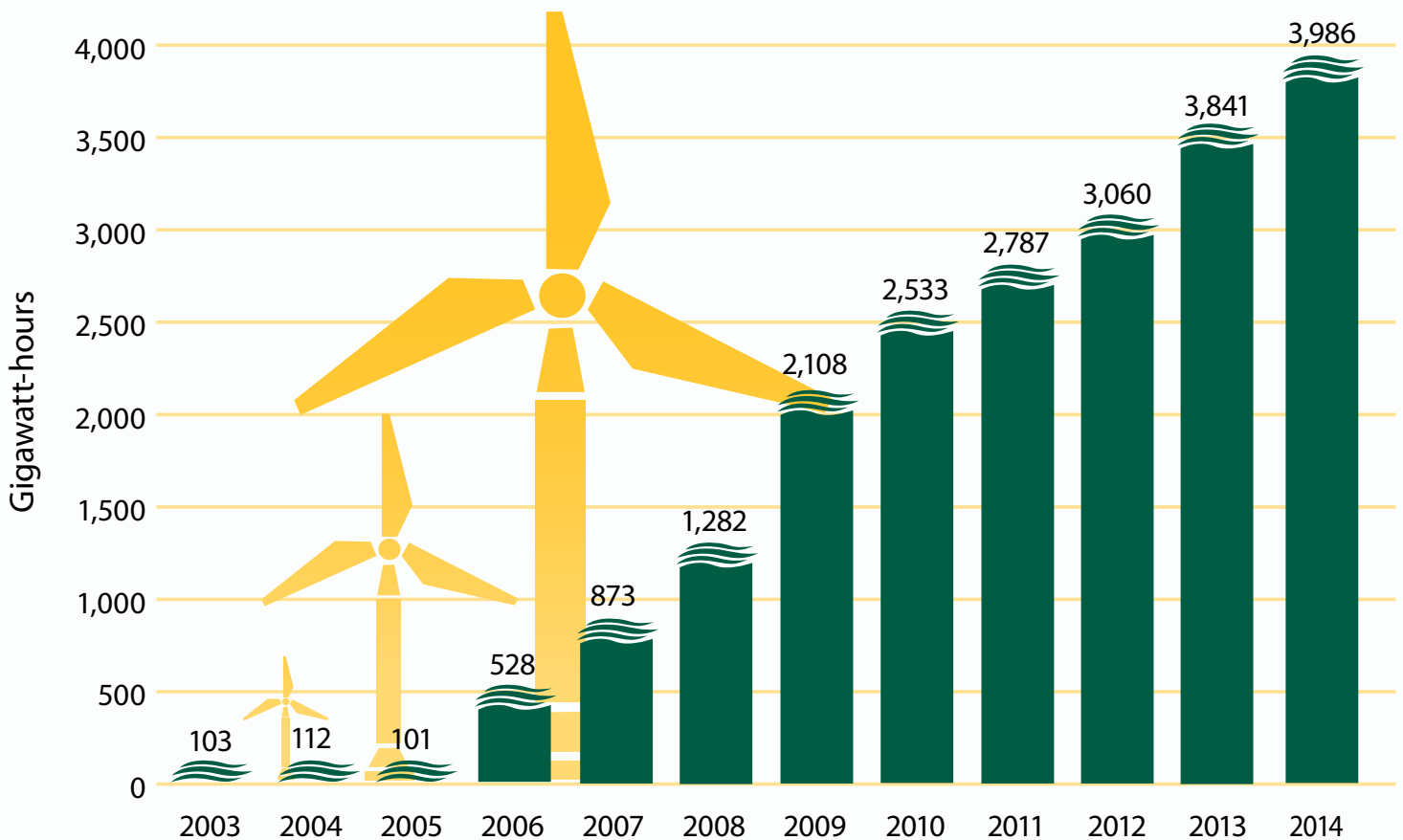
UNDER NYISO MARKETS, NEW YORK'S ELECTRIC SYSTEM IMPROVED

ITS FUEL EFFICIENCY

AT A PACE 300 PERCENT BETTER THAN THE NATION.



MARKETS HAVE HELPED TO CULTIVATE THE **GROWTH OF WINDPOWER** IN NY.



RELIABILITY



Congressman Paul Tonko (left) listens as Chief Operating Officer Rick Gonzales describes the NYISO Control Center's video wall.

New Control Center

Public officials, policymakers, and stakeholders in April joined the NYISO to celebrate the official opening of our new \$38 million primary power control center, which features the latest digital monitoring technologies to strengthen grid reliability and security throughout the state and region.

The 64,000-square-foot structure enables a smarter grid and the state-of-the-art displays improve grid operators' ability to receive, process, and monitor changing conditions throughout the region. Replacing the NYISO's 44-year-old control center, the new facility

provides unparalleled resources for smarter, more reliable and resilient grid operations.

The massive video wall, at 2,300 square feet, displays a digital representation of the state's electric grid and provides more than 3,000 live status points that offer vital operations data, including line flows, line limits, transformer loading, voltages and generator output.

System conditions are relayed in nanoseconds to operators in the control center. Backup systems provide seamless switch-over capabilities in less than a second to assure 24x7x365 reliability.



“I believe this ISO strengthens the arteries and veins of our system that then pumps the lifeblood of energy into our neighborhoods. That builds commerce; that builds opportunities; that builds hope.”

– Congressman Paul Tonko - NYISO Control Center Opening Ceremony, April 2014

In addition to the electric system topology of the New York Control Area, the video wall includes two bordering, customizable screen arrays that display radar weather maps; graphics illustrating forecast and actual wind generation; wind project location and real-time generation; zonal wholesale energy prices in New York and neighboring control areas; natural gas pipelines; Phasor Measurement Unit data; load data; and a Situational Awareness for NERC Reliability data map.

In 2014 public and private stakeholders alike recognized that the new Control Room represents a giant step toward an entirely new energy future. A smarter grid brings a stronger assurance of reliability. More data fosters better long-term planning and allows better understanding of real-time market conditions. Collaborating regionally improves price transparency and creates efficiency among resources.

The NYISO Control Center carries on the long-standing tradition of energy innovation in New York State.



Markets address emerging reliability needs

Developments in 2014 demonstrated the ability of markets to respond to emerging reliability needs. The new capacity zone in southeastern New York is playing a significant role in bolstering system reliability through needed investment in power generation. Those investments are expected to provide \$400 million in capacity cost reductions, starting in 2015. The NYISO's 2014 Reliability Needs Assessment (RNA) highlighted reliability needs in the region, which were addressed by an array of market responses. The additional resources include the Danskammer Generating Station in Newburgh, and the restoration to full capability of the Bowline Generating Facility in Haverstraw. The owners of both units have stated that the decision to invest in refurbishment and return the plants to service was in response to market signals resulting from the creation of the new capacity zone in the lower Hudson Valley.

Several other projects also announced plans to return to service. New demand response resources were also added. The additional power resources are expected to reduce costs associated with bringing power to the region.

Reliability sustained through historic winter peak

On January 7, 2014 -- in the midst of historic cold weather conditions -- the New York electric system successfully met a new winter record peak demand for electricity of 25,738 megawatts (MW), eclipsing the previous winter peak record of 25,541 MW set in 2004. Month-long electricity use also set a record, reaching a total of 14,719 gigawatt-hours, the highest January total in the 15-year history of the NYISO.

Extremely cold temperatures over a prolonged period can cause equipment problems on the electric system, and lead to high demands for natural gas resources. Despite these challenges, the NYISO -- working closely with electric utilities, power producers and natural gas suppliers -- maintained a high level of reliability during the severe cold weather.





Broader Regional Markets: CTS

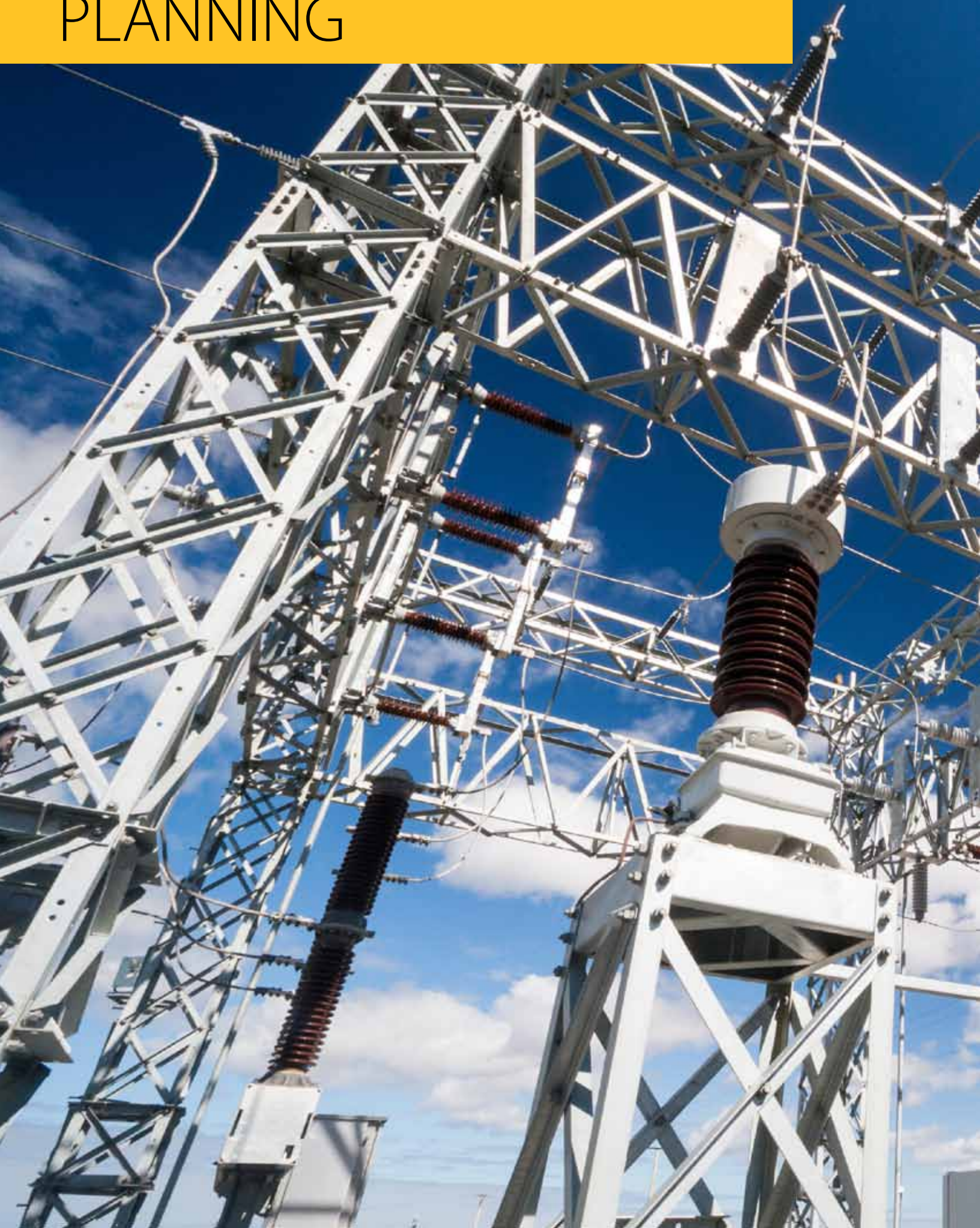
The NYISO and the PJM Interconnection in 2014 streamlined the flow of electricity across their mutual borders to reduce energy production costs, activating a new Coordinated Transaction Scheduling (CTS) system in November. CTS improves the scheduling of wholesale electricity sales between the New York and PJM control areas where they border in Pennsylvania and New Jersey. This enables market participants to access the least-cost source of power within the two regions and helps lower the combined energy production cost of the two systems. By coordinating energy flow schedules, CTS will provide benefits to consumers in New York and the 13 states served by PJM. Estimates, including one from our market monitor, found that CTS potentially could reduce production costs between \$9 million and \$26 million annually.



Distributed Energy Resources

As the State of New York moved to address the growth of distributed energy resources (DER), the NYISO contributed a September 2014 report assessing the array of DER technologies and their prospects for growth in New York. The report, *A Review of Distributed Energy Resources*, evaluates the outlook for several key DER technologies, and highlights economic drivers, market structures, and regulatory and environmental policies governing such systems. The study found considerable technical potential for increased penetration of DER technologies in New York State and across the country. For example, New York ranks high in potential for additional rooftop PV and small-scale CHP systems.

PLANNING



Expanded public policy planning role

Under a new public planning process the NYISO will work with the New York State Public Service Commission (PSC) to determine whether public policy requirements contained in federal, state and local laws and regulations drive transmission needs that should be evaluated by soliciting and evaluating new transmission projects. In August 2014 the PSC adopted the process by which it will identify Public Policy Requirements and related transmission needs. Conducted through the NYISO's Open Access Transmission Tariff (OATT), these planning decisions will be open and transparent, and provide stakeholders, policymakers, and market participants opportunities to offer input and guidance.

AUTHORITATIVE INFORMATION



Conferences & Forums

In June 2014 more than 200 energy business leaders, government officials and respected academics converged in New York City during the NYISO's 2014 Energy Conference, "Grid Modernization & Competitive Markets: Shaping the Future Electric System."

The forum was part of the NYISO's steadfast effort to remain a leader in providing authoritative information to a dynamic industry. The energy conference featured keynote speaker U.S. Energy Information Administration (EIA) Administrator Adam Sieminski, luncheon remarks from Joe Shields, president of Millennium Pipeline Company LLC and two robust panel discussions about the challenges and opportunities presented by aging electricity infrastructure, and the role of competitive markets in influencing the landscape of electric system fuel diversity.



“The electric system is in the midst of an extraordinary era of change. Evolving patterns in demand for electricity, advances in energy technology, the dynamic mix of fuels used to generate power and changes in public policy all are combining to pose new challenges as well as present new opportunities.”

- NYISO President and CEO Stephen G. Whitley

AUTHORITATIVE INFORMATION



Training & Education *Grid Operators & Market Participants*

NYISO operations and markets training programs bring together professionals from across our state and nation to study the ways we operate the grid and manage wholesale electricity markets.

NYISO's operator training exceeds industry standards. The North American Electric Reliability Corporation requires operators to have 200 continuing education hours every three years. NYISO operators typically receive 300 hours of training. In addition, Transmission Owners send their local control room operators to the NYISO for supplemental training reinforcing the interaction between local control areas and the bulk electricity grid. In 2014 more than 429 students received NYISO instruction on the fundamentals, intricacies, and innovations of operating the electric power system. Using a simulator room that is a full duplication of the operating system, operators go through a regular day monitoring the grid, as well as through emergency situations. Simulator training can recreate actual past emergencies or put system

operators in extreme situations they have never faced in the real world. The Operations Training Department also participates in wide-area training events that include regional emergency operations involving neighboring grid operators (Ontario IESO, PJM, ISO-New England, and Hydro-Quebec). Since 2000 more than 4,282 have completed operator training at the NYISO.

Market training guides market participants through the various NYISO markets and provides a deep dive into understanding how those markets function. In 2014 330 individuals completed market training courses, including the full New York Market Orientation Course (NYMOC), which gives an in-depth understanding of the function, processes, requirements and settlements of the New York electricity markets and products, as well as training in ancillary services, demand response, accounting and billing, and other vital aspects of the markets. Since 2000 more than 5,700 people have completed NYISO market training.

2014

1,548 Visitors 24 Countries

With the attention generated by the new control center, a record number of visitors toured the NYISO in 2014. Since 2000, we have hosted more than 6,600 visitors from 86 nations.



NYISO BOARD OF DIRECTORS



*left to right sitting - Ave Bie, Michael Bemis, Robert Hiney, Stephen Whitley
left to right standing - Daniel More, Thomas Ryan, Vikki Pryor, Daniel Hill, James Mahoney, Erland Kailbourne*

2014 NYISO Board of Directors *as of December 31, 2014*

Michael B. Bemis, Board Chair

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

Daniel C. Hill

Former Senior Vice President and Chief Information Officer (CIO) of Exelon Corporation

Robert A. Hiney

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

Erland E. Kailbourne

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

Daniel B. More

Former Managing Director at Morgan Stanley, leading the firm's global efforts in Utility Mergers and Acquisitions

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

Vikki L. Pryor

Principal and founder of Change Create Transform

Stephen G. Whitley

President and CEO – New York Independent System Operator

2014 NYISO Leadership Team: Corporate Officers *as of December 31, 2014*

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

Henry Chao

Vice President, System and Resource Planning

Jennifer Chatt

Vice President, Human Resources

Diane L. Egan

Board Secretary and Corporate Secretary

Robert E. Fernandez

General Counsel

Cheryl Hussey

Vice President and Chief Financial Officer

Emilie Nelson

Vice President, Market Operations

Thomas J. Rumsey

Vice President, External Affairs

Wesley Yeomans

Vice President, Operations



SHARED GOVERNANCE



Under its 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. These collaborative groups provide stakeholders with the opportunity to participate in forums where issues regarding the administration of the markets, the operation of New York’s bulk electricity grid, and future system planning are discussed, debated, and voted on.

The 2014 shared governance process involved 218 meetings of committees, subcommittees, task forces and working groups. By maintaining an open, collaborative process soliciting and considering diverse points of view, the various elements of the NYISO’s mission and expanding roles are better understood by all who participate. This commitment to collaboration is an invaluable asset as the NYISO moves forward to meet and master future challenges.

Committee Chairs and Co-Chairs *as of December 31, 2014*

Management Committee

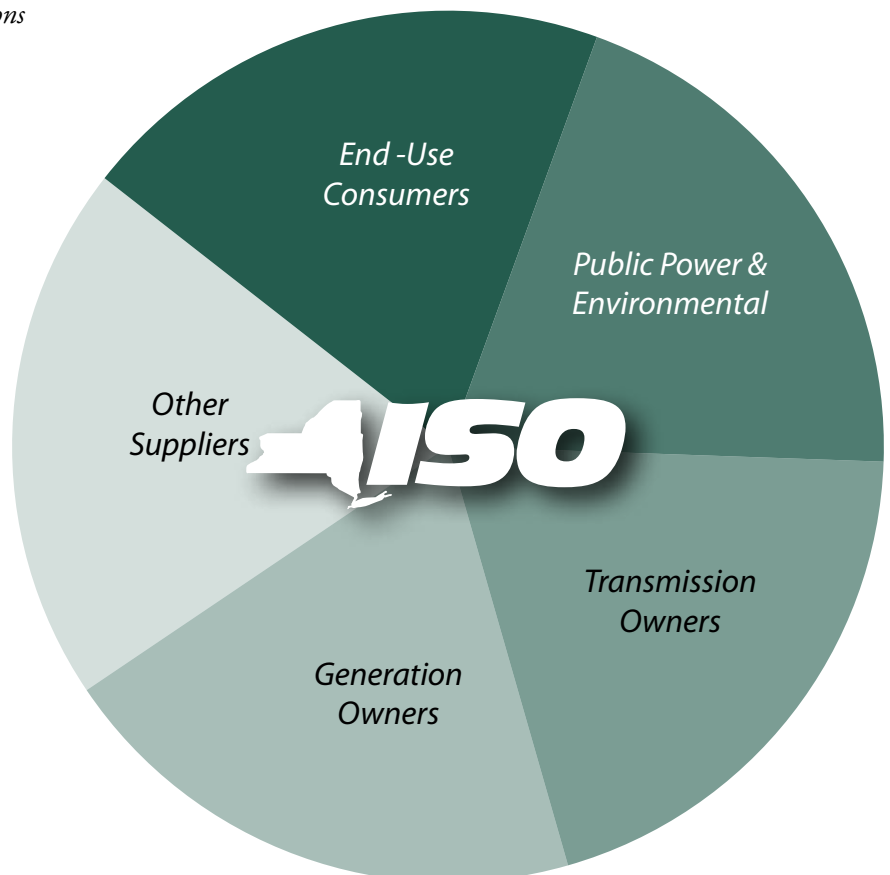
Alan Ackerman – *Chair, Customized Energy Solutions*
 Deidre Altobell – *Vice Chair, Consolidated Edison*

Business Issues Committee

Brad Kranz – *Chair, NRG*
 Patti Caletka – *Vice Chair, NYSEG*

Operating Committee

Andrew Antinori – *Chair, NYPA*
 Rick Roby – *Vice Chair, Dynegy*



MARKET PARTICIPANTS

3M Company
Abest Power & Gas, LLC
ABN Energy, LLC
AC Energy, LLC
Accent Energy Midwest II LLC dba IGS Energy
AG Energy, L.P.
Agera Energy, LLC
Aggressive Energy, LLC
Agway Energy Services, LLC
Albany Energy LLC
Aleph One, Inc.
Allegany Generating Station, LLC
Alpha Gas and Electric, LLC
Alphataraxia Nickel LLC
Ambit New York, LLC
American Power & Gas, LLC
Ameristar Energy LLC
Amherst Utility Cooperative (AUC)
Amplified Power & Gas, LLC
AP Gas & Electric (NY), LLC dba APG&E
AP Gas & Electric (TX), LLC
Appian Way Energy Partners East, LLC
Ardor Energy Limited Liability Company
Astoria Energy II, LLC
Astoria Energy LLC
Astoria Generating Company L.P.
Astral Energy LLC
Atlantic Energy, LLC
Atlantic Power and Gas LLC
Axon Energy, LLC
Baker Boy, LLC
Barclays Bank PLC
Barclays Services Corporation
Bayonne Energy Center, LLC
BBPC, LLC, d/b/a Great Eastern Energy
Binghamton BOP LLC
BJ Energy LLC
Black Oak Energy LLC
Bluco Energy, LLC
Blue Rock Energy, Inc.
BNP Paribas Energy Trading GP
Boralex Hydro Operations Inc
Boston Energy Trading and Marketing LLC
Bounce Energy NY, LLC
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.
BTG Pactual Commodities (US) LLC
Buffalo Watt Holdings, LLC
Buy Energy Direct, LLC
Calpine Energy Services LP
Canadian Wood Products - Montreal Inc
Canandaigua Power Partners, LLC
Canastota Windpower LLC
Cargill Power Markets, LLC
Carr Street Generating Station LP
Carthage Energy LLC
Castleton Commodities Merchant Trading L.P.
Castleton Power, LLC
Cayuga Operating Company, LLC
CCI Rensselaer LLC
CECONY-LSE
Censtar Energy Corp
Central Hudson Gas & Electric Corp.
Centre Lane Trading Ltd.
Champion Energy Services, LLC
CHI Power Marketing, Inc
Chief Energy Power, LLC
Citigroup Energy Inc.
Citizens Choice Energy, LLC
City of Niagara Falls
City Power & Gas, LLC
Clear Choice Energy, 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.
Consolidated Power Co., LLC
Constellation Energy Power Choice, Inc
Constellation NewEnergy, Inc.
Copperwood Energy Fund, LP
Corporate Services Support Corp.
County of Erie NY
County of Niagara NY
Covanta Niagara, LP
Credit Suisse (USA), Inc.
Cummins Inc
Cutone & Company Consultants, LLC
Danskammer Energy, LLC
DC Energy LLC
DC Energy New York, LLC
Demand Response Partners, Inc.
Demansys Energy LLC
Denver Energy, LLC
Direct Energy Business Marketing, LLC

Direct Energy Business, LLC
Direct Energy Marketing Inc
Direct Energy Services, LLC
Direct Energy Small Business, LLC
DTE Energy Trading Inc
Dufossat Capital III, LLC
Dynamis ETF, LLC
Dynasty Power Inc
Dynegy Marketing and Trade, LLC (DMT)
Eagle Creek Hydro Power, LLC
Eagle Power Authority, Inc.
Eagles Power, LLC
East Coast Power and Gas, LLC
East Coast Power, LLC
EDF Industrial Power Services (NY), LLC
EDF Trading North America, LLC
EDP Renewables North America LLC
eKapital NY, LLC
Eligo Energy LLC
Eligo Energy 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.
Energetix, Inc.
Energy Connect, Inc.
Energy Conservation and Supply, Inc.
Energy Cooperative of America, Inc dbaEnCoop of NY
Energy Curtailment Specialists, Inc.
Energy Limited Inc
Energy Plus Holdings LLC
Energy Services Providers, Inc dba NY Gas&Electric
Energy Spectrum Inc.
Energy Technology Savings LLC
energy.me midwest, llc
Energya VM Gestion de Energia S.L.U.
EnergyMark Business Solutions, LLC
EnergyMark, LLC
EnerNOC, Inc.
Enerwise Global Technologies, Inc. dba CPower
Entergy Nuclear Fitzpatrick, LLC
Entergy Nuclear IP-2 LLC
Entergy Nuclear IP3, LLC
Entergy Nuclear Power Marketing LLC
Entergy Solutions LLC
Entra Energy LLC
Erie Boulevard Hydropower LP
Erie Wind, LLC
ETC Endure Energy L.L.C.
Ethical Electric, Inc. dba Ethical Electric
ETS Emerald LLC
Everyday Energy, LLC
Exelon Generation Company LLC
Family Energy Inc
FC Energy Services Company, LLC
First Choice Energy, Inc.
First Commodities International Inc.
Flanders Energy LLC
Flat Rock Windpower II LLC
Flat Rock Windpower LLC
Franklin Power LLC
Freepoint Commodities LLC
Freeport Electric
Frontier Utilities Northeast LLC
Galaxy Energy, LLC
Galt Power Inc.
Gateway Energy Services Corporation
GDF Suez Energy Marketing NA, Inc
GDF Suez Energy Resources NA, Inc
GDF SUEZ Retail Energy Solutions, LLC dba Think Energy
GenOn Energy Management, LLC
Global Energy LLC
Great Bay Energy III, LLC
Great Bay Energy IV, LLC
Green Mountain Energy Company
Green Mountain Power Corporation
Greenlight Energy Inc
GRG Energy LLC
Griffiss Utility Services Corporation
Gulf Oil Limited Partnership
Hampshire Paper Co., Inc.
Hanissim Capital, LLC
Hardscrabble Wind Power LLC
HIKO Energy, LLC
Homer City Generation, L.P.
Howard Wind LLC
HQ Energy Services (US)
HSBC Bank USA
Hudson Energy Services, LLC
Iberdrola Renewables, LLC
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
Infinite Energy Corp dba Definite Energy Group
Innovative Energy Systems, Inc.
Innoventive Power LLC

Inspire Energy Holdings, LLC
Integrus Energy Services of New York, Inc.
Integrus Energy Services, Inc.
International Paper Company
Iron Energy LLC dba Kona Energy
Islip Resource Recovery Agency
J Aron and Company
Jamestown Board of Public Utilities
Josco Energy Corp.
Just Energy New York Corp
Kaleida Health
KASS Commodities, LLC
KFW Energy Trading, LLC
Kinkaid Capital Corporation
Kiwi Energy NY LLC
L&L Energy, LLC
Lakeside New York, LLC
Lavand & Lodge, LLC
Lexington Power & Light, LLC
Liberty Power Holdings LLC
Linde Energy Services, Inc.
Lockport Energy Assoc.
Long Island Power Authority
Lumens Energy Supply LLC
Lyonsdale Biomass, LLC
M&R Energy Resources Corp.
Macquarie Energy LLC
Madison Windpower, LLC
MAG Energy Solutions Inc.
Major Energy Electric Services, LLC
Marathon Power LLC
Marble River, LLC
Marsh Hill Energy LLC
Mercuria Energy America, Inc
Merrill Lynch Commodities, Inc.
Midwest Energy Trading East LLC
Mitchell Supreme Fuel Co.
Model City Energy, LLC
Modern Innovative Energy, LLC
Monroe County NY
Monterey NY, LLC
Morgan Stanley Capital Group, Inc.
MPower Energy LLC
Nalcor Energy Marketing Corporation
Nationwide Energy, LLC
NDC Partners LLC
NetPeak Energy Group LLC
New Athens Generating Company 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.

Next Utility Energy LLC
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
Nordic Energy Services, LLC
North American Power and Gas LLC
North Eastern States, Inc. dba Entrust Energy
North Energy Power, LLC
Northbrook Lyons Falls, LLC
Northbrook New York LLC
Northern States Power Company
Northstar NY Ltd.
NRG Power Marketing LLC
NuEnerGen, LLC
NYSEG Solutions, Inc.
Oak Trading, LLC
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.
Orange & Rockland Utilities, Inc.
Orthogonal Energy, LLC
ORU-LSE
Pacific Summit Energy LLC
Palmco Power NJ, LLC
Palmco Power NY, LLC
Pay Less Energy, LLC
Peninsula Power, LLC
Perigee Energy, LLC
Phoenix Energy Group, LLC
Planet Energy (New York) Corp
Plant-E Corp.
Plymouth Rock Energy, LLC
Point Break Energy Marketing LTD
Power City Partners, L.P.

Power Supply Services LLC
Powerex Corporation
PPL EnergyPlus, LLC
Premier Empire Energy LLC
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
Red Wolf Energy Trading, LLC
Red Wolf NT, LLC
ReEnergy Black River LLC
ReEnergy Chateaugay LLC
Reliant Energy Northeast, LLC dba NRG Retail Solut
Renaissance Power & Gas, Inc.
Repsol Energy North America Corporation
Residents Energy, LLC
Riverbay Corporation
Robison Energy, LLC
Rochester Gas & Electric Corp.
Roseton Generating LLC
Royal Bank of Canada
S.J. Energy Partners, Inc.
Sanctorum Energy Inc.
Saracen Energy East LP
Saracen Energy West LP
Saracen Power LP
Saranac Power Partners, L.P.
SBR Energy, LLC
Schools & Municipal Energy Cooperative (SMEC)
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.
Siemens Industry, Inc
Smart One Energy, LLC
SmartEnergy Holdings, LLC
Sol Energy, LLC
Solea Energy, LLC
Solios Power LLC
Somerset Operating Company, LLC
South Bay Energy Corp.
South Jersey Energy Company
South Jersey Energy ISO1, LLC
South Jersey Energy ISO3, LLC
South Jersey Energy ISO4, LLC
South Jersey Energy ISO5, LLC
South Jersey Energy ISO6, LLC
Spark Energy, L.P.
Spartan Electricity Futures, Inc
Sperian Energy Corp
SREC Generating Company, Inc
Starion Energy NY, Inc
StatArb Investment LLC
State of New York - OGS
State of New York - OGS Municipal
State of New York - SUNY
State of New York - SUNY Buffalo
Stephentown Spindle, LLC
Sterling Power Partners, L.P.
Stony Creek Energy LLC
Stream Energy New York, LLC
Synergy Biogas LLC
TC Ravenswood, LLC
TEC Energy Inc.
Tenaska Power Services Co.
Texas Retail Energy, LLC
The Dayton Power and Light Company
Time Warner Inc.
TrailStone Power, LLC
TransAlta Energy Marketing (U.S.) Inc.
TransCanada Power Marketing, Ltd.
Triton Power Company
TrueLight Energy Fund, LP
Twin Cities Power, LLC
Twin Eagle Resource Management, LLC
U.S. Energy Partners LLC
UGI Energy Services, LLC
University of Rochester
Utility Expense Reduction, LLC
Velocity American Energy Master I, L.P.
Verde Energy USA New York, LLC
Village of Rockville Centre
Viridian Energy NY, LLC
Viridity Energy, Inc.
Virtual Power Hedging, LLC
Vitol Inc.
Watchtower Bible and Tract Society of New York, In
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
XOOM Energy New York, LLC
XOOM Energy, LLC
Zone One Energy, LLC

FINANCIALS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of New York Independent System Operator, Inc. which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of New York Independent System Operator, Inc. and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Albany, New York
March 13, 2015

KPMG LLP

Statement of Financial Position

December 31, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 51,567,015	47,745,703
Restricted cash	417,362,068	604,091,333
Accounts receivable – net (note 2)	80,501,872	110,495,816
Prepaid expenses	7,243,302	6,632,371
Regulatory assets – current portion (note 3)	11,777	—
Other current assets	62,537	39,143
Total current assets	<u>556,748,571</u>	<u>769,004,366</u>
Noncurrent assets:		
Regulatory assets (note 3)	13,226,398	12,511,584
Property and equipment – net (note 4)	121,610,352	124,896,857
Other noncurrent assets (note 7)	4,979,804	5,329,483
Total noncurrent assets	<u>139,816,554</u>	<u>142,737,924</u>
Total	<u>\$ 696,565,125</u>	<u>911,742,290</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 141,894,041	328,604,680
Market participant security deposits	362,535,937	389,780,555
Market participant prepayments	5,714,915	6,553,030
Working capital reserve (note 10)	33,010,149	33,008,965
Long-term debt – current portion (note 6)	22,334,961	27,152,961
Regulatory liabilities – current portion (note 3)	5,783,212	7,582,953
Deferred revenue (note 11)	4,321,447	5,209,576
Other current liabilities (note 8)	1,668,658	1,879,320
Total current liabilities	<u>577,263,320</u>	<u>799,772,040</u>
Noncurrent liabilities:		
Accrued pension liability (note 8)	2,651,751	2,030,119
Accrued postretirement liability (note 8)	565,484	3,087,905
Regulatory liabilities (note 3)	9,845,620	7,230,016
Other noncurrent liabilities (notes 7 and 8)	23,960,378	21,102,061
Long-term debt (note 6)	82,278,572	78,520,149
Total noncurrent liabilities	<u>119,301,805</u>	<u>111,970,250</u>
Total liabilities	<u>696,565,125</u>	<u>911,742,290</u>
Commitments and contingencies (note 12)		
Unrestricted net assets	—	—
Total liabilities and net assets	<u>\$ 696,565,125</u>	<u>911,742,290</u>

See accompanying notes to financial statements.

Statement of Activities

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Rate Schedule 1 tariff charge	\$ 164,984,481	146,951,582
Grant revenue (notes 13 and 14)	4,610,945	8,942,426
Planning studies revenue	3,347,306	2,867,211
Fees and services	1,364,906	1,073,961
Interest income	9,303	6,000
	<u>174,316,941</u>	<u>159,841,180</u>
Total revenues		
Operating expenses:		
Compensation and related benefits (note 8)	73,685,956	73,053,490
Depreciation and amortization (note 4)	26,697,078	22,707,964
Professional fees and consultants	20,541,424	21,730,017
Maintenance, software licenses and facility costs	16,764,557	16,879,278
Federal energy regulatory commission fees	12,000,000	10,951,756
Administrative and other expenses	4,384,954	4,093,293
Interest expense	4,030,128	2,971,226
Grant expenses – New York transmission owners (notes 13 and 14)	3,817,137	4,864,596
Telecommunication expenses	3,736,307	3,704,215
Change in fair value of interest rate swaps (note 7)	3,245,985	(6,122,878)
Insurance expense	2,856,974	2,785,320
Training, travel, and meeting expenses	2,305,162	1,938,976
Northeast power coordinating council fees	251,279	283,927
	<u>174,316,941</u>	<u>159,841,180</u>
Total operating expenses		
Change in unrestricted net assets	—	—
Unrestricted net assets, beginning of year	<u>—</u>	<u>—</u>
Unrestricted net assets, end of year	<u>\$ —</u>	<u>—</u>

See accompanying notes to financial statements.

Statement of Cash Flows

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
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	26,697,078	22,707,964
Loss on disposition of assets	—	28,826
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable and prepaid expenses	29,383,013	(104,200,613)
Decrease (increase) in restricted cash	186,729,265	(268,346,915)
(Increase) decrease in regulatory assets	(830,761)	1,049,229
Decrease other assets	326,285	2,695,842
(Decrease) increase in accounts payable and accrued expenses	(185,518,722)	208,631,299
(Decrease) increase in market participant prepayments	(838,115)	4,404,641
(Decrease) increase in market participant security deposits	(27,244,618)	155,712,004
Increase (decrease) in working capital reserve	1,184	(5,638)
(Decrease) increase in regulatory liabilities	(2,525,542)	5,618,008
Increase in deferred revenue and other liabilities	3,304,312	4,585,006
Net cash provided by operating activities	<u>29,483,379</u>	<u>32,879,653</u>
Cash flows from investing activities:		
Acquisition of property and equipment (including capitalized interest)	<u>(24,602,490)</u>	<u>(45,619,786)</u>
Net cash used in investing activities	<u>(24,602,490)</u>	<u>(45,619,786)</u>
Cash flows from financing activities:		
Proceeds from revolving credit facility loan	5,000,000	4,000,000
Repayment of revolving credit facility loan	(5,000,000)	(4,000,000)
Repayment of 2007 – 2010 budget facility loan	—	(9,785,714)
Proceeds from 2011 – 2013 budget facility loan	—	24,200,000
Repayment of 2011 – 2013 budget facility loan	(30,192,372)	(17,433,334)
Proceeds from 2014 – 2017 budget facility loan	25,000,000	—
Proceeds from 2012 Infrastructure Loan	6,249,025	21,155,637
Repayment of 2012 Infrastructure Loan	(1,102,632)	—
Repayment of Mortgage and Renovations loans	(1,013,598)	(955,293)
Net cash (used by) provided by financing activities	<u>(1,059,577)</u>	<u>17,181,296</u>
Net increase in cash and cash equivalents	3,821,312	4,441,163
Cash and cash equivalents – beginning of year	<u>47,745,703</u>	<u>43,304,540</u>
Cash and cash equivalents – end of year	<u>\$ 51,567,015</u>	<u>47,745,703</u>
Supplemental disclosure of cash flow:		
Information – cash paid during the year for interest, net of capitalized interest	\$ 3,992,021	2,936,187
Noncash operating activity:		
Change in pension and postretirement liabilities	\$ 3,445,575	6,603,766
Noncash investing activities:		
Property and equipment additions which were accrued but not paid	\$ 4,508,179	5,700,096
Property and equipment additions previously accrued which were paid	5,700,096	5,396,646

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 circuit 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. The NYISO facilitates fair and open competition in the wholesale electricity markets in which electricity and related services are purchased and sold on the basis of competitive bidding. 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 Commission.

(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, recoverability of regulatory assets, the valuation of derivative instruments, and reserves 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

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 from and to market participants for each settlement period.

Effective July 1, 2012, NYISO's two FERC-approved tariffs, the Open Access Transmission Tariff (OATT) and the Market Administration and Control Area Services Tariff (Services Tariff), were amended to clarify NYISO's role as the single counterparty to market participant transactions in the NYISO markets. For all market participant transactions in the NYISO markets, flash title passes through NYISO immediately prior to passing to the ultimate buyer and seller of the product. This arrangement reinforces NYISO's authority to continue to net a market participant's offsetting financial positions in NYISO markets for credit and billing purposes; provides clarity in NYISO's legal standing to pursue collection from a bankrupt market participant; and, also complies with the FERC directives on credit policy requirements for competitive wholesale electricity markets.

NYISO's tariffs 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 \$16,996,595 and \$14,376,435, respectively, in the accompanying 2014 and 2013 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 to be cash equivalents. The cash equivalents at December 31, 2014 and 2013 were held in money market accounts invested primarily in short-term U.S. government obligations. NYISO's cash and cash equivalents consist primarily of funds accumulated for the working capital reserve, for general operating purposes, and amounts for funding employee benefit plans.

(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 collected for Transmission Congestion Contract (TCC) auctions, amounts deposited for planning studies and funds received from FERC for the purpose of enhancing NYISO's surveillance capabilities. 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 its 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.

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.

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, 2014 and 2013.

(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 the 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. Also, certain market participants choose to make advance payments to the NYISO to be applied to future settlement invoices.

(l) Deferred Revenue

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

(m) Income Taxes

NYISO 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 2014 and 2013, no unrelated business taxable income was generated by NYISO, and therefore no disclosure is made for federal or state income taxes.

The NYISO has determined prior to recording any benefit in the financial statements that it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authorities, as required by the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement.

(n) Fair Value

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 and long term debt, and benefit plan assets such that carrying value approximates fair value. The fair value of derivative instruments and benefit plan assets is discussed in notes 7 and 8, respectively.

(o) Pension and Other Postretirement Benefit Plans

NYISO has a defined benefit pension plan covering certain employees upon their retirement. The benefits are based on years of service and employee's compensation during the five years before retirement. NYISO also sponsors a defined benefit medical 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, 2014, the adjustments and true-ups of all settlement invoices through March 2014 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 Instruments

NYISO recognizes all derivative instruments as either assets or liabilities in the Statement of Financial Position at their respective fair value. 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 a change in fair value of interest rate swaps in the Statement of Activities. Due to NYISO's regulated rates, any changes in fair value of these derivative instruments are recorded as either Other Current or Noncurrent Assets or Other Current or Noncurrent Liabilities, as appropriate. Payments on these derivative instruments are recorded and classified as interest expense.

NYISO uses derivative instruments primarily to hedge the cash flow effects of fluctuations in interest rates. NYISO is exposed to credit loss in the event of nonperformance by the commercial banks under the interest rate swap agreements. The credit risk related to hedge agreements is limited to the cost to NYISO to replace the aforementioned hedge arrangements with like instruments. NYISO monitors the credit standing of the counterparties and anticipates that the counterparties will be able to fully satisfy their obligations under the hedge arrangements. See note 7 for additional information.

(2) Accounts Receivable

NYISO's accounts receivable at December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Billed:		
Current-due settlement invoices	\$ 67,608,207	96,162,494
Grants billed receivables	306,437	540,780
Miscellaneous billed receivables	224,394	154,173
Past-due-settlement invoices	39,848	1,572,296
	<u>68,178,886</u>	<u>98,429,743</u>
Unbilled:		
Centralized TCC 2 year auction	9,978,057	9,121,948
Rate Schedule 1 revenue for December	2,138,159	1,867,864
Miscellaneous unbilled receivables	139,706	799,167
Grants unbilled receivables	66,758	276,788
Replenishments of working capital reserve	306	306
	<u>12,322,986</u>	<u>12,066,073</u>
Total	<u>\$ 80,501,872</u>	<u>110,495,816</u>

NYISO invoices market participants weekly for settlement charges and Rate Schedule 1 revenue. Current due settlement invoices represent amounts invoiced on December 31, 2014 and due to be collected on January 5, 2015.

Past due settlement invoices as of December 31, 2014 are expected to be recovered in 2015. 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 conducts a Centralized TCC Two Year Auction, with the second year payment due to the NYISO in January of the subsequent year.

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.

(3) Regulatory Assets and Liabilities

At December 31, 2014 and 2013, regulatory assets and liabilities consisted of the following:

	<u>2014</u>	<u>2013</u>
Regulatory assets:		
Funding for pension benefits	\$ 7,956,023	8,060,193
Funding for deferred charges	5,270,375	4,451,391
Voltage support service (reactive power) market	11,777	—
Total regulatory assets	<u>13,238,175</u>	<u>12,511,584</u>
Less current	<u>(11,777)</u>	<u>—</u>
Noncurrent regulatory assets	<u>\$ 13,226,398</u>	<u>12,511,584</u>
Regulatory liabilities:		
Funding for deferred charges	\$ 5,141,602	5,867,404
Rate Schedule 1 underspending	3,807,065	4,740,847
Rate Schedule 1 transactional volume over collections	1,976,147	2,451,526
Funding for postretirement benefits	4,704,018	1,362,613
Voltage support service (reactive power) market	—	390,579
Total regulatory liabilities	<u>15,628,832</u>	<u>14,812,969</u>
Less current	<u>(5,783,212)</u>	<u>(7,582,953)</u>
Noncurrent regulatory liabilities	<u>\$ 9,845,620</u>	<u>7,230,016</u>

(a) *Funding for Pension and Postretirement Benefits*

The pension and postretirement funding regulatory assets and liabilities reflect the unrecognized pension and postretirement benefit costs that would normally be recorded as a component of other comprehensive income or loss. Since these amounts represent costs or income that are expected to be included in future rates, they are recorded as deferred noncurrent regulatory assets or liabilities for accumulated actuarial losses or gains to be recognized in future periods.

(b) *Funding for Deferred Charges*

The NYISO recovers its annual employer cash contributions for both the pension and postretirement benefit plans via Rate Schedule 1. The amounts in funding for deferred charges represents the pension and postretirement benefit costs net of cash contributions.

(c) *Rate Schedule 1 Underspending*

To the extent that NYISO's spending does not exceed the annual Rate Schedule 1 revenue requirement, a regulatory liability is established for the underspending amounts.

(d) *Rate Schedule 1 Overcollections*

NYISO recovers its costs 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.

(e) Voltage Support Service

In order to maintain acceptable transmission voltages on the New York State transmission system, certain market participants within the New York Control Area produce or absorb voltage support service (reactive power). Payments to market participants supplying voltage support service and recoveries from other market participants are assessed via Rate Schedule 2 of the OATT and Services Tariff. Differences between the timing of recoveries and payments for voltage support service that result in undercollections or overcollections are reflected as regulatory assets or liabilities. At December 31, 2014 and 2013, respectively, NYISO recognized a regulatory asset of \$11,777 and a regulatory liability of \$390,579, related to such timing differences.

(4) Property and Equipment

As of December 31, 2014 and 2013, property and equipment consisted of the following:

	<u>2014</u>	<u>2013</u>
Software developed for internal use	\$ 151,786,042	135,902,740
Building, building improvements, and leasehold improvements	96,539,980	93,511,255
Computer hardware and software	63,053,163	61,179,649
Work in progress	5,369,980	7,237,369
Machinery and equipment	6,616,077	6,875,962
Furniture and fixtures	3,085,848	3,085,848
Land and land improvements	2,785,146	2,091,376
	<u>329,236,236</u>	<u>309,884,199</u>
Accumulated depreciation and amortization	<u>(207,625,884)</u>	<u>(184,987,342)</u>
Property and equipment – net	<u>\$ 121,610,352</u>	<u>124,896,857</u>

Property and equipment includes interest of \$51,500 and \$968,870 capitalized during 2014 and 2013, respectively. Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$26,697,078 and \$22,707,964, respectively.

Total capitalized labor as of December 31, 2014 and 2013 was \$7,800,737 and \$6,365,999, respectively.

(5) Revolving Credit Facility

On July 21, 2010, NYISO entered into a \$50.0 million Revolving Credit Facility that expired on December 31, 2013 and was replaced on October 22, 2013, with a new \$50.0 million Revolving Credit Facility with an effective date of January 1, 2014 through December 31, 2017. The proceeds from this Revolving Credit Facility are to be used for working capital purposes. Interest on borrowings under the Revolving Credit Facility 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, 2014 and 2013, respectively, there were no amounts outstanding on the Revolving Credit Facility. During 2014 and 2013, \$5.0 million and \$4.0 million in borrowings were made under this credit agreement, respectively, at an average interest rate of 1.85%.

(6) Long-Term Debt

At December 31, 2014, the following amounts were outstanding on NYISO's long-term debt:

	<u>2012 Infrastructure loan (iv)</u>	<u>2011–2013 Budget facility loan (i)</u>	<u>2014–2017 Budget facility loan (ii)</u>	<u>Mortgage (iii)</u>	<u>Renovations (iii)</u>	<u>Total</u>
Outstanding balance	\$ 43,884,745	19,040,961	25,000,000	9,304,549	7,383,278	104,613,533
Less current portion	<u>(2,646,316)</u>	<u>(10,974,294)</u>	<u>(7,638,889)</u>	<u>(647,050)</u>	<u>(428,412)</u>	<u>(22,334,961)</u>
Long-term portion	<u>\$ 41,238,429</u>	<u>8,066,667</u>	<u>17,361,111</u>	<u>8,657,499</u>	<u>6,954,866</u>	<u>82,278,572</u>

At December 31, 2013, the following amounts were outstanding on NYISO's long-term debt:

	<u>2012 Infrastructure loan (iv)</u>	<u>2011–2013 Budget facility loan (i)</u>	<u>Mortgage (iii)</u>	<u>Renovations (iii)</u>	<u>Total</u>
Outstanding balance	\$ 38,738,352	49,233,333	9,914,795	7,786,630	105,673,110
Less current portion	<u>(1,139,363)</u>	<u>(25,000,000)</u>	<u>(610,246)</u>	<u>(403,352)</u>	<u>(27,152,961)</u>
Long-term portion	<u>\$ 37,598,989</u>	<u>24,233,333</u>	<u>9,304,549</u>	<u>7,383,278</u>	<u>78,520,149</u>

- (i) 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 and December 31, 2013 to fund capital purchases and the development of significant projects during 2011–2013. NYISO must convert each year's annual borrowings to term loans, with principal and interest payments payable over three years. Interest on borrowings under this facility is based on NYISO's option of varying rates of interest tied to LIBOR plus 175 basis points for borrowings, or the prime rate. Interest payments on borrowings are due monthly. On October 24, 2013, NYISO amended the interest rate on this credit facility to LIBOR plus 100 basis points. During 2011, \$25.0 million was drawn on the 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, 2014, these borrowings were fully repaid. At December 31, 2013, the interest rate on \$6.7 million was fixed at 2.530% and the remaining \$1.6 million was at 1.165%. During 2012, an additional \$25.8 million was drawn on the 2011–2013 Budget Facility, which was converted to a term loan in January 2013 with monthly principal and interest payments payable from January 2013 through December 2015. At December 31, 2014, the interest rate on the remaining \$2.9 million was fixed at 3.330%. At December 31, 2013, the interest rate on \$13.3 million was fixed at 3.330% and the remaining \$3.4 million was at 1.165%. During 2013, an additional \$24.2 million was drawn on the 2011–2013 Budget Facility, which was converted to a term loan in January 2014 with monthly principal and interest payments payable from January 2014 through December 2016. At December 31, 2014, the interest rate on \$13.3 million was fixed at 4.023% and the remaining \$2.8 million was at 1.156%. At December 31, 2013, the interest rate on \$20.0 million was fixed at 4.023% and the remaining \$4.2 million was at 1.165%.

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 from 3.280% to

4.773%. On October 24, 2013, NYISO amended the interest rate on this credit facility to LIBOR plus 100 basis points. Due to this amendment, NYISO will pay fixed interest rates ranging from 2.530% and 4.023%. See additional information in note 7.

- (ii) On October 22, 2013, NYISO entered into an unsecured \$100.0 million line of credit facility (2014– 2017 Budget Facility), the proceeds of which could be drawn between January 1, 2014 through December 31, 2017 to fund capital purchases and the development of significant projects during 2014–2017. 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 95 basis points for borrowings, or the prime rate. Interest payments on borrowings are due monthly. As of December 31, 2014, \$25.0 million was drawn on the 2014 – 2017 Budget Facility. At December 31, 2014 the interest rate on \$20.0 million was fixed at 1.780% and the remaining \$5.0 million was at 1.106%

On October 25, 2013, NYISO entered into four interest rate swap agreements to fix interest on \$80.0 million of the \$100.0 million available on the 2014–2017 Budget Facility. Under the swap agreements, NYISO will pay fixed interest rates ranging from 1.780% to 4.076%. See additional information in note 7.

- (iii) 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 5.790%. 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 5.960%, beginning on January 1, 2007.
- (iv) On July 18, 2012, NYISO entered into the 2012 Infrastructure Loan to renovate its facilities 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 18, 2014. As of July 3, 2014 the full \$45.0 million was drawn on the loan which was converted to a term loan on July 18, 2014. The NYISO is required to make interest only payments for up to 24 months, followed by 17 years of principal and interest payments. Interest on borrowings under the 2012 Infrastructure Loan is due monthly and is based on varying rates of interest tied to LIBOR plus 225 basis points. At December 31, 2014, the interest rate on \$39.0 million was fixed at 4.149% and the remaining \$4.9 million was at 2.405%. At December 31, 2013, the interest rate on \$33.7 million was fixed at 4.149% and the remaining \$5.0 million was at 2.419%.

On July 18, 2012, NYISO entered into an interest rate swap agreement to fix interest on \$40.0 million of the \$45.0 million available under the 2012 Infrastructure Loan. Under this swap agreement, NYISO will pay a fixed interest rate of 4.149%. See additional information in note 7.

At December 31, 2014, scheduled maturities of NYISO's long-term debt were as follows:

	2014 Infrastructure loan	2011–2013 Budget facility loan	2014–2017 Budget facility loan	Mortgage	Renovations	Total
2015	\$ 2,646,316	10,974,294	7,638,889	647,050	428,412	22,334,961
2016	2,646,316	8,066,667	8,333,333	684,637	453,836	20,184,789
2017	2,646,316	—	8,333,334	727,364	483,225	12,190,239
2018	2,646,316	—	694,444	771,230	513,248	4,625,238
2019	2,646,316	—	—	817,743	545,136	4,009,195
Thereafter	30,653,165	—	—	5,656,525	4,959,421	41,269,111
Total	<u>\$ 43,884,745</u>	<u>19,040,961</u>	<u>25,000,000</u>	<u>9,304,549</u>	<u>7,383,278</u>	<u>104,613,533</u>

(7) Derivatives and Hedging Activities

NYISO's derivative instruments are cash flow hedges used to manage its exposure related to changes in interest rates. The NYISO does not enter into derivative instruments for any purposes other than cash flow hedging. By using derivative instruments to hedge exposure to changes in interest rates, NYISO is exposed to credit and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the NYISO, which creates credit risk. When the fair value is negative, the NYISO owes the counterparty and, therefore, the NYISO is not exposed to the counterparty's credit risk in those circumstances. NYISO minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates.

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, 2014 and 2013, the fair value of these interest rate swap agreements was (\$1,414,992) and (\$1,415,734), respectively, for the Mortgage and (\$1,529,143) and (\$1,233,611), respectively, for the Renovations Loan, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value loss of \$294,790 and a fair value gain of \$1,781,385, respectively, related to these two 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 from 3.280% to 4.7725% through December 2016. On October 24, 2013, NYISO amended the interest rate on this credit facility to LIBOR plus 100 basis points. Due to this amendment, NYISO will pay fixed interest rates ranging from 2.530% to 4.023%. As of December 31, 2014 and 2013, the fair value of these interest rate swap agreements was (\$380,044) and (\$1,031,225), respectively, recorded in Other Noncurrent Liabilities. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value gain of \$651,181 and \$678,262, respectively, related to these three swap agreements.

In July 2012, NYISO entered into a interest rate swap agreement with a commercial bank to fix interest rate payments on the 2012 Infrastructure Loan. The notional amount of debt on the swap

agreements was \$40,000,000. NYISO pays a fixed interest rate of 4.149% through July 2031. As of December 31, 2014 and 2013, the fair value of this interest rate swap agreement was \$559,802 and \$3,258,088, respectively, recorded in Other Noncurrent Assets. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value loss of \$2,698,286 and a fair value gain of \$3,088,659, respectively, related to this swap agreement.

In October 2013, NYISO entered into four interest rate swap agreements with a commercial bank to fix interest rate payments on the 2014–2017 Budget Facility. The notional amount of the debt on the swap agreements was \$80,000,000. NYISO pays fixed interest rates ranging from 1.780% to 4.076% through December 2020. As of December 31, 2014 and 2013, the fair value of these interest rate swap agreements was (\$442,443) recorded in Other Noncurrent Liabilities, and \$461,647 recorded in Other Noncurrent Assets, respectively. For the years ended December 31, 2014 and 2013, NYISO recorded a fair value loss of \$904,090 and a fair value gain of \$461,647, respectively, related to these four swap agreements.

	<u>Notional amount at inception</u>	<u>Notional amount at December 31, 2014</u>	<u>Fair value at December 31, 2013</u>	<u>Fair value at December 31, 2014</u>	<u>2014 Gain (loss) on market value</u>
Loan:					
2011 – 2013 Budget Facility	\$ 60,000,000	19,999,984	(1,031,225)	(380,044)	651,181
2014 – 2017 Budget Facility	80,000,000	32,000,000	461,647	(442,443)	(904,090)
2012 Infrastructure Loan	40,000,000	39,019,608	3,258,088	559,802	(2,698,286)
Mortgage	14,708,750	9,304,549	(1,415,734)	(1,414,992)	742
Renovations	10,000,000	7,383,278	(1,233,611)	(1,529,143)	(295,532)
Total					<u>\$ (3,245,985)</u>

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, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial assets:				
Interest rate swaps	\$ 559,802	559,802	3,719,735	3,719,735
Financial liabilities:				
Interest rate swaps	\$ 3,766,622	3,766,622	3,680,570	3,680,570

(8) Employee Benefit Plans

Defined Benefit Pension and Postretirement Plans

NYISO has a defined benefit pension plan covering certain employees upon their retirement. 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. During 2014 and 2013, NYISO contributed \$0 and approximately \$0.8 million, respectively to the pension plan. 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 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.

Pursuant to resolutions adopted by NYISO's Board of Directors, NYISO's Retirement Board is responsible for administration of NYISO's pension and postretirement plans, including recommending investment policy to the Board of Directors, and monitoring investment performance. The Retirement Board reports to NYISO's Board of Directors and 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.

NYISO records the overfunded or underfunded 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 or liability.

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 \$5,221,244 and \$4,974,167 as of December 31, 2014 and 2013, respectively. As noted in the following table, 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, 2014 and 2013, and the change in benefit obligations for NYISO's pension and postretirement plans for the years ended December 31, 2014 and 2013.

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation – beginning of year	\$ 31,533,009	34,065,465	8,062,072	9,276,793
Service cost	184,077	282,499	720,012	840,716
Interest cost	1,253,828	1,161,800	375,808	348,792
Actuarial gain	(14,383)	(1,980,119)	(3,281,940)	(2,322,931)
Participant contributions	—	—	138,995	118,185
Settlements	—	(1,565,578)	—	—
Benefits paid	(764,998)	(431,058)	(228,219)	(199,483)
Benefit obligation – end of year	32,191,533	31,533,009	5,786,728	8,062,072
Change in plan assets:				
Fair value of plan assets – beginning of year	29,502,890	29,033,537	4,974,167	4,248,809
Actual return on plan assets	982,720	1,912,248	389,766	853,573
Employer contributions	—	779,201	—	—
Participant contributions	—	—	138,995	118,185
Settlements	—	(1,565,578)	—	—
Benefits paid	(764,998)	(431,058)	(228,219)	(199,483)
Expenses paid	(180,830)	(225,460)	(53,465)	(46,917)
Fair value of plan assets – end of year	29,539,782	29,502,890	5,221,244	4,974,167
Funded status	\$ 2,651,751	2,030,119	565,484	3,087,905

Amounts recognized in the 2014 and 2013 Statements of Financial Position consist of the following:

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Net actuarial loss (gain) recognized in regulatory assets (liabilities)	\$ 7,956,023	8,060,193	(4,704,018)	(1,362,613)
Projected benefit obligation	\$ (32,191,533)	(31,533,009)	(5,786,728)	(8,062,072)
Fair value of assets	29,539,782	29,502,890	5,221,244	4,974,167
Unfunded projected benefit obligation	\$ (2,651,751)	(2,030,119)	(565,484)	(3,087,905)

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

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Service cost	\$ 184,077	282,499	720,012	840,716
Interest cost	1,253,828	1,161,800	375,808	348,792
Expected return on plan assets	(1,225,285)	(1,218,183)	(224,606)	(253,024)
Amortization of unrecognized prior service cost	1,955	1,955	—	—
Amortization of unrecognized (gain) loss	511,227	863,016	(52,230)	13,809
Settlement loss	—	399,699	—	—
Total	\$ 725,802	1,490,786	818,984	950,293

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 \$32,107,694 and \$31,329,863 at December 31, 2014 and 2013, respectively.

During 2013, the sum of all lump-sum benefits paid during the year exceeded the sum of the service and interest cost components of the net periodic benefit cost for the year, resulting in the recognition of a net settlement loss of \$399,699.

The following table as of December 31, 2014 and 2013 shows the assumptions used to calculate the pension and postretirement benefit obligations and net periodic costs:

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Benefit obligations:				
Discount rate	3.65%	4.30%	3.90%	4.80%
Rate of compensation increases	3.00	3.00	N/A	N/A
Net cost or credit:				
Discount rate	4.30%	3.60%	4.80%	4.00%
Rate of compensation increases	3.00	3.00	N/A	N/A
Expected return on plan assets	4.60	4.60	4.60	6.10

NYISO's expected rate of return on plan assets reflects anticipated returns on the pension and postretirement plans' 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. 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. 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.

NYISO measured benefit obligations using the most recent RP-2014 mortality tables and MP-2014 mortality improvement scale in selecting mortality assumptions as of December 31, 2014.

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

Asset category	2014		2013	
	Target	Actual	Target	Actual
Fixed income	70%	65%	70%	65%
International and emerging equities	15	16	15	16
Large cap equities	8	10	8	10
Mid cap equities	5	6	5	6
Small cap equities	2	3	2	3
Total	100%	100%	100%	100%

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

Asset category	2014		2013	
	Target	Actual	Target	Actual
Domestic equities	50%	58%	50%	57%
Fixed income	35	28	35	28
International and emerging equities	15	14	15	15
Total	100%	100%	100%	100%

The actual rate of return for the pension plan's assets as of December 31, 2014 and 2013 is as follows:

Asset category	Annual returns December 31	
	2014	2013
Large cap equities	13.5%	32.7%
Mid cap equities	7.7	39.0
Fixed income	3.2	(0.1)
Small cap equities	3.0	37.1
International and emerging equities	(6.5)	9.0
Total portfolio weighted average	3.3%	6.6%

The actual rate of return for the VEBA Trust (postretirement) plan's assets as of December 31, 2014 and 2013 is as follows:

Asset category	Annual returns December 31	
	2014	2013
Domestic equities	10.3%	34.0%
Fixed income	5.2	(2.0)
International and emerging equities	(2.6)	17.2
Total portfolio weighted average	6.9%	19.4%

The fair values of the pension plan assets at December 31, 2014 and 2013 are presented below and on the following page:

	2014 Fair value			Total
	Level 1	Level 2	Level 3	
Domestic investments:				
Equities:				
Small cap	\$ —	906,996	—	906,996
Mid cap	—	1,712,197	—	1,712,197
Large cap	—	3,046,721	—	3,046,721
Total	—	5,665,914	—	5,665,914
Fixed income	5,717,718	13,556,850	—	19,274,568
Total	5,717,718	13,556,850	—	19,274,568
International and emerging equities	4,543,327	—	—	4,543,327
Total	4,543,327	—	—	4,543,327
Cash and cash equivalents	55,973	—	—	55,973
	\$ 10,317,018	19,222,764	—	29,539,782

	2013 Fair value			Total
	Level 1	Level 2	Level 3	
Domestic investments:				
Equities:				
Small cap	\$ —	943,608	—	943,608
Mid cap	—	1,705,446	—	1,705,446
Large cap	—	2,875,472	—	2,875,472
Total	—	5,524,526	—	5,524,526
Fixed income	5,743,247	13,358,245	—	19,101,492
Total	5,743,247	13,358,245	—	19,101,492
International and emerging equities	4,645,595	—	—	4,645,595
Total	4,645,595	—	—	4,645,595
Cash and cash equivalents	231,277	—	—	231,277
	\$ 10,620,119	18,882,771	—	29,502,890

The fair values of the postretirement plan assets at December 31, 2014 and 2013 are presented below:

	2014 Fair value			Total
	Level 1	Level 2	Level 3	
Domestic equities	\$ 2,693,474	—	—	2,693,474
Total	2,693,474	—	—	2,693,474
Fixed income:				
Fixed income securities	604,145	—	—	604,145
U.S. government obligations	580,132	—	—	580,132
Mortgage-backed securities	—	40,403	—	40,403
Corporate debt securities	—	189,437	—	189,437
Total	1,184,277	229,840	—	1,414,117
International and emerging equities	901,356	—	—	901,356
Total	901,356	—	—	901,356
Cash and cash equivalents	212,297	—	—	212,297
	\$ 4,991,404	229,840	—	5,221,244

	2013 Fair value			Total
	Level 1	Level 2	Level 3	
Domestic equities	\$ 2,563,485	—	—	2,563,485
Total	2,563,485	—	—	2,563,485
Fixed income:				
Fixed income securities	590,540	—	—	590,540
U.S. government obligations	468,740	—	—	468,740
Mortgage-backed securities	—	166,572	—	166,572
Corporate debt securities	—	114,504	—	114,504
Total	1,059,280	281,076	—	1,340,356
International and emerging equities	876,433	—	—	876,433
Total	876,433	—	—	876,433
Cash and cash equivalents	193,893	—	—	193,893
	<u>\$ 4,693,091</u>	<u>281,076</u>	<u>—</u>	<u>4,974,167</u>

The assumed healthcare cost trend rates for the postretirement plan are 7.0% for 2015 decreasing to 5.0% in 2023, and 7.75% for 2014 decreasing to 5.0% in 2025. A one-percentage point change in the assumed healthcare cost trend rate would change the 2014 postretirement benefit obligation as follows:

	<u>1% increase</u>	<u>1% decrease</u>
Effect on postretirement benefit obligation	\$ 251,000	(225,700)
Effect on total of service and interest cost components	73,500	(79,500)

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

	<u>Pension plan</u>	<u>Postretirement plan</u>
2015	\$ 2,246,840	173,660
2016	2,339,819	191,003
2017	2,457,648	226,964
2018	2,128,295	253,569
2019	2,173,479	286,913
2020–2024	10,438,429	2,083,202

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 \$5,102,526 and \$4,965,476 for 2014 and 2013, respectively.

Long-Term Incentive Plan

NYISO's Long-Term Incentive Plan provides certain members of senior management with deferred compensation benefits. Benefits are based upon the achievement of three-year performance goals established by the Board of Directors, with participants becoming fully vested 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 for the period January 1, 2010 through December 31, 2012, benefits will be paid in equal 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, 2014 and 2013, were \$3,170,677 and \$2,936,750, respectively. The short-term portion of such liability, included in Other Current Liabilities, at December 31, 2014 and 2013, was \$1,326,391 and \$1,365,759, respectively.

(9) 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 is required to make annual payments of approximately \$194,000 for the first 10 years. The agreement is cancelable at the discretion of NYISO.

(10) Working Capital Reserve

At December 31, 2014 and 2013, the working capital reserve consisted of the following:

	<u>2014</u>	<u>2013</u>
Market participant contributions through Rate Schedule 1	\$ 33,000,000	33,000,000
Interest on market participant contributions	10,149	8,965
Total	<u>\$ 33,010,149</u>	<u>33,008,965</u>

(11) Deferred Revenue

Deferred revenue at December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Advance payments received on planning studies	\$ 3,421,822	3,919,098
Funds received for the enhancement of surveillance capabilities	465,325	851,278
Governance participation fees	<u>434,300</u>	<u>439,200</u>
Total	<u>\$ 4,321,447</u>	<u>5,209,576</u>

(12) 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.

(13) Smart Grid Investment Grant

The NYISO received a \$37.8 million Smart Grid Investment Grant from the United States Department of Energy (DOE) partially funding the New York State Capacitor/Phasor Measurement Project for the period July 1, 2010 through June 30, 2015. The NYISO and the eight New York transmission owners (TOs) are responsible for contributing \$37.9 million in nonfederal matching funds to fully fund the \$75.7 million project. As the prime recipient of the funds, the NYISO is responsible for administering the overall project on behalf of itself and the TOs.

The NYISO and the TOs entered into a Subaward Agreement in 2010 that specifies the portion of the approved Federal grant funds that each entity is eligible to receive from the Government through reimbursement requests. Consistent with the requirements of the grant agreement with DOE, in order to receive its respective portion of the SGIG Award, each party must expend a matching amount. Under the Subaward Agreement, the NYISO's obligation to reimburse the TOs is limited to the amount that the NYISO receives from DOE in response to the TOs' requests for reimbursement. The NYISO and the TOs are eligible to receive reimbursement for allowable costs incurred from August 6, 2009—the approved pre-award period—through June 30, 2015.

As of December 31, 2014 and 2013, \$4.4 million and \$8.8 million, respectively, are recognized in NYISO's Statements of Activities in Grant revenue, which represents 50% reimbursement from DOE of NYISO's and the TO's allowable costs incurred during these respective years. Recorded in NYISO's Statements of Activities is the TO's 50% share of allowable costs incurred, as of December 31, 2014 and 2013, \$3.8 million and \$4.9 million, respectively, are classified as Grant expenses – New York Transmission Owners. As of December 31, 2014 and 2013, \$0.4 million and \$0.8 million, respectively, are recorded in NYISO's Statements of Financial Position included as Accounts receivable – net.

(14) 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. During 2013, DOE issued an extension to this grant to cover expenditures related to a gas-electric coordination study, effective through June 2015. Consistent with the requirements of the DOE agreement, NYISO is eligible to receive reimbursement of \$0.9 million 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, 2014 and 2013, NYISO recognized \$0.2 million and \$0.1 million, respectively, in NYISO’s Statements of Activities as Grant revenue.

(15) 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. NYISO has evaluated subsequent events from the statement of financial position date through March 13, 2015, the date at which the financial statements were issued.

NYISO MISSION

The 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,



Planning the power system for the future, and



Operating open, fair and competitive wholesale electricity markets,



Providing factual information to policy makers, stakeholders and investors in the power system.







New York Independent System Operator
10 Krey Boulevard, Rensselaer, NY 12144

PHONE: (518) 356-6000 | WWW.NYISO.COM

