Memorandum

To: ADR/Audit Committee of the ISO Board of Governors

From: Steve Berberich, Vice President, Technology and Corporate Services
and Chief Financial Officer

Date: May 10, 2010

Re: *Acceptance of Audit of Financial Statements and FERC Form 1 for 2009*

This memorandum requires Board action.

Management has completed the preparation of the California Independent System Operator Corporation's annual financial statements and the required Federal Energy Regulatory Commission's Form 1 according to standard accounting procedures. Additionally, an audit of the two financial statements has been conducted by our external auditor, PricewaterhouseCoopers. PwC conducts the audit to verify that the ISO's financial statements are in compliance with generally accepted accounting principles; standards applicable for state and local governmental entities (GASB); fairly present, in all material respects, the financial position; results of operation and cash flows for the year ended December 31, 2009. The audit by PwC was completed on April 5, 2010 and the report is attached for your review.

FERC requires regulated entities to submit annual financial reports on Form 1 in accordance with the FERC chart of accounts and includes additional supplemental information. FERC does not accept GASB reporting, but requires the use of Financial Accounting Standards Board (FASB) treatment for post-retirement benefit plans and fair value accounting for investments. Therefore, Management converts that information from GASB to FASB in preparing Form 1. PwC's audit of Form 1 was completed May 5, 2010. FERC Form 1 is attached.

Management recommends the following motion:

> *Moved, that the ADR/Audit Committee (1) accepts the California Independent System Operator Corporation's financial statements for the years ended December 31, 2009 as audited by PricewaterhouseCoopers, and (2) accepts the corresponding Federal Energy Regulatory Commission's Form 1 as attached to the memorandum dated May 10, 2010.*