

Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer

Date: October 26, 2010

Re: **Decision on Audit Committee Structure**

This memorandum requires Board action.

The bylaws of the California Independent System Operator Corporation require that the ISO Board of Governors appoint an Audit Committee, which must consist of at least two Governors. Due to recent changes in the Board's membership, the Audit Committee currently lacks sufficient membership to serve. Additionally, two of the four current Governors' terms expire December 31, 2010. Therefore, to comply with the bylaws, and to provide the Audit Committee with continuity moving forward until a full Board has been appointed, Management recommends that the Board appoint all current Governors to serve as the Audit Committee.

Upon Board approval, Governors currently in office, and any other Governors duly appointed at a future date, may thereafter collectively serve as the Audit Committee. Thus, the Board will address all audit matters during the full Board sessions, which generally include approval of the annual audits and compliance with the Employees' and Governors' Codes of Conduct and Ethical Principles. All meeting materials, including noticed agendas, will be directed to the Board rather than distinguished between the Board and Audit Committee.

Once a full Board is again serving, we would anticipate that the Board would re-form the Audit Committee and appoint the members and Chair to advise the Board pursuant to the Audit Committee charter. It should be noted that this recommendation follows advice provided to the ISO, and is consistent with the California Corporations Code and the ISO bylaws, both of which permit this action. Management recommends that the Board approve the following motion:

Moved, that the ISO Board of Governors appoints its entire current membership to serve as the Audit Committee as of November 2, 2010; and

Moved that the Board will serve simultaneously as the Audit Committee and will address all audit matters during the full Board session; and

Moved that this motion applies to the current Governors in office and any other Governors duly appointed at a future date, as detailed in the memorandum dated October 26, 2010.