



Confidential – Executive Session

Memorandum

To: Audit Committee of the ISO Board of Governors
From: Ryan Seghesio, Chief Financial Officer and Treasurer
Date: May 7, 2015
Re: Acceptance of ISO financial statements and FERC Form 1 audit reports

This memorandum requires Committee action.

EXECUTIVE SUMMARY

Management submits to the Audit Committee of the California Independent System Operator Corporation Board of Governors the audited financial statements and the Federal Energy Regulatory Commission Form No. 1 for the years ended December 31, 2014 and 2013.

The audit reports for the financial statements and the FERC Form No. 1 were issued separately by the ISO's external auditor, PricewaterhouseCoopers, LLP (PwC) on April 10, 2015 and April 17, 2015, respectively. Both audit reports were submitted to the Board electronically shortly after issuance. Subsequently, the ISO provided the audited financial statements to external interested parties and filed FERC Form No. 1 on April 17, 2015 to meet the regulatory deadline.

Management presents the reports for the Committee's acknowledgement, with the following motions:

Moved, that the Audit Committee of the ISO Board of Governors accepts the financial statements audit report issued on April 10, 2015 by PricewaterhouseCoopers, as attached to the memorandum dated May 7, 2015; and

Moved, that the Audit Committee of the ISO Board of Governors accepts the FERC Form No. 1 audit report, issued on April 17, 2015 by PricewaterhouseCoopers, as attached to the memorandum dated May 7, 2015.

DISCUSSION AND ANALYSIS

Financial statements

Management has prepared the ISO's financial statements in accordance with generally accepted accounting standards applicable for state and local governmental entities (GASB) for the years ended December 31, 2014 and 2013. Attached is an unqualified audit opinion of the financial statements issued by PwC on April 10, 2015.

The financial statements are prepared and audited in accordance with GASB because the members of the Board are appointed by the Governor of the state of California.

FERC Form No. 1

The FERC Form No. 1 filing is an annual regulatory requirement for major electric utilities, licensees and others. This report is designed to collect financial and operational information from entities subject to FERC jurisdiction. These reports are also considered to be non-confidential public-use forms.

The ISO is required to file a FERC Form No. 1 because it is considered a major electric utility, which is defined as having (1) one million megawatt hours or more; (2) 100 megawatt hours of annual sales for resale; (3) 500 megawatt hours of annual power exchange delivered; or (4) 500 megawatt hours of annual wheeling for others (deliveries plus losses). The ISO meets the criteria for both (1) and (3) above.

Management prepared the FERC Form No. 1 in accordance with the Financial Accounting Standards Board (FASB) reporting requirements for the years ended December 31, 2014 and 2013.

Financial reporting differences between GASB and FASB financial statements required by FERC

The FERC Form No. 1 financial statements are presented differently from the ISO GASB financial statements because FERC requires the use of FASB opinions for the posting of retirement benefit plans and bond issuance costs.

The table below summarizes the reporting differences between the financial statements:

Item	GASB	FASB	Difference
Net income/(loss)	541,348	11,096	530,252
Postretirement benefit plan costs	550,000	233,000	317,000
Loss on Refunding	933,055	719,803	213,252

Net Difference	530,252
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The net result of these reporting differences is that the net income is \$0.5 million lower under FASB compared to GASB. There are also differences between FASB and GASB accounting methods regarding the supplemental information required as part of the financial statement presentation.