

Memorandum

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

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

Date: May 8, 2009

Re: *Acceptance of Audit of Financial Statements and FERC Form 1 for 2008 and 2007*

This memorandum requires Board action.

Management has prepared the financial statements of the California Independent System Operator Corporation (the ISO) in accordance with generally accepted accounting standards applicable for state and local governmental entities (GASB) for the years ended December 31, 2008 and 2007. The audit by the ISO's auditors, PricewaterhouseCoopers (PwC), was completed on April 3, 2009 and the report is attached for your review.

The Federal Energy Regulatory Commission (FERC) requires regulated entities to submit annual financial reports on Form 1. This form uses the FERC chart of accounts and requires supplemental information that does not appear in the ISO's GASB financial statements. Additionally, FERC does not accept GASB reporting; but requires the use of Financial Accounting Standards Board (FASB) Opinions for post-retirement benefit plans and fair value accounting for investments. Due to these differences, the completion of FERC Form 1 takes additional time after completing the audit on the GASB financial statements.

Management has prepared Form 1 in accordance with FERC reporting requirements for the years ending December 31, 2008 and 2007. The proposed FERC Form 1 is attached for your review. PwC's audit of Form 1 is substantially complete and they are expected to issue their opinion shortly. If there are any material changes to the draft, management will bring the report back for acceptance.

Management recommends the following motion:

Moved, that the ADR/Audit Committee recommends that the ISO Board of Governors (1) accept the ISO's financial statements for the years ended December 31, 2008 and 2007 audited by PricewaterhouseCoopers, and (2) accept the FERC Form 1 for 2008 and 2007, provided there are no material changes from the FERC Form 1 as proposed at the May 18, 2009 meeting.