California Independent
System Operator Corporation

Memorandum

To: ISO Board of Governors

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

Date: **May 13, 2011**

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

This memorandum requires Board action.

INTRODUCTION

Management requests the ISO Board of Governors' acceptance of the audited financial statements and FERC Form No. 1 for the years ended December 31, 2010 and 2009. Board action is required so that audited financial statements can be published and the FERC Form 1 can be filed in accordance with FERC regulations.

Management recommends the following motion:

Moved, that the ISO Board of Governors accepts the financial statements of the ISO for the years ended December 31, 2010 and 2009, as audited by PricewaterhouseCoopers, and as attached to the memorandum dated May 13, 2011; and

Moved, that the ISO Board of Governors accepts the FERC Form 1 for the years ended December 31, 2010 and 2009, as audited by PricewaterhouseCoopers, and as attached to the memorandum dated May 13, 2011.

DISCUSSION

Financial Statements

Management has prepared the financial statements of the California Independent System Operator Corporation in accordance with generally accepted accounting standards applicable for state and local governmental entities (GASB) for the years ended December 31, 2010 and 2009. Attached is an unqualified audit opinion of the financial statements issued by the ISO's external auditor, PricewaterhouseCoopers on April 6, 2011.

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. The California ISO is the only FERC jurisdictional entity reporting on a GASB basis. Board acceptance of the financial statements enables it to discharge its fiduciary responsibilities over the financial statements under the bylaws, which require the ISO to publish annual financial statements.

FERC Form 1

The FERC Form 1 filing is an annual regulatory requirement for major electric utilities, licensees and others. (18 C.F.R. § 141.1) This report is designed to collect financial and operational information from electric utilities, licensees and others 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 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 both (1) and (3) above and therefore must file the FERC Form 1.

The FERC Form 1 financial statements are presented differently from the ISO GASB financial statements. FERC requires the use of Financial Accounting Standards Board (“FASB”) opinions for post retirement benefit plans and fair value accounting for investments. Management prepared the FERC Form 1 in accordance with FERC reporting requirements for the years ended December 31, 2010 and 2009.

For the year ended December 31, 2010, net income under the FASB presentation is $1.6 million higher than under GASB. This is because GASB uses a lower discount rate than FASB resulting in a higher annual post retirement benefit plan costs of $300K. FASB also recognizes the fair value of investments, (most are under fair value according to GASB) resulting in a gain of $1.3 million in the FERC Form 1.

FERC also uses the Uniform System of Accounts prescribed for public utilities and licensees subject to the Federal Power Act and requires supplemental information that does not appear in the ISO GASB financial statements, as follows:

- Schedule of officers’ compensation
- Additional information on functional expenses
- Additional load and transmission data

The FERC Form 1 also has no management discussion and analysis and reflects less disclosure in the notes.

Attached is the audit opinion of the FERC Form 1 issued by the external auditor PricewaterhouseCoopers on May 12, 2011.