

Memorandum

To: ISO Board of Governors

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

Date: October 26, 2010

Re: **Acceptance of Audit of the California ISO Retirees Medical Plan Financial Statements and Supplemental Schedules for the years ended December 31, 2009, 2008 and 2007 and the years ended December 31, 2009 and 2008.**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management has prepared the financial statements for the *California ISO Retirees Medical Plan* for the fiscal years ended December 31, 2009, 2008 and 2007 in accordance with applicable reporting standards. The financial statements include statements of fiduciary assets as of December 31, 2009, 2008, and 2007 and statements of changes in fiduciary assets for the years ended December 31, 2009 and 2008, and supplemental schedules of the statements of changes in fiduciary assets as of December 31, 2009 and 2008.

PricewaterhouseCoopers LLP, completed the audit of the financial statements on October 15, 2010. The audited financial statements are attached for Board review. Management recommends the following motion:

MOVED, that the ISO Board of Governors accepts the audited financial statements and supplemental schedules of the California ISO Retirees Medical Plan for the years ended December 31, 2009, 2008 and 2007 and the years ended December 31, 2009 and 2008, as audited by PricewaterhouseCoopers LLP, and as attached to the memorandum dated October 26, 2010.

DISCUSSION AND ANALYSIS

As the plan administrator to the California ISO Retirees Medical Plan, the ISO must file Form 5500-SF annually with the IRS to satisfy various reporting requirements in conjunction with the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code.

PricewaterhouseCoopers LLP has completed their audit of the California ISO Retirees Medical Plan's financial statements and has concluded that the financial statements are in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

The investment types of the Plan generally follow the ISO's Investment Policy, except that the investments in the Plan may be for more than 5 years. This is because the Plan is a future benefit for eligible retirees and is based on actuarial information and longer term cash flows.

MANAGEMENT RECOMMENDATION

Management requests that the Board accept the audited financial statements and supplemental schedules of the California ISO Retirees Medical Plan for the years ended December 31, 2009, 2008 and 2007 and the years ended December 31, 2009 and 2008 as set forth above.