

## REPORT OF INDEPENDENT AUDITORS

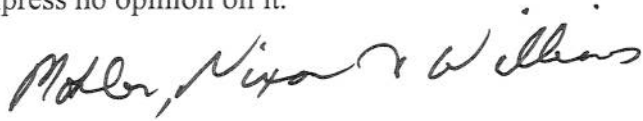
**To the Participants and  
Plan Administrator of the  
California ISO Retirement  
Savings Benefits Plan**

We were engaged to audit the financial statements and supplemental schedule of the California ISO Retirement Savings Benefits Plan (the Plan) as of and for the year ended December 31, 2011, as listed in the accompanying table of contents. These financial statements and supplemental schedule are the responsibility of the Plan's management. Other auditors were engaged to audit the financial statements and supplemental schedule of the Plan as of and for the year ended December 31, 2010 on a limited scope basis. In their report dated August 23, 2011, they disclaimed an opinion on those statements as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, the Plan Administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, which was certified by The Charles Schwab Trust Company (a division of Charles Schwab Bank), the trustee of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedule. We have been informed by the Plan Administrator that the trustee holds the Plan's investment assets and executes investment transactions. The Plan Administrator has obtained a certification from the trustee as of and for the year ended December 31, 2011, that the information provided to the Plan Administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedule taken as a whole. The supplemental schedule is presented for the purposes of additional analysis and is not a required part of the financial statements but is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

The Management's Discussion and Analysis, presented on pages 3 - 5, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mohler, Nixon & Williams".

MOHLER, NIXON & WILLIAMS  
Accountancy Corporation

Campbell, California  
July 2, 2012

***California ISO Retirement  
Savings Benefits Plan  
Financial Statements  
December 31, 2011 and 2010***

# **CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN**

## **Financial Statements and Supplemental Schedule December 31, 2011 and 2010**

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## REPORT OF INDEPENDENT AUDITORS

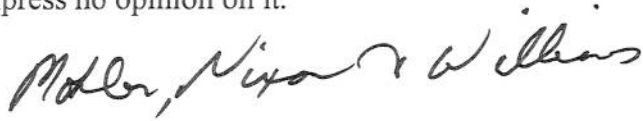
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Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedule taken as a whole. The supplemental schedule is presented for the purposes of additional analysis and is not a required part of the financial statements but is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

The Management's Discussion and Analysis, presented on pages 3 - 5, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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MOHLER, NIXON & WILLIAMS  
Accountancy Corporation

Campbell, California  
July 2, 2012

# **CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 AND 2010**

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The following discussion and analysis of the Retirement Savings Benefits Plan (the Plan) of the California Independent System Operator Corporation (the Company) provides an overview of the Plan's financial activities for the years ended December 31, 2011 and 2010. This discussion and analysis should be read in conjunction with the Plan's financial statements and accompanying notes, which follow this section.

### **Background**

The Plan is a defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. Substantially all employees of the Company are eligible to participate in the Plan. Participants are eligible to participate in the Plan on the first day of the month coinciding with or following their date of hire.

The Company is the Plan's named fiduciary and Plan Administrator and has designated an advisory committee and retained the services of a third party to assist in the administration of the Plan. The advisory committee is appointed by the Company and has the responsibility of making discretionary determinations under the Plan and providing distribution directions to the trustee. The Company has appointed The Charles Schwab Trust Company (a division of Charles Schwab Bank) (trustee) as the Plan's trustee and Schwab Retirement Plan Services, Inc. to assist in the administration of the Plan.

### **Financial Highlights**

#### ***Overview of Financial Statements***

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements

The Statements of Fiduciary Net Assets present information on the Plan's assets and liabilities and the resulting fiduciary net assets as of December 31, 2011 and 2010. These statements reflect the Plan's investments at fair value, receivables and liabilities.

The Statements of Changes in Fiduciary Net Assets present information showing how the Plan's fiduciary net assets held in trust for pension benefits changed during the years ended December 31, 2011 and 2010. These statements reflect contributions by participants and the

# **CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011 AND 2010**

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Company along with investment income (or losses) during the period from investing activities. Deductions for benefit payments to participants and administrative expenses are also presented. The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The supplemental information on page 18 details the schedule of assets held at December 31, 2011. It is the same schedule that is submitted with the Plan's Internal Revenue Service/U.S. Department of Labor Form 5500 Schedule H. This information is presented for the purposes of additional analysis and is not a required part of the financial statements.

### **Financial Analysis**

The Plan's investments as of December 31, 2011 amounted to \$119.3 million, compared to \$115.5 million at December 31, 2010 and \$96.8 million at December 31, 2009.

Additions to the Plan's net assets held in trust for pension benefits include contributions, rollovers, net appreciation (depreciation) in fair value of investments and any investment income. Participant contributions and rollovers for the 2011 and 2010 Plan years amounted to \$7.5 million, compared to \$6.6 million in 2009. Employer contributions in 2011, 2010 and 2009 amounted to \$8.1 million. The increase in employee contributions in 2010 is primarily attributable to the increase in rollovers of funds from employees' non-company retirement plans to the Plan. The employee and employer contributions remain substantially unchanged from 2010 to 2011.

The Plan recognized net investment losses of \$2.9 million in 2011, compared to net investment income of \$10.8 million in 2010 and net investment income of \$17.5 million in 2009. The investment loss in 2011 is primarily attributable to the sharp decrease in the financial markets starting in the third quarter of 2011. The investment gain in 2010 was primarily attributable to the stability of the financial markets. The investment gain in 2009 was primarily attributable to the recovery of the financial markets.

Deductions from the Plan's net assets held in trust for pension benefits include benefit payments to participants and administrative expenses. For 2011, deductions amounted to \$9.0 million compared to \$7.4 million in 2010 and \$4.5 million in 2009. The increase in deductions in 2011 as compared to 2010 and 2010 as compared to 2009 is primarily due to an increase in withdrawals by participants due to retirements, terminations and other reasons.



**CALIFORNIA ISO RETIREMENT  
SAVINGS BENEFITS PLAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CONDENSED STATEMENTS OF FIDUCIARY NET ASSETS  
(IN MILLIONS)**

**Condensed Statements of Fiduciary Net Assets (in millions):**

	<b>2011</b>	<b>December 31, 2010</b>	<b>2009</b>
Assets:			
Investments	\$ 119.3	\$ 115.5	\$ 96.8
Cash			0.2
Employer's contributions receivable	4.4	4.3	4.4
Participants' notes receivable	2.2	2.4	2.1
Participants' contributions and other receivables	0.4	0.1	
	<u>126.3</u>	<u>122.3</u>	<u>103.5</u>
Liabilities:			
Accrued liabilities			(0.2)
	<u>126.3</u>	<u>122.3</u>	<u>103.3</u>
Adjustment from fair value to contract value of fully benefit responsive common collective trust	(0.3)		
Net assets held in trust for pension benefits	<u>\$ 126.0</u>	<u>\$ 122.3</u>	<u>\$ 103.3</u>

**Condensed Statements of Changes in Fiduciary Net Assets (in millions):**

	<b>2011</b>	<b>December 31, 2010</b>	<b>2009</b>
Additions:			
Investment income (loss)	\$ (2.9)	\$ 10.8	\$ 17.5
Contributions	15.6	15.6	14.7
Total additions	12.7	26.4	32.2
Deductions:			
Benefits paid to participants and administrative expenses	9.0	7.4	4.5
Net increase in net assets held in trust for pension benefits	3.7	19.0	27.7
Net assets held in trust for pension benefits			
Beginning of year	122.3	103.3	75.6
End of year	<u>\$ 126.0</u>	<u>\$ 122.3</u>	<u>\$ 103.3</u>

**CALIFORNIA ISO RETIREMENT  
SAVINGS BENEFITS PLAN**

**STATEMENTS OF FIDUCIARY NET ASSETS**

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Assets:		
Investments, at fair value	<u>\$ 119,587,358</u>	<u>\$ 115,527,476</u>
Receivables:		
Employer's contribution receivable	4,423,669	4,309,544
Participants' contributions receivable		3,536
Notes receivable from participants	2,251,477	2,427,675
Other receivables	<u>37,910</u>	<u>40,795</u>
Total receivables	<u>6,713,056</u>	<u>6,781,550</u>
Total assets	126,300,414	122,309,026
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	<u>(273,327)</u>	<u></u>
Net assets held in trust for pension benefits	<u><u>\$ 126,027,087</u></u>	<u><u>\$ 122,309,026</u></u>

See accompanying notes to financial statements.

**CALIFORNIA ISO RETIREMENT  
SAVINGS BENEFITS PLAN**

**STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS**

	Years ended December 31,	
	2011	2010
Additions to net assets attributed to:		
Investment and other income:		
Dividends and interest	\$ 2,412,572	\$ 1,816,115
Net realized and unrealized appreciation (depreciation) in fair value of investments	(5,292,301)	9,031,510
	(2,879,729)	10,847,625
Contributions:		
Participants'	7,510,407	7,577,717
Employer's	8,090,569	8,055,610
	15,600,976	15,633,327
Total additions	12,721,247	26,480,952
Deductions from net assets attributed to:		
Withdrawals and distributions	8,982,704	7,385,444
Administrative expenses	20,482	36,783
Total deductions	9,003,186	7,422,227
Net increase in net assets held in trust for pension benefits	3,718,061	19,058,725
Net assets held in trust for pension benefits:		
Beginning of year	122,309,026	103,250,301
End of year	\$ 126,027,087	\$ 122,309,026

See accompanying notes to financial statements.

# CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### NOTE 1 - THE PLAN AND ITS SIGNIFICANT ACCOUNTING POLICIES

**General** - The following description of the California ISO Retirement Savings Benefits Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

The Plan is a defined contribution plan that was established in 1997 by the California Independent System Operator Corporation (the Company) to provide benefits to eligible employees, as defined in the Plan document. The Plan is currently designed to be qualified under the applicable requirements of the Internal Revenue Code (the Code), as amended, and the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

**Administration** - The Company has appointed the Employee Pension Benefits Committee (the Committee) to manage the operation and administration of the Plan. The Company has contracted with The Charles Schwab Trust Company, a division of Charles Schwab Bank (Charles Schwab) to act as the trustee and an affiliate of Charles Schwab to process and maintain the records of participant data. Substantially all expenses incurred for administering the Plan are paid by the Company.

**Financial reporting entity and basis of accounting** - The Plan is governed by the same board as the Company. The Company's five-member board is currently appointed by the California governor and subject to confirmation by the California state senate. The Plan uses the economic resources measurement focus and the accrual basis of accounting in accordance with standards of the Governmental Accounting Standards Board (GASB) and where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB).

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

# CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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**Forfeited accounts** - Forfeited nonvested accounts at December 31, 2011 and 2010 totaled \$120,199 and \$73,876, respectively, and may be used to reduce future employer contributions. Forfeitures totaling \$118,853 and \$72,530 were used to reduce the Company's contributions subsequent to the Plan's 2011 and 2010 year ends.

**Investment valuation and income recognition** - The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought or sold as well as held during the year.

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attributable for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan has a fully benefit-responsive common/collective trust as an investment.

The statements of fiduciary net assets present the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The statements of changes in fiduciary net assets are prepared on a contract value basis.

**Notes receivable from participants** - Notes receivable from participants (notes receivable) are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable are reclassified as distributions based upon the terms of the Plan document.

**Payment of benefits** - Benefits are recorded when paid.

**Income taxes** - The Plan has received a favorable determination letter from the Internal Revenue Service (IRS) dated March 4, 2011. The Company believes that the Plan is operated in accordance with, and qualifies under, the applicable requirements of the Code and related state statutes, and that the trust, which forms a part of the Plan, is exempt from federal income and state franchise taxes.

# **CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010**

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Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. No uncertain positions have been identified that would require recognition of a liability (or asset) or disclosure in the financial statements as of December 31, 2011. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan Administrator believes the Plan is no longer subject to income tax examinations for years prior to 2009.

**Risks and uncertainties** - The Plan provides for various investment options in any combination of investment securities offered by the Plan. Investment securities are exposed to various risks, such as interest rate, market fluctuations and credit risks. Due to the risk associated with certain investment securities, it is at least reasonably possible that changes in market values, interest rates or other factors in the near term would materially affect participants' account balances and the amounts reported in the statements of fiduciary net assets and the statements of changes in fiduciary net assets.

**Subsequent events** - The Plan has evaluated subsequent events through July 2, 2012, which is the date the financial statements were available to be issued.

### **NOTE 2 - RELATED PARTY TRANSACTIONS**

Certain Plan investments are managed by the trustee of the Plan. Any purchases and sales of these funds are performed in the open market at fair value. Such transactions, while considered party-in-interest transactions under ERISA regulations, are permitted under the provisions of the Plan and are specifically exempt from the prohibition of party-in-interest transactions under ERISA.

### **NOTE 3 - PARTICIPATION AND BENEFITS**

**Participant contributions** - Participants may elect to have the Company contribute their eligible pre-tax or Roth compensation to the Plan up to the amount allowable under the Plan document and current income tax regulations. Participants who have the Company contribute a portion of their compensation to the Plan agree to accept an equivalent reduction in taxable or taxed compensation. Contributions withheld are invested in accordance with the participant's direction.

## **CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010**

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Participants are also allowed to make rollover contributions of amounts received from other tax-qualified employer-sponsored retirement plans. Such contributions are deposited in the appropriate investment funds in accordance with the participant's direction and the Plan's provisions.

**Employer contributions** - The Company is allowed to make contributions to the Plan in the form of matching contributions. In 2011 and 2010, the Company matched 100% of each eligible participant's contribution up to a maximum of 6% of the participant's compensation.

In addition, the Company is allowed to make Annual Retirement Contributions based on years of credited service with the Company, as defined in the Plan and as approved by the Board of Directors. Annual Retirement Contributions of \$4,400,580 and \$4,228,445 have been made for the years ended December 31, 2011 and 2010, respectively.

**Vesting** - Participants are immediately vested in their contributions. Participants are fully vested in the employer's matching and Annual Retirement Contributions allocated to their account after four years of credited service.

**Participant accounts** - Each participant's account is credited with the participant's contribution, Plan earnings or losses and an allocation of the Company's contributions, if any. Allocation of the Company's contributions are based on participant contributions and years of credited service, as defined in the Plan.

**Payment of benefits** - Upon termination, the participants or beneficiaries may elect to leave their account balance in the Plan, or receive their total benefits in a lump sum amount equal to the value of the participant's vested interest in their account. The Plan allows for the automatic lump sum distribution of participant vested account balances that do not exceed \$1,000.

**Notes receivable from participants** - The Plan allows participants to borrow not less than \$1,000 and up to the lesser of \$50,000 or 50% of their vested account balance. The notes receivable are secured by the participant's vested balance. Such notes receivable bear interest at the available market financing rates and must be repaid to the Plan within a five-year period, unless the notes receivable are used for the purchase of a principal residence in which case the maximum repayment period may be longer. The specific terms and conditions of such notes receivable are established by the Committee. Outstanding notes receivable at December 31, 2011 carry interest rates ranging from 4.25% to 9.25%.

# **CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010**

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### **NOTE 4 - CERTIFIED INFORMATION**

All investment information disclosed in the accompanying financial statements and supplemental schedule, including investments held at December 31, 2011 and 2010, and net appreciation or depreciation, interest and dividends for the years ended December 31, 2011 and 2010, was obtained or derived from information supplied to the Plan Administrator and certified as complete and accurate by the trustee in accordance with 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Mutual funds	(\$ 4,739,659)	\$ 7,654,758
Self-directed brokerage accounts	(552,642)	1,167,205
Common/collective trust	<u>-</u>	<u>209,547</u>
	<u>(\$ 5,292,301)</u>	<u>\$ 9,031,510</u>

### **NOTE 5 - INVESTMENTS**

Investments at fair value are as follows as of December 31:

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 77,355,126	\$ 75,932,057
Money market funds	20,453,326	18,971,041
Common collective trust	9,062,297	7,567,517
Self directed brokerage accounts	<u>12,716,609</u>	<u>13,056,861</u>
	<u>\$119,587,358</u>	<u>\$115,527,476</u>



## **CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010**

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The mutual funds, money market funds, and the common collective trust (collectively, the funds) offered by the Plan are initially selected based on criteria including risk and relative performance versus similar funds within an investment category, the level of expense ratios, and consistency/tenure of the fund's management. After a fund has been selected, the advisory committee reviews the fund for the continued conformance with these criteria. If a fund does not conform to these retention criteria, it is flagged for continued attention and placed on a "watch" list, or removed as a continuing investment option for Plan participants. The committee reviews quarterly and annual performance of funds versus benchmarks. The committee also reviews funds for potential departures from the investment styles that were in place at the time of fund selection.

The Plan also permits participants to establish self-directed brokerage accounts, which provide participants with the ability to purchase most legally permissible investments for a retirement account. Neither the Company nor the advisory committee will monitor investments made within the brokerage account (other than such review as may be necessary to ensure that the investment is permitted by ERISA).

**Credit risk** - Credit risk for investments is the risk that an issuer or other counterparty will not fulfill its obligations to the Plan and custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Plan does not have an investment policy that would limit its investment choices to address credit risk.

# CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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The following presents the fair values of investment funds that represent 5% or more of the Plan's net assets at December 31:

	<u>2011</u>	<u>2010</u>
DFA US Small Cap Fund	\$ 7,562,402	\$ 8,658,415
Europacific Growth Stock Fund Class R6	7,283,459	9,021,473
PIMCO Total Return Fund	12,958,003	11,088,707
T. Rowe Price Growth Stock Fund	6,992,397	6,528,044
Vanguard Institutional Index Fund	14,381,185	12,941,438
Vanguard Windsor II Admiral Fund	6,575,292	6,368,588
Schwab Value Advantage Institutional Fund Prime Shares	20,453,326	18,971,041
INVESCO Stable Value Fund	8,788,970	7,567,517
American Beacon International Equity Fund Institutional Class	*	6,159,157

\* Less than 5% at year end

**Interest rate risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. The Plan has direct investments in debt instruments, such as certificates of deposit and corporate bonds, and indirect investments, such as fixed income mutual funds other than money market funds, exchange-traded funds and common collective trusts that are subject to interest rate risk. The Plan attempts to mitigate interest rate risk through portfolio diversification. The Plan's investments include the following fixed income investments:

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 13,212,458	\$ 11,581,794
Certificates of deposit	58,031	53,204
Corporate and government bonds	<u>54,987</u>	<u>38,635</u>
	<u>\$ 13,325,476</u>	<u>\$ 11,673,633</u>

# CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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**Foreign currency risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan invests in exchange-traded funds that are specifically identified as having an investment focus outside the United States, international equity mutual funds and American Depositary Receipts (ADRs) and preferred stocks of foreign corporations. The Plan attempts to mitigate foreign currency risk through portfolio diversification. The Plan's investments include the following foreign investments.

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 15,765,217	\$ 19,085,586
ADRs	467,582	976,701
Exchange-traded funds	<u>18,463</u>	<u>16,656</u>
	<u>\$ 16,251,262</u>	<u>\$ 20,078,943</u>

### NOTE 6 - RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets held in trust for pension benefits per the financial statements to the Form 5500 at December 31:

	<u>2011</u>	<u>2010</u>
Net assets held in trust for pension benefits per the financial statements	\$126,027,087	\$122,309,026
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	<u>273,327</u>	<u>(209,547)</u>
Net assets held in trust for pension benefits per Form 5500	<u>\$126,300,414</u>	<u>\$122,099,479</u>

## CALIFORNIA ISO RETIREMENT SAVINGS BENEFITS PLAN

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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The following is a reconciliation of the affected components of the changes in net assets held in trust for pension benefits per the financial statements to the Form 5500 for the year ended December 31, 2011:

	<u>Amount per the financial statements</u>	<u>Adjustment</u>	<u>Amount per the Form 5500</u>
Net investment loss	(\$2,879,729)	\$482,874	(\$2,396,855)

#### NOTE 7 - PLAN TERMINATION OR MODIFICATION

The Company intends to continue the Plan indefinitely for the benefit of its participants; however, it reserves the right to terminate or modify the Plan at any time by resolution of its Board of Directors and subject to the provisions of ERISA. In the event of Plan termination, participants would become 100% vested in their employer contributions.

## SUPPLEMENTAL SCHEDULE

**CALIFORNIA ISO RETIREMENT  
SAVINGS BENEFITS PLAN**

EIN: 94-3274043

PLAN #001

**SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)  
DECEMBER 31, 2011**

Identity of issue, borrower, lessor or similar party	Description of investment including maturity date, rate of interest, collateral, par or maturity value	Current value
American Beacon International Equity Fund - Institutional Class	Mutual Fund	\$ 4,706,048
Aston/Fairpointe Mid Cap Fund Class I	Mutual Fund	1,484,873
Brown Capital Management Small Company Fund - Investor Class	Mutual Fund	1,700,206
Cohen & Steers Institutional Global Realty Fund	Mutual Fund	1,292,892
DFA US Small Cap Fund	Mutual Fund	7,562,402
Dreyfus/Boston Company LCAP Core Fund Class I	Mutual Fund	3,921,754
Europacific Growth Stock Fund Class R6	Mutual Fund	7,283,459
Goldman Sachs Growth Opportunity Fund Class I	Mutual Fund	59,166
Hotchkis & Wiley Mid-Cap Value Fund Class I	Mutual Fund	524,204
Manning & Napier World Opportunity Fund Class A	Mutual Fund	715,102
Perkins Small Cap Value Fund Class I	Mutual Fund	4,042,792
PIMCO All Asset Fund - Institutional Class	Mutual Fund	1,851,065
PIMCO Total Return Fund	Mutual Fund	12,958,003
T. Rowe Price Growth Stock Fund	Mutual Fund	6,992,397
Vanguard Institutional Index Fund	Mutual Fund	14,381,185
Vanguard Total Institutional Stock Index Fund Signal Shares	Mutual Fund	1,304,286
Vanguard Windsor II Admiral Fund	Mutual Fund	6,575,292
* Personal Choice Retirement Fund	Self-Directed BrokerageLink Account	12,674,366
Limited Partnership	Limited Partnership	42,243
* Schwab Value Advantage Institutional Fund Prime Shares	Money Market Fund	20,453,326
INVESCO Stable Value Fund	Common/Collective Trust	9,062,297
* Participant loans	Interest rates ranging from 4.25% to 9.25%	2,251,477
Total		<u>\$ 121,838,835</u>

\* Party-in-interest

**CALIFORNIA ISO RETIREMENT  
SAVINGS BENEFITS PLAN**

EIN: 94-3274043

PLAN #001

**SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)  
DECEMBER 31, 2011**

Identity of issue, borrower, lessor or similar party	Description of investment including maturity date, rate of interest, collateral, par or maturity value	Current value
American Beacon International Equity Fund - Institutional Class	Mutual Fund	\$ 4,706,048
Aston/Fairpointe Mid Cap Fund Class I	Mutual Fund	1,484,873
Brown Capital Management Small Company Fund - Investor Class	Mutual Fund	1,700,206
Cohen & Steers Institutional Global Realty Fund	Mutual Fund	1,292,892
DFA US Small Cap Fund	Mutual Fund	7,562,402
Dreyfus/Boston Company LCAP Core Fund Class I	Mutual Fund	3,921,754
Europacific Growth Stock Fund Class R6	Mutual Fund	7,283,459
Goldman Sachs Growth Opportunity Fund Class I	Mutual Fund	59,166
Hotchkis & Wiley Mid-Cap Value Fund Class I	Mutual Fund	524,204
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Vanguard Windsor II Admiral Fund	Mutual Fund	6,575,292
* Personal Choice Retirement Fund	Self-Directed BrokerageLink Account	12,674,366
Limited Partnership	Limited Partnership	42,243
* Schwab Value Advantage Institutional Fund Prime Shares	Money Market Fund	20,453,326
INVESCO Stable Value Fund	Common/Collective Trust	9,062,297
* Participant loans	Interest rates ranging from 4.25% to 9.25%	2,251,477
Total		<u>\$ 121,838,835</u>

\* Party-in-interest