

Memorandum

To: Audit Committee of the Board of Governors
From: William J. Regan, Jr., CFO
Michael Epstein, Controller
Date: April 13, 2006
Re: ***Acceptance of Audit of Financial Statements and FERC Form 1 for 2005 and 2004***

This memorandum requires Board action.

Management has prepared the financial statements of the ISO and FERC Form 1 in accordance with generally accepted accounting principles (GAAP) for the years ending December 31, 2005 and 2004 and PricewaterhouseCoopers has substantially completed their audit. The draft financial statements of the ISO and FERC Form 1 are attached for your review.

The Federal Energy Regulatory Commission (FERC) requires regulated entities to submit annual financial reports on Form 1. The FERC Form 1 is the same as the GAAP financial statements except for the classification of accounts, which is in accordance with the FERC chart of accounts, and additional supplemental information.

Management recommends the following motion:

MOVED, that the Committee recommends that the Board accepts the Company's financial statements and FERC Form 1 for the years ended December 31, 2005 and 2004 audited by PricewaterhouseCoopers provided they conform in substance to the attached drafts.