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California Independent
System Operator Corporation

Acceptance and Response on PwC Report of 2005 Operational Compliance Assessment

Audit Committee - General Session

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Background

- The Operations Review is conducted annually by an independent accounting firm in accordance with Section 12.2.2 of the CAISO Tariff.
- Feedback received during the first 4-5 years' reviews provided valued input for both Management and stakeholders. In recent years, the review reports have been of lesser value.
- In November 2004, Board Members approved a revised scope, with the intention of soliciting feedback in three high-risk areas:
 - Must Offer Waiver (MOW) Process
 - Intra-Zonal (IZ) Congestion Management
 - Real Time Market Application (RTMA)
- Additionally, Management requested a review of Control Room Performance Metrics implemented in 2005.

Scope Decision Process

- **Customer disputes at an all-time low**
- **Previous PWC reviews unveiled fewer and fewer exceptions**
- **Management decided to target known areas of high manual entry and workarounds**
 - MOW, IZ, and RTMA
- **Review Goal:**
 - Understand the extent of the manual workaround risks
 - Proactively address manual workaround risks
 - Justify process and system upgrades prior to MRTU

PwC Findings

- Upon assessment of the three high risk areas above, PwC identified exceptions and/or inconsistencies in four cross-boundary areas:
 - Unit Commitment Process
 - Congestion Management Process
 - Logging Accuracy
 - Market Notifications
- Additionally, the PwC report provided constructive suggestions for improving the Control Room Performance Metrics.

Must Offer Waiver & Congestion Management Processes

- **Finding Summary:** CAISO actions do not always match output of decision making tools.
- **Root Cause:** The decision making tools are run in an iterative fashion to find the best solution. The solution used for taking action is not always the last solution saved.
- **Importance:** No impact to reliability or settlements. CAISO recognizes need to improve record accuracy.
- **Action Plan:** Update tools to automatically save all iterations during the decision making process.
- **Scheduled Completion:** July 25th, 2006.

Logging Accuracy & Market Notifications

- **Finding Summary:** Logs not always accurate or present. Notifications not always timely.
- **Root Cause:** Requirements to log the same information in multiple places. Redundant manual entry results in inconsistent data across internal systems.
- **Importance:** No impact to reliability or settlements. CAISO recognizes need to improve record accuracy.
- **Action Plan:** Automatically produce redundant data in multiple systems from a single source. Additionally, clarify logging requirements in operating procedures.
- **Scheduled Completion:** July 25th, 2006.

Performance Metric Reports

- **Finding Summary:** Lack of reports for upper management and missing objective criteria statements.
- **Root Cause:** These metrics were originally developed to provide feedback to real-time personnel.
- **Importance:** No impact to reliability or settlements. CAISO recognizes benefit in using metrics to focus improvement efforts on quantified problem areas.
- **Action Plan:** Add reports and objective criteria statements.
- **Scheduled Completion:** July 28th, 2006.

Summary

- Management accepts the findings and agrees that the scope change for 2005 provided valuable feedback.
- Along with the scope for the 2006 review, a status update on the actions detailed above will be provided at the next Audit Committee meeting.