

Presentation to the Audit Committee

December 16, 2009

Agenda

- Our Audit Objectives
- Timing
- Key Audit Areas
- Audit Strategy
- Other Audit Related Projects
- Closing

Our Audit Objectives

Our audit of the ISO's 2009 financial statements is directed towards delivering assurance at three levels:

- Independent opinions and reports that add credibility to financial statements released by the ISO
 - Annual financial statements (general purpose)
 - FERC Form 1 financial statements
- Assistance to the audit committee in discharging their corporate governance and compliance responsibilities
- Observations and advice on financial reporting and business issues

Our engagement letter sets out the terms of our appointment as auditors of the ISO

Timing

Activity

Dates

Meeting with Audit Committee

December 2009

Audit planning and interim testing

November 2009 - January 2010

Audit fieldwork

March 2010

Issuance of audit reports

April 2010

Report to the Audit Committee

April or May 2010

Key Audit Areas

Areas requiring significant judgment and analysis by ISO management and PwC include:

- Contingencies
 - Market disputes in Good Faith Negotiations (GFN) and beyond
 - ISO and related GMC exposures – not market issues

- New headquarters
 - Accounting for costs (capitalized vs. expensed)
 - Treatment of interest expenditures

- Generator fines
 - Estimate of net realizable amount of fines to be retained by the ISO (original fines date back to 2000/2001)
 - Treatment of related interest - accounting for 2009 FERC ruling

- CAISO New Market Systems
 - Useful lives of assets
 - Placed in service date (beginning of amortization period)

Audit Strategy

Our audit strategy is comprised of the following:

- Identification and assessment of relevant risks
- Consideration and validation of key controls the ISO has in place to manage and mitigate risks
- Determination of:
 - Level of reliance that can be placed on ISO controls
 - Level of substantive tests sufficient to mitigate remaining risks
- Assessment includes significant balances and cycles (such as revenue, payroll, purchasing/procurement, contingencies)

Other Audit Related Projects

- Agreed-upon procedures related to executive compensation, employee benefits and related transactions with executives
 - Procedures are similar to the last report
 - Provides limited assurance as to the accuracy and consistency of elements of the ISO's executive compensation programs
- Audits of Retirement Plans
 - Defined contribution retirement plan
 - Retiree health plan (first time audit)
- Code of Conduct – limited testing

Closing

- We continue to report to and communicate directly with the Audit Committee
- We are independent of the ISO and have no relationships with the ISO that would impair our independence
- PwC encourages communication and feedback from the Audit Committee
- Questions?