

**GENERAL SESSION MINUTES
AUDIT COMMITTEE MEETING
December 17-18, 2014
ISO Headquarters
Folsom, California**

December 18, 2014

The Audit Committee of the ISO Board of Governors convened the general session meeting at approximately 8:30 a.m. and the presence of a quorum was established.

ATTENDANCE

The following members of the Audit Committee were in attendance:

Ash Bhagwat, Chair
Dave Olsen

The following members of the executive team were present at times throughout the meeting: Steve Berberich, Keith Casey, Petar Ristanovic, Karen Edson, Eric Schmitt, Roger Collanton, Ryan Seghesio, and Becky Regan

GENERAL SESSION

The following agenda items were discussed in general session:

DECISION ON GENERAL SESSION MINUTES

Governor Olsen moved for approval of the Audit Committee's general session minutes for the November 13-14, 2014 meeting. The motion was seconded by Governor Bhagwat and approved 2-0-0.

PUBLIC COMMENT

There was no public comment offered at this time.

ACCEPTANCE OF OPERATIONS AUDIT

Saul Armenta, on behalf of PricewaterhouseCoopers, provided an overview of the scope of the operations audit and stated that the operating procedures selected to

be audited related to the ISO's congestion management process. Mr. Armenta stated the audit resulted in deviations in three of the ten operating procedure elements that were within scope. Brief discussion followed and Mr. Armenta further described the three deviations in the following operating procedure elements: transmission corridor and nomogram standard naming convention, nomogram "active period" setting, and conformance logging.

Nancy Traweek, Executive Director – System Operations, provided Management's response and stated that the three deviations were administrative in nature and did not have an impact on reliability or market systems. Ms. Traweek discussed next steps, including training and the exploration of software enhancements. Discussion followed and Mr. Armenta discussed the attestation standards and explained why the opinion was unqualified given the administrative nature of the deviations.

Motion

Governor Bhagwat:

Moved, that the Audit Committee of the ISO Board of Governors accepts the audit opinion issued on December 5, 2014 by PricewaterhouseCoopers LLP for the testing of specified control room operational processes for 2014, as attached to the memorandum dated December 10, 2014.

The motion was seconded by Governor Olsen and approved 2-0-0.

BRIEFING ON SETTLEMENT SYSTEMS AUDIT

Saul Armenta, on behalf of PricewaterhouseCoopers, provided a background overview of the ongoing settlement systems audit and noted it was a result of FERC Order 764 and the expansion of the energy imbalance market. He stated that the ISO wanted to gain independent assurance associated with these two significant 2014 market changes. Mr. Armenta provided an overview of the key audit factors and stated that the audit report was expected to be issued by January 9, 2015.

BRIEFING ON ISSUANCE OF 2014 SSAE 16 AUDIT AND SCOPE OF 2015 SSAE 16 AUDIT

Ryan Kelly, on behalf of PricewaterhouseCoopers, provided an overview of the 2014 market controls audit. Mr. Kelly stated the purpose of the audit was to report on the ISO's internal controls relating primarily to its market operations and settlements activities. He noted that the report provided assurance to market participants who rely on the ISO's controls related to the ISO's market settlements.

Mr. Kelly described how the opinion was unqualified and further described why the report disclosed testing exceptions for two control activities. He further described the scope of the report and noted that processes were not included. He stated that over 60 different control activities and over 1600 transactions were tested. He discussed audit process improvements and discussed next steps. He stated that PwC and ISO staff have already begun planning for next year's internal controls audit. Mr. Kelly stated that the ISO continued to demonstrate a high level of ownership for the control environment and ownership of the controls report. Brief discussion followed regarding the two exceptions and Mr. Kelly confirmed they were human error. Discussion followed regarding the nature of the presentation as a briefing, rather than acceptance, as the report was made public on December 5, 2014.

INFORMATIONAL REPORT

There were no questions or comments on the following informational report:
Compliance Committee update.

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 9:00 a.m.