

**GENERAL SESSION MINUTES  
ADR/AUDIT COMMITTEE MEETING  
February 10 – 11, 2009  
ISO Headquarters  
Folsom, California**

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February 11, 2009

Tim Gage, Chair of the ADR/Audit Committee of the ISO Board of Governors, called the general session meeting to order at approximately 9:00 a.m. Roll call was taken and the presence of a quorum was established.

**ATTENDANCE**

The following members of the ADR/Audit Committee were in attendance:

Tim Gage, Chair  
Tom Page, Member

The following Board members were in attendance: Mason Willrich, Linda Capuano and Laura Doll.

The following members of the officer team were present: Yakout Mansour, Karen Edson, Laura Manz, Steve Berberich, Jim Detmers, and Nancy Saracino.

**GENERAL SESSION**

The following agenda items were discussed in general session:

**DECISION ON MINUTES**

Governor Page moved for the approval of the ADR/Audit Committee general session minutes for December 16-17, 2008. The motion was seconded by Governor Gage, and approved 2-0-0.

**ACCEPTANCE OF REVIEW OF 2008 CODE OF CONDUCT CERTIFICATION PROCEDURES**

Mike Epstein, Controller, informed the Committee that PricewaterhouseCoopers (PwC) had completed the ISO's 2008 code of conduct certification process and issued their report on January 20, 2009, with no exceptions.

**Motion:**

**Governor Page:**

*MOVED, that the ADR/Audit Committee recommends that the ISO Board of Governors accept the report issued on January 20, 2009 by PricewaterhouseCoopers LLP about their testing of the ISO 2008 code of conduct certification process.*

**The motion was seconded by Governor Gage, and approved 2-0-0.**

**ACCEPTANCE OF OPERATIONS REVIEW OF 2007-08**

Tim Cherry, with PricewaterhouseCoopers (PwC), provided the Committee with a background overview of the operational assessment, which he noted had been performed each year since ISO start-up. Mr. Cherry stated that the report was issued on January 29, 2009 and noted that the 2007-08 assessment was narrower than prior years. Mr. Cherry reviewed the scope of the assessment and stated that OASIS and SLIC were the two primary applications reviewed. Mr. Cherry provided an overview of the exception conditions, which included logging of transmission de-rate/re-rate information and the publishing and logging of final day-ahead schedules. Mr. Cherry noted that the risks of these exceptions to grid reliability, tariff compliance or accuracy of settlements was low. Discussion ensued regarding logging, the publication time for final day-head schedules, and related ISO processes. Jim Detmers, Vice President of Operations, stated that current rule regarding the timing for posting of schedules was not required by operational need and could be adjusted. Steve Berberich, Vice President of Corporate Services, noted that this issue would be moot under MRTU which specifies a publication deadline of 1:00 p.m. Discussion followed.

Tim Van Blaricom, Manager – Real Time Operations, provided Management’s response to the PwC assessment. Mr. Van Blaricom stated that the assessment focused on policies and procedures that were labor-intensive and would continue post-MRTU. Mr. Van Blaricom stated that day-ahead schedules were currently available immediately after publication without notification and that, under MRTU, a market notice would be created and sent automatically upon publication. Discussion followed regarding the importance of setting appropriate goals for auditing purposes. Mr. Van Blaricom addressed communication and publishing of transmission de-rate/re-rate information and noted that the manual glitches addressed in the audit would be corrected under MRTU as the information will be auto-populated into multiple systems and would align with the generation outage tracking methodology. Mr. Van Blaricom concluded by stating that Management accepted the PwC findings and acknowledged that it was valuable feedback. Discussion followed.

**Motion**

**Governor Page:**

*MOVED, that the ADR/Audit Committee recommends that the ISO Board of Governors accept the “Report on Compliance Assessment Relating to Specified Control Room Operational Processes” for 2007 and 2008 issued by PricewaterhouseCoopers on January 29, 2009.*

**The motion was seconded by Governor Gage, and approved 2-0-0.**

**BRIEFING ON ISSUANCE OF SAS 70 AUDIT ON ISO BID-TO-BILL PROCESS**

Michael Hulet, with PricewaterhouseCoopers, provided the Board with an overview of the SAS 70 report, stating that its purpose was to report on the ISO’s internal controls relating primarily to its market operations and settlement activities. Mr. Hulet discussed the scope of the SAS 70 and noted that the PwC opinion and report was issued on December 19, 2008. Mr. Hulet stated that the opinion was qualified related to one control objective. Mr. Hulet provided an overview of the twenty-four control objectives included in the scope and noted the processes that were not included in the scope of the report. Mr. Hulet acknowledged appreciation to ISO staff for its support on the SAS 70 audit and related projects.

Michael Epstein, Controller, provided Management’s response to the PwC SAS 70 report and stated there were no exceptions in the SAS 70 audit on twenty-two out of twenty-four of the control objectives. Mr. Epstein stated that exceptions in Information Technology change management and Information Technology security controls were mitigated by other operating controls. Mr. Epstein stated that exceptions in Information Technology security logical access controls resulted in a qualification through June 2, 2008, when an automated access control was implemented that mitigated the exceptions. Mr. Epstein stated that the integrity of the financial settlement process had been maintained. Discussion followed and Mr. Berberich noted that PwC had been engaged to perform a SAS Type I audit on MRTU controls.

**BRIEFING ON SCOPE OF 2009 SAS 70 AND SAS 70 TYPE 1 FOR MRTU**

Margaret Lundberg, with PricewaterhouseCoopers, stated PwC would perform a Type 1 SAS 70 to be completed at the implementation of MRTU. Ms. Lundberg noted that a SAS 70 Type I was a ‘point in time’ audit. Ms. Lundberg stated that a SAS 70 Type II audit, which is a continuous audit, was planned to resume after the Type I audit concluded. Ms. Lundberg stated that in 2009, a SaMC audit would also be completed. The SaMC audit was required by the tariff and covered calculations within SaMC for compliance with the tariff. Brief discussion followed.

**INFORMATIONAL REPORT – FERC Form 3 for 3<sup>rd</sup> Quarter**

There were no questions on the informational report.

Nancy Saracino, Vice President, General Counsel and Corporate Secretary, noted that the two Committee motions would go to the full Board at the May meeting. Ms. Saracino also noted that copies of the SAS 70 report were sent to the Board in December.

**ADJOURNED**

There being no additional general session items to discuss, the general session of the ADR/Audit Committee meeting was adjourned at approximately 10:00 a.m.