

Memorandum

To: ADR/Audit Committee of the ISO Board of Governors

From: Steve Berberich, Vice President of Corporate Services and Interim Chief Financial Officer and
Treasurer

Date: July 10, 2009

Re: *Briefing on Issuance of SAS 70 Audit on ISO Bid-to-Bill Process*

This memorandum does not require Committee action.

EXECUTIVE SUMMARY

The California Independent System Operator Corporation (the ISO) plans to issue its *SAS 70 Type I Audit* (SAS 70) later this month for the controls put in place on June 30, 2009. As of the date of this memorandum, the audit is substantially complete and the ISO is expecting to receive an unqualified opinion from its independent auditor, PricewaterhouseCoopers (PwC). PwC will review the report at the July meeting.

- An unqualified opinion is a conclusion by the auditor that Management suitably designed the relevant ISO controls in operation as of June 30, 2009 to provide reasonable assurance the specified control objectives would be achieved.

BACKGROUND

SAS 70 audits assure market participants that the ISO has sufficient internal controls over the processes and procedures of market participant invoices, which account for market invoices and reliability must-run billings. Many market participants have shares that trade on major exchanges governed by the Securities and Exchange Commission. They are subject to the *Sarbanes-Oxley Act*, which requires them to certify the sufficiency of their own internal controls. The ISO's SAS 70 audits allow them to comply with these reporting requirements for participating in ISO markets.

The term *SAS 70* derives from the auditing profession's Statement on Auditing Standards No. 70, *Reports on the Processing of Transactions by Service Organizations*. The ISO is considered a service organization with respect to our market participants. In a Type I SAS 70 PwC audits the effectiveness of the design of ISO's internal controls over the bid-to-bill process as of the reporting date. The ISO has been issuing SAS 70 reports since the start-up of the ISO. Over the past several years, the SAS 70 reports have covered an annual period, which results in audit coverage about the operation of the controls over a sustained period of time. This report is different because it is limited to a single point in time, rather than a sustained period. The reason for this special report is to get a review of our controls soon after the new markets were

launched, both for internal purposes and assure market participants who depend on the ISO's systems and controls, most of which changed substantially with the implementation of the new markets. A *SAS 70 Audit Type II* (which covers application of the controls over a period of time) is underway and will cover the period from June 30, 2009 to October 31, 2009.

The ISO groups *control objectives*, the highest level of controls described, into two main categories: business processes and information systems processes. For each objective, the ISO performs a portfolio of control activities. In a Type I SAS 70 audit, the auditor reviews all of these activities to determine their effectiveness in achieving the related objectives.

The ISO control environment reflects the overall attitude, awareness, commitment and actions of the Board, Management, and other stakeholders. Management constantly reviews activities underlying the bid-to-bill process for improvement opportunities, with process improvement one of our top priorities.