

Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Vice President, General Counsel & Chief Administrative Officer

Date: December 7, 2010

Re: *Briefing on Issuance of SAS 70 Audit on ISO Bid-to-Bill Process and audit plan for 2011*

This memorandum does not require Board action.

On December 3, 2010, the California Independent System Operator Corporation issued its *SAS 70 Type 2 Audit* for the period from November 1, 2009 to October 31, 2010 and subsequently provided it to the ISO Board of Governors, Management and market participants. The SAS 70 assures market participants the ISO has sufficient internal controls over the processes and procedures of market participant charges and credits, which account for market and congestion revenue rights charges and credits, grid management charges, Federal Energy Regulatory Commission fees, transmission access charges and refunds, and reliability must-run billings.

- The auditor's opinion essentially states that the internal control structure is effectively designed to provide adequate controls and that based on their testing, the controls are in fact operating as designed. Therefore, the control environment was operating effectively during the period.

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 defined as a service organization with respect to our market participants. In the SAS 70, independent auditor PricewaterhouseCoopers audits the effectiveness of the ISO bid-to-bill process internal controls. Many ISO 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 SAS 70 allows them to comply with these reporting requirements for participating in ISO markets.

The ISO's SAS 70 report follows the standard reporting structure for internal control reports. There is a description of the high level organizational control environment and a structured presentation of each of our key internal control activities that are organized around 12 control objectives. The auditor's testing and their results are reported on the 71 key internal control activities, and no exceptions were noted. The SAS 70 is a comprehensive report covering our control environment. It does, however, exclude certain activities that are not subject to this control structure - such as the quality of meter data received from the market or the control room decision making processes.

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

Effective for 2011, reports on control activities like the SAS 70 have been replaced by the Statement on Standards for Attestation Engagements 16 (SSAE 16). At the December meeting, PricewaterhouseCoopers also will brief the Board on the changes from the SAS 70 to the SSAE 16 and their audit plan for 2011.