

Briefing on Scope of 2012 Financial Audit

**Audit Committee
of the ISO Board of Governors
General Session
December 13-14, 2012**

Agenda

Our Audit Objectives

Overall Audit Strategy

Key Audit Areas

Perspectives on Fraud Risk and Responsibilities

Use of Specialists

Materiality

Confirmation of Independence

Other Audit Related Services

Timing of Financial Audit

Closing

Our Audit Objectives

Our audit of the ISO's 2012 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. It also describes auditor and management responsibilities.

Overall Audit Strategy

- A risk-based audit approach focused on key risks, identified management judgments and estimates
- Includes limited reliance on internal controls but not an opinion on controls
- Excludes most financial flows in the market except for cash held on behalf of market participants

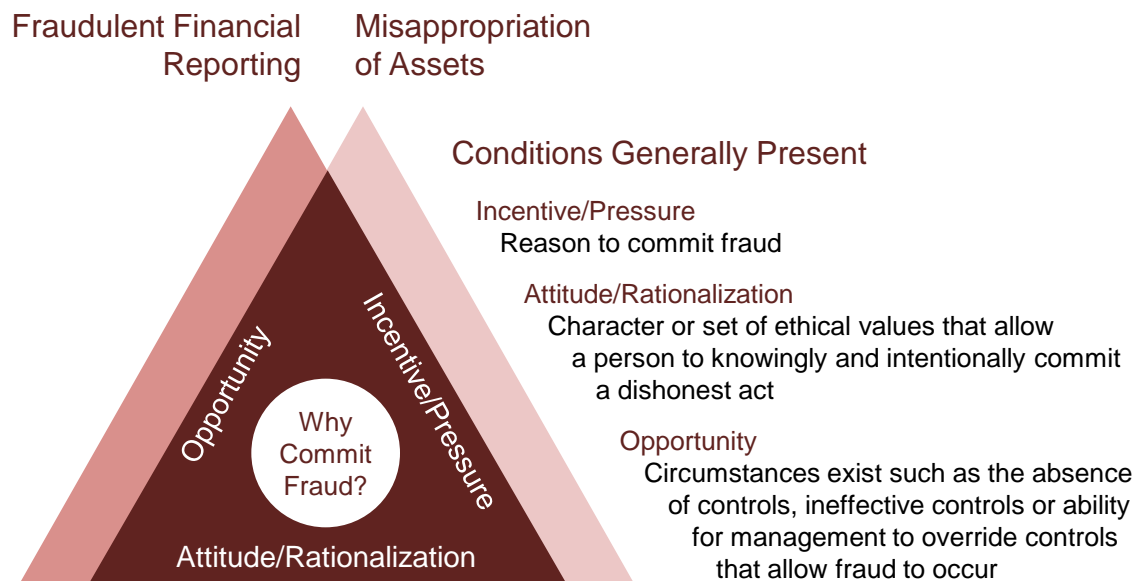
Key Audit Areas

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

- **Universal Counter-party - Impacts to accounting and reporting**
- **Management override of controls**
- **Valuation of non-traded investments**
- **Contingencies – Market and internal**
- **Cash held for market participants and related liabilities**

Perspectives on Fraud Risk and Responsibilities

Types of Fraud



Attributes Contributing to Increased Fraud Risk

- Size, complexity and ownership attributes of the Company
- Type, significance, likelihood and pervasiveness of the risk

- Senior Management Responsibilities
- Audit Committee Responsibilities
- Auditor Responsibilities

Perspectives on Fraud Risk and Responsibilities

(continued)

In order to fulfill our responsibilities related to fraud, we plan to perform the following audit procedures:

- Inquiries of management, the Audit Committee, Internal Audit and others related to knowledge of fraud or suspected fraud, the fraud risk assessment process and how fraud risks are addressed by CAISO.
- Disaggregated analytical procedures, primarily over revenue.
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed.
- Identify and select journal entries and other adjustments for testing.

Use of Specialists

During the course of the audit, we will utilize our functional experts to evaluate key areas of your business. These specialists support our core assurance team with skills necessary to achieve our audit objectives. Drawing upon their best practice knowledge, our team will provide points of view related to your business, industry and accounting and reporting.

The following specialists, including examples of procedures to be performed include:

Risk Assurance—Testing of IT-based controls, application controls and key automated reports.

Global Human Resource Services—Assistance with valuation over compensation programs and benefit/pension plans.

Materiality

We consider both quantitative and qualitative factors in our assessment of materiality. We also consider the metrics that may be used by the users of the financial statements in determining the appropriate base for calculating materiality.

We identify and assess the risk of material misstatement at:

- The overall financial statement level, and
- In relation to classes of transactions, account balances and disclosures.

Since the California ISO is a non-profit organization, overall materiality is based on financial flows, not “net income”.

Confirmation of Independence

With respect to the Company, we are independent accountants within the meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants (“AICPA”).

- We confirm our independence of the Company as of the date of this correspondence.
- Our quality control processes are established to ensure our continuing independence.
- We are not aware of any non-audit relationships.
- We will readdress our independence at the completion of our December 31, 2012 audit.

Other related assurance services

- **Executive Compensation Agreed Upon Procedures**
 - **Fieldwork occurs in April/ May 2013**
 - **Perform procedures and report findings on the compensation and benefits consistency with Board directives and other internal documents for the 2012 calendar year**
 - **Report to the Audit Committee in May or July 2013**
- **Code of Conduct Agreed Upon Procedures**
 - **Fieldwork occurs in January 2013**
 - **Perform procedures and report findings on the ISO's processes surrounding annual certification process and related procedures for 2012 certification cycle**
 - **Report to the Audit Committee in February 2013**

Timing of Financial Audit

Activity

Meeting with Audit Committee

Audit planning and interim testing

Financial Audit fieldwork

Issuance of financial audit reports

Report to the Audit Committee

Dates

August 28, 2012

September - November 2012

February - March 2013

April 2013

May 2013

Closing

- We continue to report to and communicate directly with the Audit Committee of the ISO Board of Governors
- 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?