

Memorandum

To: ADR/Audit Committee of the ISO Board of Governors
From: Steve Berberich, Vice President of Corporate Services
Date: February 3, 2009
Re: *Briefing on Issuance of SAS 70 Audit on ISO Bid-to-Bill Process*

This memorandum does not require Board action.

On December 19, 2008, the California Independent System Operator Corporation (the ISO) issued its *SAS 70 Type 2 Audit* (SAS 70) for the period from November 1, 2007 to October 31, 2008 and provided it to the ISO Board of Governors (the Board), Management and market participants. The SAS 70 assures market participants the ISO has sufficient internal controls over the processes and procedures of market participant invoices, which account for market and grid management charges, Federal Energy Regulatory Commission fees, transmission access charge refunds, and reliability must-run billings.

- Although the report notes a qualification for a portion of the year, Management has determined the integrity of the financial settlements process during the audit period was not affected.
- The auditor concludes that Management suitably designed the relevant ISO controls in operation as of October 31, 2008 to provide reasonable assurance the specified control objectives would be achieved and were operating effectively during at least the final months of the SAS 70 period.

On December 19, 2008, the ISO issued its SAS 70 for the twelve-month period from November 1, 2007 to October 31, 2008 and provided it to the Board and market participants. 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.

The SAS 70 assures market participants the ISO has sufficient internal controls over the processes and procedures of market participant invoices, which account for market and grid management charges, Federal Energy Regulatory Commission fees, transmission access charge refunds, and reliability must-run billings. 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.

Although the report noted a qualification for a portion of the year, Management has determined that the integrity of the financial settlements process during the audit period (as described in Section 5 of the report) was not affected. The auditor concludes that Management suitably designed the relevant ISO controls in operation as of October 31, 2008 to provide reasonable assurance the specified control objectives would be achieved and were operating effectively during at least the final months of the SAS 70 period.

The ISO groups *control objectives*, the highest level of controls described, into three main categories: global processes such as scheduling and bidding, charge type or business processes such as unaccounted-for-energy, and information systems processes. For each objective, the ISO performs a portfolio of control activities. The auditor reviews and tests 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.