

# Memorandum

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

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

**Date:** December 9, 2009

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

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*This memorandum does not require Board action.*

On December 4, 2009, the California Independent System Operator Corporation (ISO) issued its *SAS 70 Type 2 Audit* (SAS 70) for the period from June 30, 2009 to October 31, 2009 and 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 invoices, which account for market and grid management charges, Federal Energy Regulatory Commission fees, transmission access charge refunds, and reliability must-run billings.

- The auditor concludes that Management suitably designed the relevant ISO controls in operation as of October 31, 2009 to provide reasonable assurance the specified control objectives would be achieved and were operating effectively during the SAS 70 period.

On December 4, 2009, the ISO issued its SAS 70 for the four-month period from June 30, 2009 to October 31, 2009 and provided it to the Board and market participants. The period for this SAS 70 started on June 30, 2009 which was the date the SAS 70 type 1 was issued on the implementation of controls under the new market. The next SAS 70 will cover an entire year commencing on November 1, 2009. 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 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 the SAS 70 period. Although exceptions associated with two controls were noted in the auditor's testing, the exceptions were mitigated by other compensating controls.

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.