

The purpose of this Board of Governors (Board) Committee

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 <b>California ISO</b> <small>Your Link to Power</small>	<b>Board Policy</b>	Revision Date Version No.	5/18/2010 2.0
<b>Charter of the Audit Committee</b>		Policy Adopted	5/22/1997

This Committee charter establishes the responsibilities and administration of the ADR/AUDIT COMMITTEE. Within this document, the following is contained:

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- I. Members
- II. Purpose & Areas of Responsibility
- III. Administration
- IV. Secretary of the Committee

## MEMBERS

BE IT RESOLVED that an ADR/AUDIT Audit Committee of this Board of Governors ("Committee") hereby is established consisting of two of the California Independent System Operator Corporation (ISO).

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This charter is intended as a component of the governance framework within which the Board and its committees direct the affairs of the ISO. While it should be interpreted in the context of applicable law, as well as in the context of the ISO's bylaws, it is not intended to establish any legally binding obligations.

### 1. Membership & Qualifications

#### 1.1 Membership:

1.1.1 The Committee shall consist of two or more members currently serving on the Board, as determined from time to time by the Board.

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1.1.2 The Committee members are to shall be elected by the Board, one. No member of the Committee shall be removed except by majority vote of the Board.

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1.1.3 One of the Committee members shall be appointed by the Board as the Committee's chair.

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#### 1.2 Qualifications:

1.2.1 Each member of the Committee shall be financially literate, as that qualification is interpreted by the Board in its business judgment, or shall become financially literate within a reasonable period of time after his or her appointment to the Committee.

### 2. Purpose & Areas of Responsibility

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BE IT FURTHER RESOLVED that the Committee shall perform the Alternative Dispute Resolution (ADR) obligations set forth in Section 13 of the ISO Tariff and shall review the Corporation's 2.1 Purpose: The purpose of the Committee is to assist the Board's oversight of (i) the integrity of the ISO's financial statements, (ii) the ISO's compliance with legal and regulatory requirements and (iii) the performance of the ISO's independent auditors and internal audit function. The Committee shall be responsible for reviewing the ISO's financial reporting process,

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internal controls and codes of conduct of ~~this~~the Board ~~of Governors~~, and the employees of the Corporation.

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~~More specifically, with regard to its ADR responsibilities the Committee shall:~~

- ~~⇒ Advise and assist the Board with respect to the operation of the ADR procedures set forth in Section 13 of the ISO Tariff, including the making of any appropriate recommendations regarding necessary additions or modifications to those procedures.~~

⇒ ~~Consistent with Section 13 of the Tariff, the Committee shall, either directly or through delegation to ISO staff of third party ADR providers;~~

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- ~~○ Publish summary information regarding ADR activities (claims, decisions, appeals, etc.) on the ISO website or using other methods;~~

~~Review the claims on a periodic basis and advise the Board on the trends~~

- ~~○ 2.2 Areas of the claims and any policy implications resulting from those trends;~~
- ~~○ Maintain a list of qualified potential mediators;~~
- ~~○ Maintain a list of qualified potential arbitrators and access to referrals from appropriate established third party ADR service providers; and~~
- ~~○ Compile standard procedures for arbitration of disputes, based on the rules of an established third party ADR service provider, such as the AAA Commercial Arbitration Rules.~~

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~~More specifically, with regard to its Audit responsibilities~~Responsibility: Specifically, the Committee shall:

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~~2.2.1 Recommend to the Board a firm for the Board to engage as the Corporation's ISO's independent auditors, and if warranted, in the discretion of the Committee, recommend to the Board the termination of that engagement; assess.~~

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~~2.2.2 Review the annual engagement letter with the ISO's independent auditors, including the proposed fees contained therein, as well as all audit and all non-audit engagements and relationships between the ISO and the independent auditors (which determination may be made after receiving input from management, if desired).~~

2.2.3 Review the performance of the ISO's independent auditors.

⇒ 2.2.4 Assess the ongoing independence of the Corporation's ISO's independent auditors, including assessment of any non-auditing services to be provided to the Corporation ISO by the independent auditors.

⇒ 2.2.5 Provide that the Corporation's ISO's independent auditors report directly to the Committee.

⇒ 2.2.6 ~~Review and report to the Board on~~ the planned scope and execution of the independent auditor's financial statement audit, including any special audit procedures.

⇒ 2.2.7 Review with appropriate Corporation officials ISO management and the independent auditors (i) all material accounting policies and practices ~~that are used;~~ (ii) all alternative treatments of financial information that have been discussed by the independent auditors and management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and (iii) any material financial arrangements of the ISO which do not appear on the financial statements of the ISO.

⇒ 2.2.8 Review, in its discretion, any material communication between the Corporation's ISO management and (i) independent auditors, ~~or~~ (ii) internal audit, including written communications for improvement in processes and related internal controls.

⇒ 2.2.9 Review with appropriate Corporation officials ISO management, internal auditors, and the independent auditors the adequacy of the internal accounting and control environment, both as it relates to the Corporation's ISO's direct financial reporting systems and with respect to the market systems the Corporation ISO manages for transactions in the markets administered by the Corporation ISO, and satisfy itself that any material weakness in such control environment, and any material weakness in the implementation of any procedures thereunder, are being corrected in a timely manner.

~~Review the Corporation's~~ 2.2.10 Review with appropriate ISO management, internal auditors and the independent auditors any fraud, whether or not material, that involves management or other employees who have a significant role in the ISO's internal control over financial reporting.

⇒ 2.2.11 Review the ISO's annual financial statements and be informed of any significant disagreement between management and the independent auditor that arose in connection with the audit of those statements, including any problems or difficulties encountered by the independent auditors in the course of any audit work and any restrictions on the scope of the independent auditor's activities or on access to requested information.

2.2.12 Review ~~and report to the Board on the Corporation's ISO's~~ policies and procedures ~~regarding compliance with the law and with significant Corporation policies, including but not limited to, codes of conduct as provided in the Corporation's Bylaws or related to business ethics, legal compliance, and other matters of business and employee conduct, and programs of legal and other compliance designed to help~~

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prevent and detect violations of the law and ~~the Corporation's~~ significant ISO policies and to promote business ethics, including the ISO's codes of conduct and the ISO's policies relating to the ethical handling of conflicts of interest.

⇒ 2.2.13 Monitor compliance with the ISO's codes of conduct.

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⇒ 2.2.14 Review the design and implementation of the Compliance Program and provide direction to the Chief Compliance Officer and with respect to compliance program and oversee compliance activities.

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2.2.15 Review the ISO's policies and procedures for receipt and treatment of allegations of suspected misconduct.

⇒ 2.2.16 Review the process ISO's processes for identifying and assessing risks, evaluating the impact on corporate objectives, and managing, reporting, and controlling enterprise risks.

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2.2.17 Review, with ISO management and internal audit, the implementation internal audit charter, activities, staffing, and organizational structure of the Internal Audit program internal audit function.

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2.2.18 Review and approve the annual internal audit plan and all major changes to that plan.

2.2.19 Ensure there are no unjustified restrictions or limitations placed on internal audit's activities.

⇒ 2.2.20 Review the effectiveness of the internal audit function, including significant audit findings, corrective actions, and Audit Plans (annual and long term)-compliance with professional internal auditing standards.

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If necessary, or as 2.2.21 Periodically meet separately with internal audit management.

2.2.22 Meet periodically with the General Counsel, and outside counsel when appropriate, to review legal and regulatory matters, including (i) any matters that may have a material impact on the financial statements of the ISO and (ii) any matters involving potential or ongoing material violations of law or breaches of fiduciary duty by the ISO or any of its directors, officers, employees or agents or breaches of fiduciary duty to the ISO.

⇒ 2.2.23 As requested or approved in advance by the Board, institute special investigations and, if appropriate, hire special counsel or experts to assist and make recommendations to the Board related thereto, the cost of such independent counsel and experts to be borne by the ISO.

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⇒ 2.2.24 Perform such other oversight duties and responsibilities as may be assigned to the Committee, or from time to time, by the Board and/or Chair of the Board.

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2.2.25 Report regularly to the Board on its activities, as appropriate. In connection therewith, the Committee shall review with the Board any significant issues that arise with respect to the quality or integrity of the ISO's financial statements, the ISO's compliance with legal or regulatory requirements, the performance and independence of the ISO's independent auditors, or the performance of the internal audit function.

**3. Administration**

~~BE IT FURTHER RESOLVED that the Committee:~~

☉ ~~3.1 The committee~~Committee is accountable to the Board of Governors.

~~3.2~~ In discharging its responsibilities, the Committee is empowered to inquire into any matter it considers appropriate and shall have access to all books, records, facilities and personnel of the ISO. The Committee shall report to the Board if the ISO fails to provide adequate resources to support the Committee's activities.

☉ 3.3 The Committee shall fix its own time and place of meetings, at least quarterly, and shall prescribe its own rules of procedure, consistent with the requirements of the ~~Bylaws~~bylaws. Meetings may be called by the Chair of the Committee or the Chair of the Board. All meetings shall be held pursuant to the ~~Bylaws~~bylaws and ~~Open Meeting Policy~~open meeting policy of the ~~Corporation~~ISO with regard to notice and waiver thereof, and written minutes of each meeting shall be duly filed in the ~~Corporation's~~ISO's records.

☉ ~~3.4~~ A quorum of the Committee shall consist of both of its members:

~~At a minimum, or, in the event that~~ the Committee consists of more than two members, a quorum shall consist of a majority of the members of the Committee.

☉ 3.5 The Committee shall review and update the committee this charter on an annual basis and recommend updates to the Board, as appropriate.

3.6 While the Committee has the duties and responsibilities set forth in this charter, the Committee is not responsible for preparing or certifying the ISO's financial statements, for planning or conducting any audits or for determining whether the ISO's financial statements are complete and accurate and are in accordance with generally accepted accounting principles.

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4. Secretary of the Committee

~~BE IT FURTHER RESOLVED that, unless~~4.1 Unless otherwise designated by the Corporate Secretary ~~of this Corporation,~~ or the Committee in consultation with the Corporate Secretary, the Corporate Secretary shall serve as the Secretary to the Committee.

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