

Memorandum

To: ISO Board of Governors
From: Deborah Le Vine, Director of System Operations
Date: July 6, 2011
Re: Briefing on Scope of the 2011 Operations Review

This memorandum requires does not require Board action.

Executive Summary

The California Independent System Operator Corporation's tariff requires an annual independent review of compliance with the ISO's operations policies and procedures. In the past, Management has requested that the independent entity provide an assessment, consistent with the tariff requirements. However, for this review period, Management is requesting that the independent entity provide an audit opinion that will be conducted in accordance with generally accepted auditing standards to verify that the ISO's operational processes are in compliance with select operations procedures representing generally accepted good utility practice.

Discussion

To conduct this year's examination, Management has engaged PricewaterhouseCoopers LLP. PwC has in the past provided assessment of operation's procedures that have allowed Management to improve its processes, training and procedures. For instance, in 2010 Management choose to review transmission constraints. For 2011, Management has selected the exceptional dispatch process for the scope of the Operations Review because of its importance to market participants and its impact on operations and the markets.

Although exceptional dispatch is a necessary feature of ISO operation, the dispatches must be properly executed and consistent with the needs of the grid. In the past, Management implemented a multi-faceted approach to review and refine processes in order to reduce the number of exceptional dispatches. The improvement activities and results continue to date and are analyzed on a monthly basis. However, selecting exceptional dispatch as the examination scope affords an independent assessment of whether the improved processes in place are being followed, providing valuable feedback for continuous improvement of the ISO's control room processes.

PwC will perform the examination based on Management's assertion and will provide the ISO with an audit opinion. The examination will cover the actual operational activities associated with the execution of exceptional dispatches over a select period of time. In addition to the form of examination, this year the review will be conducted twice to get an increased sampling of data. PwC will be on-site in both June and September to observe the real-time dispatchers. This expansion of sample size will also allow PwC to observe the exceptional dispatches from both the Folsom and Alhambra control rooms. The completed review is scheduled to be presented to the Board in December 2011.