



Memorandum

To: Audit Committee of the ISO Board of Governors
From: Eric Schmitt, Vice President, Operations
Date: December 7, 2016
Re: **Acceptance of the 2016 Operations audit**

This memorandum requires Committee action.

EXECUTIVE SUMMARY

PricewaterhouseCoopers, LLC (PwC) completed the California Independent System Operator Corporation Compliance Assessment relating to Specified Control Room Operational Processes and issued its report dated November 28, 2016. The compliance assessment evaluated processes related to real-time exceptional dispatch processes. This compliance assessment was completed with no exceptions noted. Management recommends that the Committee accept the report as submitted and proposes the following motion:

Moved, that the Audit Committee of the ISO Board of Governors accepts the audit opinion issued on November 28, 2016 by PricewaterhouseCoopers LLC for the testing of specified control room operational processes for 2016, as attached to the memorandum dated December 7, 2016.

BACKGROUND

In accordance with tariff section 22.1.2.2, Management engaged PwC to perform the annual independent review of compliance with the ISO's operations policies and procedures. Management directed that PwC provide an audit opinion conducted in accordance with generally accepted auditing standards to verify that the ISO's operational processes were in compliance with select operations procedures representing generally accepted good utility practice.

The annual audit scope is determined by stakeholder feedback, PwC input, and Management focus areas. Stakeholders were solicited for audit suggestions for a 3-week period, and the ISO did not receive feedback. For 2016, Management chose to review real-time exceptional dispatch processes. Audit scope criteria included procedures related to unit commitment priority and preferred resources based on available

information, as well as the process of executing verbal dispatches and entering all exceptional dispatch information into the real-time market tool.

This examination scope affords an independent assessment of whether the processes in place are being followed, providing valuable feedback for continuous improvement of the ISO's control room processes.

This year the audit was conducted in the Folsom control room. The auditors observed the Generation Dispatchers on August 22 – 26, 2016 and September 19 – 23, 2016.

PwC performed the audit based on an attestation examination that results in an audit opinion. The examination included:

- The actual operations activities associated with the indicated scope.
- The validation of the evidence provided during the observation period.

RESULTS

The review included processes set forth in the following Operating Procedure:

- 2330, Real-Time Exceptional Dispatch, effective July 14, 2016

The audit focused on seven procedure elements within this Operating Procedure. The elements of the ISO's Operating Procedures included by Management in its assertion were selected on the basis that they were integral to the scope described above and could be objectively compared against actual operating practice.

PWC observed no exceptions.

The ten-day audit period included a total of 50 hours in which PwC directly observed operator actions. These hours included all weekday days of the week as well as most hours of the day. Evidence was also collected for times in which there was no PwC auditor conducting direct observation evidence.

Of the seven operating procedure elements audited, two were event based activities that occurred during the hourly operating periods when the PwC auditor was observing. There were no events that occurred related to five of the elements during the hourly operating periods when the PwC auditor was observing.

CONCLUSION

Management recommends that the Audit Committee accept the audit opinion issued on November 28, 2016.