

***California Independent
System Operator
Corporation***
Report to the Audit
Committee of the Board of
Governors
May 2013

*Audit Committee
Meeting*

General Session

Folsom, CA

May 15, 2013

Agenda

Results of audit

Description of financial statements

Key audit areas

Independence

Required communications

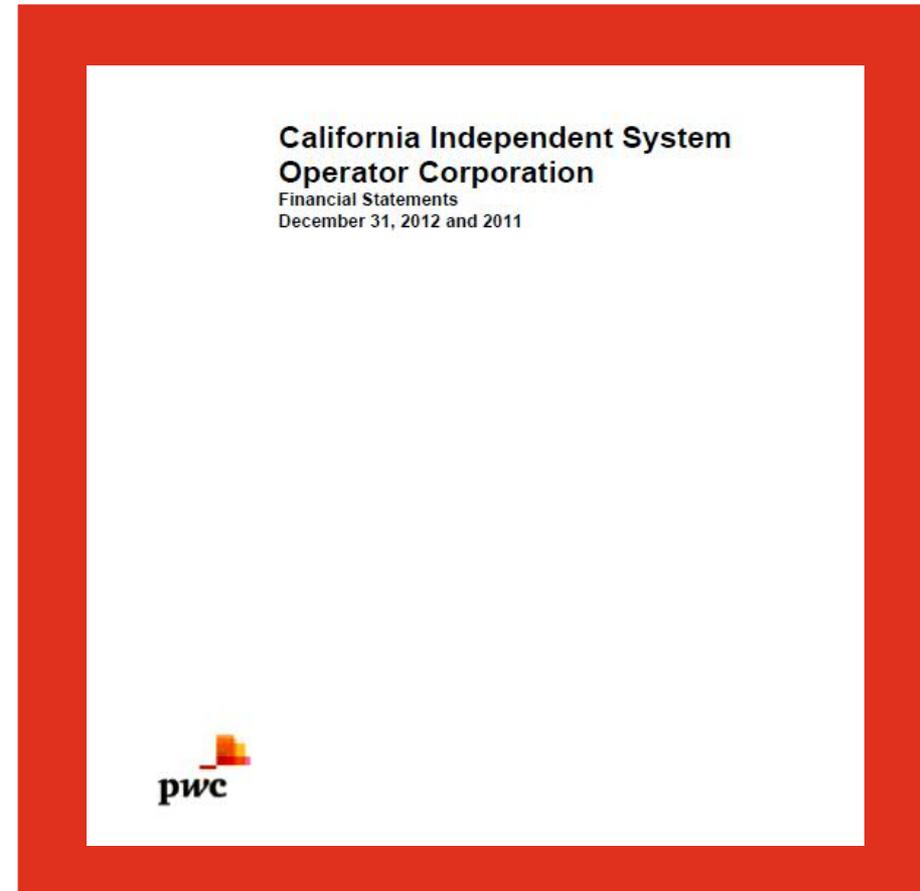
Closing

Results of audit

- Audits are complete
 - Audit reports have been issued
 - Two sets of financial statements
 - General purpose – GAAP
 - Statutory – FERC
 - ISO Management prepared the financial statements
 - PwC audited the financial statements
- The PwC audit opinions are unqualified
- Form and content of the financial statements are similar to prior years

Corporate financial statements

- General purpose use
 - Annual report
 - Financial users
- Basis of accounting – State and Local Government (GASB)
 - Required based on state government board appointment process
 - Differs from private accounting principles – some investments; benefit plans
- Audit comments
 - These are primary; prepared first
 - Audit is focused on these – over 90% of audit effort



FERC Form #1 financial statements

- Statutory
 - Filed with FERC
 - Available to public through FERC
- Basis of Accounting – FERC Uniform System of Accounts
 - Basic accounting generally follows normal private accounting principles (FASB)
 - Statutory forms
- Audit comments
 - Focus on statutory reporting requirements/leverage primary audit
 - Net difference - \$.5 million



**FERC FINANCIAL REPORT
FERC FORM No. 1: Annual Report of
Major Electric Utilities, Licensees
and Others and Supplemental
Form 3-Q: Quarterly Financial Report**

FERC vs GASB reporting

- **Differences in net income/loss from corporate (general purpose) financial statements**
 - Investments - all at fair value under FERC, most under fair value for corporate (MTM loss of \$.6 million for FERC)
 - Post employment medical plan - different actuarial valuation under FERC (\$0.1 million lower expense for FERC)
 - Net loss - \$.5 million greater loss for FERC than corporate
- **Significant differences between corporate and FERC financial statement footnotes**
 - Generally reduced disclosures, no requirement for MD&A
 - Additional fair value disclosures
 - Additional schedules required by FERC (unaudited)

Key audit areas

Contingencies:

- Exposure to ISO comes from three sources
 - Market based adjustments; disputed charges
 - GMC could be contingent
 - Non market issues - corporate exposure as employer
- Key Assertion
 - Management believes any settlements would likely be resettled against the ISO's markets (not from the ISO)
 - Therefore, no recorded liabilities regarding these market matters
- Disclosures include
 - Refund case stemming from energy crisis
 - Market disputes
 - September 8th events

Key audit areas

Universal Counterparty:

- Additional disclosures for the primary and FERC financial statements related to net position presentation and fair value of CRRs
- Company's financial statements continue to reflect a net reporting of market activities and exclude the revenues and expenses, cash flows, and assets and liabilities associated with market transactions

Other:

- Determination of fair value for non-traded investments (\$.6 million loss recorded for FERC only)
- Risk of management override of controls – presumed risk (not ISO specific)
- Cash held for market participants and related liabilities

Independence

- **Key element of audit relationship**
- **Numerous core processes in place to monitor compliance with PwC independence rules**
 - **Annual compliance**
 - **Annual training**
 - **Firm monitoring**
- **Individual audit independence and objectivity is manifested in numerous ways**
 - **Partner rotation requirements for ISO are more strict than required**
 - **Risk management oversight procedures**
 - **Each individual verified independence on each engagement**

Required communications

There were no:

- Disagreements with Management
- Significant issues discussed prior to retention
- Significant difficulties encountered during the audit
- Identified irregularities, frauds or illegal acts
- Related party transactions, except as disclosed in the notes to the financial statements

Audit adjustments:

- There were no posted audit adjustments
- There were no uncorrected errors

Required communications

Internal controls:

- Scope of audit does not include an opinion on internal controls
- This differs from SSAE 16 audit that we perform over market systems
- During audit we are required to report to the Board of Governors any
 - Material weaknesses
 - Significant deficiencies
- No material weaknesses or significant deficiencies were identified
- Level of audit adjustments is an indicator of potential control issues; there were none
- We have shared controls related observations and recommendations with management in context of continuous improvement

Required communications

Other:

- Auditor's responsibility
- Significant accounting policies
- Management judgments and accounting estimates
- Significant risks and exposures
- Material uncertainties related to events and conditions
- Other information in documents containing reviewed financial information
- Consultations
- Other material written communications
- Other matters

Closing

- We are independent of the ISO and have no relationships with the ISO that would impair our independence
- High level of commitment and cooperation of accounting and other staff greatly appreciated
- PwC encourages communication and feedback from the Audit Committee

Questions?

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