

Memorandum

To: Audit Committee of the ISO Board of Governors
From: Eric Schmitt, Vice President, Operations
Date: May 21, 2014
Re: **Briefing on scope of 2014 operations audit**

This memorandum does not require Committee action.

Tariff section 22.1.2.2 requires Management to conduct an annual independent review of its compliance with the ISO's operations policies and procedures. Management has engaged PricewaterhouseCoopers, LLC to conduct the 2014 review. Management is requesting that PwC conduct an audit in accordance with generally accepted auditing standards, and provide an audit opinion as to whether the ISO's operational processes are in compliance with select operations procedures.

The annual audit scope is determined by stakeholder feedback, PwC input, and Management focus areas. Congestion Management processes has been selected for the scope of the 2014 audit. Audit scope criteria will include procedures related to the determination of transmission limits and unit commitments used to position the system to accommodate upcoming real time conditions. Procedures related to the evaluation and implementation of system operating limits as well as contingency analysis will also be reviewed.

PwC will perform the examination based on its independent testing and Management's assertions and will provide the ISO with an audit opinion. The audit will cover the actual operations activities in Folsom associated with the performance of Operations Planning, Operations Engineering, and Real-Time Transmission/Generation Dispatchers. The plan is for the audit to cover two periods, tentatively planned for July and September. The completed audit report will be presented to the Audit Committee by December 2014.