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Presentation to the California ISO Audit Committee

October 27-28, 2011

Agenda

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Our Audit Objectives

Our audit of the ISO's 2011 financial statements is directed towards delivering assurance at three levels:

- **Independent opinions and reports that add credibility to financial statements released by the ISO**
 - **Annual financial statements (general purpose)**
 - **FERC Form 1 financial statements**
- **Assistance to the audit committee in discharging their corporate governance and compliance responsibilities**
- **Observations and advice on financial reporting and business issues**

Our engagement letter sets out the terms of our appointment as auditors of the ISO

Timing

Activity

Meeting with Audit Committee

Audit planning and interim testing

Audit fieldwork

Issuance of audit reports

Report to the Audit Committee

Dates

October 2011

November 2011 - January 2012

March 2012

April 2012

May 16-17, 2012

Key Audit Areas

Areas requiring significant judgment and analysis by ISO management and PwC include:

- **New headquarters**
 - Depreciation for the new building assets (2012 is first full year of depreciation on the assets)

- **Old headquarters building**
 - Accounting for lease termination/exiting the old properties
 - Calculation and recording of related liability and other occupancy costs

Key Audit Areas

- **Contingencies**
 - **Market disputes in Good Faith Negotiations and beyond**
 - **ISO and related GMC exposures – not market issues**
- **Other**
 - **Determination of fair value for hard to value investments**
 - **Risk of management override of controls**

Audit Strategy

- A risk-based audit approach focused on key risks, identified management judgments and estimates
- Includes limited reliance on internal controls but not an opinion on controls
- Excludes most financial flows in the market except for cash held on behalf of market participants

Other related assurance services

- **Executive Compensation Agreed Upon Procedures**
 - **Fieldwork occurs in late Spring 2012**
 - **Perform procedures and report findings on the compensation and benefits consistency with Board directives and other internal documents for the 2011 calendar year**
 - **Report to the Board in May or July**
- **Code of Conduct Agreed Upon Procedures**
 - **Fieldwork occurs in January 2012**
 - **Perform procedures and report findings on the ISO's processes surrounding annual certification process and related procedures for 2011 certification cycle**
 - **Report to the Board in February 2012**

Closing

- **We continue to report to and communicate directly with the Audit Committee / Board of Governors**
- **We are independent of the ISO and have no relationships with the ISO that would impair our independence**
- **PwC encourages communication and feedback from the Audit Committee**
- **Questions?**