

Memorandum

To: ISO Board of Governors
From: Eric Schmitt, Vice President, Operations
Date: May 9, 2012
Re: **Briefing on the 2012 Operations Audit**

This memorandum does not require Board action.

Tariff section 22.1.2.2 requires Management to have conducted an independent review of its compliance with the ISO's operations policies and procedures. Management engaged PricewaterhouseCoopers, LLC to conduct the 2012 review. Management is requesting that PwC provide an audit opinion to ensure that Management is in compliance with certain of its operations procedures. This audit 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.

Annual audit scope is determined by in part by stakeholder feedback, PwC input and Management focus areas. For 2012, Management chose to review the day ahead and related pre-day ahead processes. The day ahead processes account for aligning 95 percent of the supply and demand for each trading day. The inputs defined in the day ahead process include submitted schedules and related demand, outage and system constraint information, as well as automatic load forecast information updates, among other items.

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 operations activities associated with the performance of the day ahead and related pre-day ahead processes over a select period of time. In addition to the form of examination, the 2012 review will be conducted across multiple days to obtain an increased sampling of data. PwC will be on-site in both July and August to observe the Outage Engineers, Operations Engineers and Day Ahead Operators in Folsom. The completed audit is scheduled to be presented to the Board no later than December 2012.