2007 SAS 70 Type 2 Results

**Presentation to the
ERCOT Finance & Audit
Committee**

December 11, 2007

The 2007 ERCOT SAS 70 Opinion is **UNQUALIFIED**.

Discussion Topics

- Scope and Background on SAS 70 Type 2 Audit

- SAS 70 Type 2 Audit Results

- Path Forward and Final Thoughts

Scope of Processes Covered by SAS 70 Type 2 Audit

- ERCOT management provided PwC 15 control objectives to be evaluated for design and operating effectiveness during the period of January 1 through September 30, 2007.

- Some objectives were changed from last year's SAS 70 – such changes were not significant; primarily refinements for greater efficiency in reporting.

- Scope comprises 15 control objectives:
  - 11 control objectives cover market business processes (from bid to cash transfer).
  - 4 control objectives cover general computer controls.

Scope of SAS 70 Type 2 Audit

Business Processes Comprise:

- QSE Qualification and Credit Monitoring Processes
- Scheduling and Bidding
- Retail (EDI) Transaction Processing
- Meter Data Acquisition and Validation
- Meter Data Aggregation, Loss Application and Unaccounted for Energy
- Settlement Data Input and Validation
- Settlement Statements, Billing and Invoices
- Financial Transfer
- Transmission Congestion Rights Qualification
- Transmission Congestion Rights Auctions
- Settlement of Transmission Congestion Rights

Scope of SAS 70 Type 2 Audit (continued)

Information Technology (IT) processes include:

- Computer Operations
- Management of Configuration and Program Area Changes
- Overall Logical and Systems Security
- Physical Security

Background on SAS 70 Type 2 Audit

- Audit conducted pursuant to AICPA Statement on Auditing Standards No. 70, as amended, are standardized means to provide assurance on internal controls to users of a service provider where the users are dependent upon the service provider's control environment.

- SAS 70 audit comprises various tests of controls comprising inspection, inquiry, observation and reperformance – thousands of items tested.

- SAS 70 Reporting Report is used by your market participants and their auditors to meet Sarbanes Oxley 404 and other requirements

- All ISO/RTO organizations in the U.S. issue SAS 70 reports annually.

Background on SAS 70 Type 2 Audit

- SAS 70 Audit report was issued by PwC on December 4, 2007

- The report includes the following sections:
  - Report of Independent Auditor
  - Management's Description of Controls
  - Testing Performed by Independent Auditors
  - User Organization Control Considerations
  - Additional Information provided by Management (unaudited)

SAS 70 Type 2
Audit Results

SAS 70 Type 2 Audit – Summary of Findings

- Final Audit Findings / Outcome
  - The SAS 70 Type 2 opinion is unqualified.
  - Exception noted in only one area
    - Transmission Congestion Rights Auctions

- Comparison to prior SAS 70

SAS 70 Type 2 Report	Opinion	Objectives Qualified	Key Areas Requiring Remediation
2007	Unqualified	None	None
2006	Qualified	1	Logical Security
2005	Qualified	2	Logical Security, Physical Security
2004	Qualified	3	Logical Security, Physical Security, Change Management

The SAS 70 Audit Process

Phase	2007 Timing	Description	Outcome
Walkthrough	April	Meet with process owners to update description of controls and obtain any changes for current year work	Completed meetings for all objectives: •Streamlined control objectives •Reviewed changes to Logical Security controls
Interim Testing	May – June	Complete testing of all key control activities to evaluate operating effectiveness over first ½ of period.	Successfully tested all activities which had occurred. •Allowed for early identification of potential issues
Final Testing	September – October	Complete testing of all key control activities to complete evaluation of operating effectiveness over full period.	Successfully tested all activities. •Exception noted in TCR auction identified during this period.
Completion	October – December	Gather all needed information on any exceptions identified, and complete PwC QC processes including consultations relating to exception conditions.	Management's evaluation and cooperation was effective in addressing the exception; PwC concurred with management's position – operated effectively .

SAS 70 Type 2 Audit – Process Issues/Results

- Audit completed on-time and on-budget.

- Success was a result of planning, communication and coordination of efforts between PwC and ERCOT contacts. Key elements were
    - Collaborative approach to addressing issues that resulted in opinion qualifications in prior years.
    - Formalized the walkthrough process in planning.
    - Communicated audit request lists and planned testing dates in advance of fieldwork.
    - Communicated progress to ERCOT Management on a weekly basis.

- Success next year will require continued commitment to planning, communication and coordination from both ERCOT and PwC.

Path Forward and Final Thoughts

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- Management and staff have been very cooperative during the execution of the SAS 70 Type 2 Audit.

- The unqualified opinion represents a significant accomplishment for ERCOT staff and management.

- Success seen in 2007 should be appreciated, but not taken for granted.
  - An unqualified opinion requires <u>all</u> control activities to be operating effectively throughout the period.
  - Changes in the environment and pressures on resources resulting from the nodal project pose a potential risk.
  - The period for 2008 SAS 70 is already here (Oct 1, 2007 – Sept 30, 2008)

- Planning for effective controls in the nodal market is underway.

- **Questions**

PricewaterhouseCoopers