

Review of Corporate Compliance Program

(Overview and Update)

**Audit Committee
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General Session**

Why Have a Compliance Program?

- **Two critical reasons:**
 - prevention of legal and/or policy violations generally reduces the risk of criminal and civil liability; and
 - as set forth in the FERC’s October 20, 2005 Policy Statement on Enforcement, corporations with an effective compliance program will be afforded greater deference in a criminal or civil prosecution related to employees’ violations, and may receive reduced civil or criminal penalties if a violation is found to have occurred (up to \$1 million per day).
- **Strategic Objective:** “. . . continuously and proactively review [CAISO] operations and activities to assure its compliance with legal and regulatory requirements.”
- **Division Objective:** “Reduce legal risk through a comprehensive legal compliance program.”
- **Division Strategy:** Develop an appropriate and effective Compliance Program for presentation to the BOG (2006).

Outline of a Compliance Program

- **Federal Sentencing Guidelines (Seven Elements):**
 1. Adopt written policies and standards
 2. Board oversight and Executive Management role
 3. Reasonable efforts to prevent misconduct (pre-hire)
 4. Effective communication and training
 5. Effective methods to monitor, audit, evaluate, and publicize
 6. Promote and consistently enforce the program
 7. Respond and take reasonable preventative measures
- **Existing elements will be utilized (non-exclusive)**
- **2006 Focus on Elements 1 through 3 (non-exclusive)**
- **2007 Focus on Elements 4 and 5 (non-exclusive)**
- **2008 Focus on Elements 6 and 7 (non-exclusive)**

Existing Elements

- **CAISO Has Basic Policies and Standards**
 - Code of Conduct, Employee Handbook, Information and Security Policies, Records Retention Policy, etc.
- **CAISO Already Engages in Relevant Processes**
 - SAS 70 Audit, Background Checks, Code of Conduct Training, Certification and Audit (and now reporting)
- **CAISO Includes Actively Engaged Departments**
 - Legal and Regulatory, Enterprise Risk Management (Internal Audit, Physical and Information Security), Human Resources, Finance, Facilities and Operations
- **Leverage Existing Elements to the Maximum Possible Extent and Focus on Identified Gaps**

What's Missing and Challenges

- **Formal Structure**
 - Audit Committee Oversight, General Counsel appointment as the Chief Compliance Officer, and business unit support from key Directors
 - Need to identify/close gaps and bring all elements together with overall structure for an effective Program
- **Defining proper scope for the organization**
- **Regulated industry with complex operations**
- **Resource and budget constraints**
- **Fostering a corporate culture of understanding and awareness with respect to risk/compliance**
- **Avoiding a “paper program”**

Upcoming Activities

- **Conduct a high-level assessment (June 1st to August 15th)**
 - Form Initial Committee, Gather Information, Gap Analysis
- **Establish overall blueprint (August 15th to Sept 1st)**
 - Structural Framework, Strategy and Marketing
- **Develop policies and standards (Sept 1st to Nov 1st)**
 - Update/ Create Documentation (Gap Analysis)
 - Create an Implementation Plan and Program Guidelines
 - Finalize all Associated Documentation (Iterative Process)
- **Obtain Necessary Approvals (Nov 1st to Dec 13th)**
- **Communication, Training and Implementation (2007)**
- **Continual refinement, self-assessment, monitoring and reporting (2008 and throughout process)**

Conclusion

- **Compliance Program is a Best Practice**
- **CAISO Already Has Many Required Elements**
- **Leverage Existing Elements**
- **Mitigate “Paper Program” Risk**
 - Have a Chief Compliance Officer
 - Make the program “right sized” for the organization
 - Focus on training, communication, and enforcement
 - Continually monitor and improve the program
- **Appropriate and Effective Compliance Program**