California Independent
System Operator Corporation

Memorandum

To: ADR/Audit Committee of the ISO Board of Governors

From: Nancy Saracino, Chief Compliance Officer

Date: September 2, 2009

Re: **Compliance Update**

This memorandum does not require Board action.

The *Compliance Program Policy* approved by the ISO Board of Governors (Board) on January 24, 2007, provides that the Chief Compliance Officer, with support from the Compliance Committee and Executive Management, will administer the Compliance Program "under the oversight of the ADR/Audit Committee of the Board of Governors." This memorandum is the report of the Compliance Officer and the Compliance Committee with respect to compliance efforts since the last report to the ADR/Audit Committee on May 18, 2009.

COMPLIANCE GROUP AND WECC AUDIT

The Compliance group remains focused on North American Electric Reliability Corporation's (NERC) Mandatory Reliability Standards. In July, the ISO self-certified compliance with certain standards related to Critical Infrastructure Protection, also known as "CIP." In October, Western Electricity Coordinating Council auditors will be in Folsom for a full audit of the ISO's compliance with the Mandatory Reliability Standards. Preparation for this audit has been the primary focus of the compliance group, with assistance from subject matter experts throughout the company.

COMPLIANCE COMMITTEE

The Compliance Committee met in June and July. These meetings, which centered on implementation of the *Compliance Program Policy*, included presentations about the model for the corporate compliance program and a new software package that the compliance group uses to manage and track compliance – the Governance, Risk and Compliance Tool. This tool provides a system of record for the compliance group and a central source to document applicable laws. It also tracks compliance issues. At the July meeting, the Committee heard from Enterprise Risk Management to discuss coordination of efforts to assure that compliance risks are effectively analyzed and reported.

The Committee also heard from the Compliance Officer about best practices presented at a two-day training program sponsored by the Corporate Compliance and Ethics Institute. Several companies apparently handle compliance together with business ethics, in an effort to ensure that they aim higher than mere compliance with minimum standards. The Compliance Committee decided to look into this approach, with the expectation that the Committee will recommend expansion of its responsibilities to include business ethics. The Committee also heard about models for a higher quality of rules and policies that present requirements to employees in much simpler language that the ISO has traditionally used. These "third generation" codes of conduct from other companies will serve as a template for future compliance-related policies at the ISO.

COMPLIANCE TRAINING

The Compliance Committee is also responsible for compliance training, which the ISO conducts annually for the general employee population. The 2009 training was held for all employees in July and August. Legal compliance topics included the Employees Code of Conduct and Ethical Principles, as well as compliance with the tariff and NERC Mandatory Reliability Standards. Employees were required to complete a conflicts of interest disclosure form. Other subjects covered in training included preserving confidential information, compliance with the ISO's document retention policy, workplace safety, and prevention of sexual harassment and workplace violence.