



California ISO
Your Link to Power

Compliance Program Policy



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		Revision No.	-
Compliance Program Policy		Print Date	1/19/2007
		Effective Date	-

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1. OVERVIEW

1.1 Purpose

The California Independent System Operator Corporation (CAISO) is required to comply with applicable laws and regulations and is committed to continuously and proactively reviewing its operations and activities to assure compliance with legal and regulatory requirements. Creating an effective Compliance Program has been identified as a primary means by which the CAISO can achieve the compliance objective set by the recently completed Strategic Business Plan. The purpose of this document is to establish the Policy for the Compliance Program, including the procedure for exceptions and changes to the approved Policy, which is essential to the creation of an effective Compliance Program consistent with this objective.


The Board, Executive Management, and each CAISO Division, Department and Business Unit has responsibility for compliance with applicable laws and regulations. This Policy is intended to help assure that responsibilities for managing specific areas of compliance are clearly assigned and that those responsibilities are well understood across the CAISO. This Policy will be revised as necessary based on feedback to improve the efficiency and effectiveness of information sharing and the overall quality of the Compliance Program.

1.2 Areas Affected

This Policy applies across the CAISO and should be understood by the Board, Executive Management, and each Division, Department and Business Unit. It is the responsibility of each Division, Department and Business Unit to adopt and adhere to Policies and Standards consistent with the objectives of the Compliance Program. All employees engaged in corporate activities will be expected to have a basic understanding of the legal principles applicable to their activities. Training at various levels across the corporation will be part of the Compliance Program and are discussed further under Section 4 of this Policy.

1.3 Objectives

The CAISO has identified an effective Compliance Program as a primary vehicle to achieve the compliance objective for two primary reasons. First, an effective Compliance Program will help prevent legal and/or policy violations and generally operate to reduce the CAISO's exposure to criminal, administrative, and civil liability. This will increase confidence in CAISO operations and activities, which in turn will support other strategic objectives and the core values of the corporation. A secondary benefit of establishing a formal compliance program, as recognized in the Federal Energy Regulatory Commissions (FERC) October 20, 2005 Policy Statement on Enforcement, is that the CAISO may be afforded greater deference in a criminal or civil prosecution related to violations of applicable laws and/or regulations, and may receive reduced civil or criminal penalties if a violation is found to have occurred.

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In furtherance of this strategic objective, the CAISO intends to establish a Compliance Program that addresses the key elements contained in the Federal Sentencing Guidelines as follows:

1.3.1 Policies and Standards

The CAISO will adopt written Policies and Standards to be followed by all of its employees and other contractors or agents to make responsibilities for compliance clear and minimize the prospect of non-compliance. Such Policies and Standards will at a minimum require honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest, full and fair disclosure, compliance with applicable laws and regulations, prompt internal reporting of violations, and accountability for adherence to CAISO Policies and Standards.

1.3.2 Board Oversight

The Chief Compliance Officer (Section 3.3), with support from the Compliance Committee (Section 3.4) and Executive Management will administer the Compliance Program under the oversight of the ADR/Audit Committee of the Board of Governors.

1.3.3 Prevention


Every effort will be used to identify and resolve gaps in compliance and in the exercise of due diligence, including background checks, to deny employment to individuals who may have a propensity for misconduct.

1.3.4 Communication and Training

Effective methods for communication with respect to the applicable Policies and Standards will require all employees to participate in training programs and/or receive publications that explain in a practical manner what is required with respect to compliance. In addition, Executive Management will provide the Board of Governors with Compliance Program related training.

1.3.5 Monitoring, Auditing, Evaluation, and Publication

Reasonable steps to achieve compliance with the applicable laws, regulations and the Principles, Policies and Standards will be taken. These steps will include a mechanism to assure that potential gaps are periodically reassessed as laws and regulations change, periodic audit and review of internal controls and reports to Executive Management on the findings of such audits and reviews, and monitoring of the execution of corrective actions that are adopted to fill gaps and respond to audit recommendations. All employees will be encouraged to report potential illegal or improper conduct through appropriate internal channels, or

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anonymously, under a program that provides assurance of non-retaliation.

1.3.6 Enforcement

The applicable Policies and Standards will consistently be enforced at all levels of the corporation through education and/or appropriate disciplinary mechanisms, including, as appropriate, discipline of individuals who fail to report misconduct by others, or who directly violate any applicable laws or regulations, the Compliance Program, or applicable Policies and Standards or possible termination of agreements with respect to contractors or agents.

1.3.7 Response and Improvement

After a violation has been detected, the CAISO will take reasonable measures to respond appropriately and to prevent further similar offenses, including any necessary modifications of the Compliance Program and/or the applicable Policies and Standards.

2. POLICY STATEMENTS

The following Policy statements include elements intended to assure that the Compliance Program is effective.

2.1 Federal Sentencing Guidelines


The Compliance Program will address the key elements or steps contained in the Federal Sentencing Guidelines and other relevant principles (see Sections 1.3.1 through 1.3.7 above).

2.2 Management Support

The Board of Governors and Management at all levels, starting with the Chairman and the President and Chief Executive Officer, are committed to the objectives of the Compliance Program, and will be involved in ensuring the effective execution of the program. Compliance activities will be a part of management goals and sufficient resources will be deployed to make sure they are effectively reaching all appropriate employees. The Chief Compliance Officer (see Section 3.3) will be assigned responsibility for compliance activities and all other departments will have access to the Chief Compliance Officer to ensure that messages are well communicated and the Policies and Standards are enforced.

2.3 Employees Code of Conduct and Ethical Principles

The CAISO will have in place a written policy that establishes the commitment to legal compliance and outlines the corporate policies to ensure that business conduct is ethical (the "Employees Code of Conduct and Ethical Principles"). In addition, a separate

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written policy that establishes a specific code of ethics will be applied to members of the Board of Governors.

The Employees Code of Conduct and Ethical Principles will be considered a statement of general corporate policy that provides fundamental principles, values and a framework for action within the CAISO. The Employees Code of Conduct and Ethical Principles, or appropriately similar documents for contractors or agents, will discuss the CAISO's commitment to comply with applicable laws, federal and state, rules, regulations and all other legal obligations, including contractual commitments. Emphasis will be placed on the prevention of fraud, abuse and misconduct as a matter of business ethics incumbent upon executives, employees and, as appropriate, contractors and other agents.

The Board of Governors has formally adopted an Employees Code of Conduct and, along with the supplemental Ethical Principles, will serve as the policy of the corporation, consistent with the Principles, Policies and Standards Framework. The Employees Code of Conduct and Ethical Principles will be distributed to all employees and available on the corporate intranet, with a description of methods for resolving questions of interpretation.


2.4 Other Policies and Standards

In addition to the Employees Code of Conduct and Ethical Principles, the CAISO will also prepare written Policies and Standards as necessary for particular risk areas relevant to the corporation's activities that focus on the laws, rules and regulations applicable to those activities. These Policies and Standards may specify the nature of documentation required to guide individuals who perform activities and fill roles in which the risk of non-compliance is determined to be significant through ISO's process for managing enterprise risks, or by other means.

2.5 Exceptions and Changes

No exceptions or changes to this Policy will be made without written approval from Compliance Committee (as described in Section 3.4), or their authorized representative; provided, however, that the ADR/Audit Committee will be informed of any exceptions or changes and no exception or change may be made by the Compliance Committee if the exception involves a matter subject to ADR/Audit Committee approval. All determinations with respect to exceptions or changes will be made in accordance with the Principles, Policies and Standards Framework.

Proposed exceptions or changes to this Policy must be submitted to the Compliance Committee. A requested exception or change must include a business case defining the exception or change, purpose of the exception or change, and alternative considerations to making the exception or change.

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3. RESPONSIBILITIES

3.1 General Responsibilities

Compliance with this Policy is the responsibility of Executive Management and every CAISO Division, Department and Business Unit, under the oversight of the ADR/Audit Committee of the Board of Governors. It is the responsibility of all ISO employees and agents as appropriate to comply with applicable laws and regulations and to have a basic understanding of the legal principles that apply to their corporate activities.

3.2 Board and ADR/Audit Committee Responsibilities

The Board will oversee the Compliance Program and provide direction and support to the Chief Compliance Officer pursuant to a delegation to the ADR/Audit Committee. The ADR/Audit Committee will in turn report to the Board in accordance with its charter.

3.3 Chief Compliance Officer

The CAISO will designate a Chief Compliance Officer with responsibility for compliance activities. The Chief Compliance Officer will have substantial authority within the CAISO and will have direct access to the President and Chief Executive Officer, other Executive Management, Legal Counsel, and the Board of Governors. The Chief Compliance Officer will establish a Management level Compliance Committee and will report to the ADR/Audit Committee periodically, but in no circumstance less frequently than annually.

3.4 Compliance Committee Responsibilities


The Compliance Committee is responsible for Compliance Program implementation, reporting, administration, and training. The Compliance Committee will collaborate with the Enterprise Risk Management Department to assure that compliance risks are effectively analyzed, communicated and reported, and that completion of mitigation measures and other corrective actions are accomplished.

3.5 Executive Management Responsibilities

Executive Management provides direction to the Chief Compliance Officer and the Compliance Committee with respect to management level Compliance Program responsibilities or this Policy.

3.6 Division/Department/Business Unit Responsibilities

Each CAISO Division, Department and Business Unit is responsible for identification of the laws and regulations applicable to CAISO activities for which it is responsible with support from the Legal and Regulatory Department, and for compliance with all laws and regulations applicable to their activities in accordance with the Compliance Program and

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this Policy.

3.7 Compliance Representative Responsibilities

Compliance representatives from each CAISO Division, Department and Business Unit will be responsible for communication with the Compliance Committee regarding compliance issues arising under the Compliance Program or this Policy.

4. COMMUNICATIONS AND TRAINING

4.1 Scope

Training in compliance will extend to all employees, including the Board, Officers, Directors and Managers. Training will be ongoing and not merely consist of initial training at the onset of the Compliance Program or at the beginning of a person's employment with the CAISO. There will be general session training applicable to all personnel and separate sessions that focus on compliance issues relevant to employees' specific duties. In addition, more in depth training will be developed for those employees who participate in activities that present a significant risk of fraud or abuse or otherwise constitute a significant risk as determined by the Enterprise Risk Management Department.


The Employees Code of Conduct and Ethical Principles will be distributed in writing and employees will be required to sign and date a statement that reflects their knowledge of and commitment to the Employees Code of Conduct and Ethical Principles and other selected applicable Principles, Policies and Standards. Contracts with independent contractors, vendors and other agents of the corporation will, to the extent necessary, appropriate and possible, include appropriate provisions of the applicable Principles, Policies and Standards, including areas addressed by the Employees Code of Conduct and Ethical Principles.

Training will emphasize the CAISO's commitment to compliance with applicable laws and regulations, the applicable Principles, Policies and Standards, and contractual commitments. Employees will be reminded of their obligation to report misconduct to the appropriate persons within the organization or to utilize the Code of Conduct Reporting tool if appropriate. Specific training will be made available on an as needed basis in order to achieve the objectives of the Compliance Program.

Attendance and participation in compliance training will be made a condition of employment. Failure to comply with the training requirements may be disciplined, up to and including termination.

4.2 Frequency

General compliance training will be required annually for all employees and will cover the Employees Code of Conduct and Ethical Principles and selected applicable

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Principles, Policies and Standards that apply across the CAISO. Specific compliance training will be developed and administered on an as needed basis consistent with the objectives of the Compliance Program

4.3 Effective Communication

Employees will be encouraged to approach and communicate with the Chief Compliance Officer or other members of the Compliance Committee. The CAISO will have in place a Policy regarding confidentiality and non-retaliation to support these communications. More than one path of reporting will be available to employees in order to minimize the risk of a diversion or cover-up, including an anonymous reporting tool, and open lines of communication will be maintained for those outside the corporation to report suspected wrongdoing.

5. ENFORCEMENT AND PREVENTION


5.1 Disciplinary Guidelines

The CAISO will adhere to guidelines regarding disciplinary action for employees who fail to comply with applicable laws and regulations, the Employees Code of Conduct and Ethical Principles, or any other applicable Policy or Standard. The disciplinary guidelines may be established in each specific document and will describe the types of disciplinary action that may be imposed, as well as the procedures for handling disciplinary issues and the persons within the CAISO responsible for taking action in such cases. The disciplinary guidelines will be published so that all CAISO employees are educated about such matters. The guidelines will be consistently applied in a manner that assures all levels of employees are subject to the same types of disciplinary action for the commission of similar offenses.

5.2 Internal Audit and Monitoring

After the Compliance Program is operational, procedures will be followed to monitor and audit the success of the program. The Compliance Committee will prepare an annual report on the status of the Compliance Program in coordination with Enterprise Risk Management and Internal Audit, which will be provided to Executive Management and the ADR/Audit Committee. Periodic reports may also be provided as appropriate.

Audits should address compliance with applicable laws and regulations, and the CAISO may in its discretion engage outside auditors to assist in this process, particularly in areas relevant to CAISO's business. The audit activities will also focus on whether there has been adherence to the education and training activities required by the Compliance Program and to verify that all employees are in fact conforming to Employees Code of Conduct and Ethical Principles.

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5.3 Response and Corrective Action

If an audit or other information reveals a possible violation of the Employees Code of Conduct and Ethical Principles or applicable laws and regulations, the Chief Compliance Officer or designee(s) should promptly investigate the conduct to determine whether a violation actually occurred. If a violation did in fact occur, steps will be taken to correct the problem, including notifying the appropriate authorities within a reasonable period if, after a reasonable inquiry, there is reason to believe that there may have been a violation of criminal, civil, or administrative law. The CAISO will follow its internal investigation procedures in conducting such investigations