

Memorandum

To: ISO Board of Governors

From: Roger Collanton, Vice President, General Counsel & Chief Compliance Officer

Date: June 21, 2016

Re: Decision on amendments to corporate policies

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management proposes two substantive amendments, one each, to the California ISO Code of Conduct and Ethical Principles and the Open Meeting Policy, as well as some administrative edits. The amendment to the Code of Conduct allows the ISO to exempt substantially full-time contractors who have no role in ISO operations, nor access to ISO confidential or market information, from conflicts of interest disclosure requirements. This change is consistent with ISO best practices and will eliminate an administrative burden for the ISO, which provided no benefit in that there is no conflict risk for these contractors. The amendment to the Open Meeting Policy expressly states that, in addition to the Board, the Energy Imbalance Market Governing Body, as set forth in the EIM Governing Body Charter, is subject to and must comply with the policy. These changes will assist with the ISO's Code of Conduct compliance requirements, eliminate an administrative burden, and provide transparency regarding the EIM Governing Body.

Management proposes the following motion:

Moved, that the ISO Board of Governors approves the amendments to the ISO Code of Conduct and Ethical Principles and the ISO Open Meeting Policy, as described in the memorandum dated June 21, 2016.

DISCUSSION AND ANALYSIS

Code of Conduct and Ethical Principles

Management proposes an amendment to the Code of Conduct that exempts substantially full-time contractors, who Management determines present no risk to the ISO's independence, from having to complete an annual conflicts of interest disclosure form. (See Attachment A.) Currently, all substantially full-time contractors are deemed to have

the same risk profile as that of full time ISO employees, and thus are required to comply with the ISO's conflicts of interest requirements, including an annual conflicts of interest disclosure form. This requirement is part of the ISO's compliance with a tariff provision that pertains to the ISO's independence from market participants. The tariff requires the ISO, at least annually, to retain an independent accounting firm to review governors, officers, employees, and "substantially full-time consultants [and] contractors" for compliance with the ISO Code of Conduct. Accordingly, the ISO annually provides its auditor with compliance evidence, including conflicts of interest disclosure forms for all contractors that are considered substantially full-time (i.e., contractors who work at the ISO at least 30 hours per week for at least 6 months). This effort requires certain contractors, who have no responsibilities related to the operation of the electricity grid or market, and have no access to ISO confidential or market information, to complete the disclosure form, even though they have no risk of affecting the ISO's independence. These individuals, such as janitorial staff and café staff currently must submit an annual conflicts of interest disclosure form, despite that they present no conflict risk.

Exempting contractors who have no ability to affect the ISO's independence from the conflicts disclosure requirement eliminates a burdensome and futile administrative exercise for the ISO. The ISO administers the conflicts of interest disclosure requirements electronically (through the Centric program) which allows all subject to the requirement with email access to complete the disclosure forms through the computer. This creates an efficient means of completing and submitting the forms, and an effective audit trail and repository for this process. This requirement must be processed manually for personnel, such as the janitorial and café staff, who lack email access. This creates an administrative burden as Human Resources staff must track down these staff, many of whom have no management on-site, to provide the forms and then collect the completed forms. This simple process can take these contractors several weeks to complete due to their varying work schedules and their limited access to email and computers for communication regarding this requirement. Next, Human Resources staff must manually enter the completed paper disclosures into the Centric form as a proxy record, which is labor intensive. This is an administrative burden for the ISO that, given the required manual input, also introduces the risk of human error in processing the forms, for which there is no corresponding benefit to the ISO's Code of Conduct compliance efforts.

Two other ISOs, New York and New England, eliminated this administrative burden by adopting rules that permit them to exclude certain contractor personnel from their conflicts of interest disclosure requirements. Specifically, both of these ISOs' codes of conduct contain a provision regarding which consultants and contractors should be required to adhere to conflicts of interest requirements, including a disclosure requirement. Both codes include a provision that requires consideration of: (1) the nature of services provided by the contractor, (2) the length of the engagement, and (3) whether consultant or contractor will have access to confidential or market information, allowing them to exempt from conflicts of interest disclosure requirements contractors who present a limited risk under these criteria.

The ISO proposes to implement this change by adding a similar provision in the ISO Code of Conduct. Specifically, we propose a provision that permits the ISO, based on its judgment, and subject to the Board's oversight on Code of Conduct compliance, to exempt certain substantially full-time contractors from the conflicts of interest disclosure requirement, based on the Management's consideration of the same criteria used by the New York ISO and ISO-New England. Currently, applying this criteria, the ISO would exempt cleaning and café contractor staff from the disclosure requirements: the service they provide the ISO is wholly unrelated to ISO grid or market operations; they have no access to confidential or market information of the ISO, and generally have a higher turnover rate than other ISO contractors. Since these personnel would not affect the ISO's independence, excluding them has no impact on the ISO's Code of Conduct compliance. Nor does excluding them change any of the other protections in place such as background checks and badge access, as well as other rules, such as those around use of corporate assets, anti-harassment and workplace violence.

Open Meeting Policy

Management also proposes a substantive amendment to the Open Meeting Policy, which specifies that the policy applies to the recently approved Energy Imbalance Market Governing Body, as set forth in the EIM Governing Body Charter. (See Exhibit B.) This will accurately identify the application of the Open Meeting Policy within the policy.

CONCLUSION

Management recommends that the Board accept the proposed amendments to the Code of Conduct and the Open Meeting Policy as proposed, as both changes will enhance the ISO's compliance and transparency efforts and eliminate unnecessary administrative burden.