

Memorandum

To: ADR/Audit Committee of the ISO Board of Governors
From: Nancy Saracino, Chief Compliance Officer
Date: May 8, 2009
Re: **Compliance Committee Update**

This memorandum does not require Board action.

The *Compliance Program Policy*, approved by the 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 ISO Board of Governors.” This memorandum is the report of the Chief Compliance Officer and the Compliance Committee with respect to compliance efforts since the last report to the ADR/Audit Committee.

Continued implementation and enhancement of the *Compliance Program Policy*

The Compliance Committee’s recent efforts to ensure the effective implementation of the *Compliance Program Policy* have been focused on prevention and the development of programs to identify and resolve gaps in compliance. To this end, ISO staff has developed four compliance programs focused on the four primary areas of regulation: NERC Mandatory Reliability Standards, tariff, corporate requirements, and general regulatory requirements. To assist with implementation of these programs, the ISO is also developing a Compliance Development and Monitoring Program. This program will help business units develop their own processes and procedures to ensure compliance, and then provide for monitoring of compliance.

The NERC Mandatory Reliability Standards compliance program, administered by the Compliance group, continues to develop and mature. The group holds weekly cross-departmental meetings to track implementation of the standards. The group is working toward a self-certification in July 2009 for certain standards related to Critical Infrastructure Policy or “CIP,” and a full audit by the Western Electricity Coordinating Council (WECC) in October 2009. The Compliance group has also implemented a new software package to manage and track compliance – the Governance, Risk and Compliance (GRC) tool. This tool is populated with CIP standards, with other standards will follow. The Compliance group’s documentation process has been assessed by Internal Audit, which has recommended improvements. The Internal Audit group will also help Compliance prepare for the October WECC audit.

On other compliance-related initiatives, the Compliance Committee has developed a chart of requirements that FERC has established for the compliance programs of public utilities, and will be tracking the ISO's program against those requirements, as well as the *Compliance Program Policy*. The Committee has also reviewed and discussed the establishment of disciplinary guidelines for violations of policies, laws or regulations.

Finally, as of the end of 2008, all employees have signed the Employee Proprietary Information and Assignment of Inventions Agreement. New employees sign the agreement during orientation. These agreements protect the company's intellectual property and – significantly for compliance purposes – require employees to adhere to confidentiality requirements even after leaving the company.

Training

The Committee is also responsible for compliance training. The ISO conducts compliance training for the general employee population annually. The 2009 training, which is still in the planning stages, is scheduled for late summer. Topics will include: the Employees Code of Conduct and Ethical Principles, compliance with the tariff and NERC Mandatory Reliability Standards, the Information Classification Policy, proper use of e-mail, business ethics, workplace safety, and prevention of sexual harassment and workplace violence.

In early May, the Chief Compliance Officer and the Senior Counsel advisor to the Compliance and Internal Audit groups attended a two-day program covering a wide variety of best practices in compliance, sponsored by the Corporate Compliance and Ethics Institute.