

# Memorandum

**To:** Audit Committee of the ISO Board of Governors  
**From:** Nancy Saracino, Chief Compliance Officer  
**Date:** July 16, 2010  
**Re:** *Compliance Update*

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*This memorandum does not require Board action.*

The *Compliance and Ethics Program Policy*, which the Board revised in March 2010, provides that the Chief Compliance Officer, with support from the Compliance and Ethics Committee and Executive Management, will administer the Compliance Program “under the oversight of the Audit Committee of the Board of Governors.” This is the report of the Compliance Officer and the Compliance and Ethics Committee about compliance efforts since the previous report on December 9, 2009.

## **Compliance and Ethics Committee Report**

Since December, work has been completed on the following compliance initiatives:

- A new corporate policy has been adopted to ensure that employees who report wrongdoing will not be subject to retaliation. This policy is included in the new employee handbook, to be rolled out with mandatory compliance training later this summer;
- The company has rolled out disciplinary guidelines that explain the criteria and procedures for discipline of employees who violate applicable laws or corporate policies; and
- The ISO has developed and released a guide to the employees code of conduct and ethical principles, which explains the core requirements in plain language.

With the first two items complete, the ISO has fully implemented the compliance oversight framework detailed in the Compliance and Ethics Program Policy and required by FERC’s Policy Statement on Penalty Guidelines (issued March 18, but pending final order). Going forward, the work of the Committee will be focused on overseeing efforts to detect and prevent violations, as well as promoting an organizational culture that encourages ethical conduct and a commitment to comply with the law.

The Committee also approved a revised ISO records retention policy, and reviewed plans for mandatory compliance training, which will take place later this summer.

## **Corporate Compliance Team Initiatives**

The corporate compliance team has been working on several other compliance-related initiatives.

### ***Tariff Compliance Framework***

This project is an effort to formalize and validate compliance with the tariff by decomposing it into discrete requirements, rating compliance risks, identifying owners for each requirement, documenting controls, and mapping to each requirement the relevant process documents and sections of business practice manuals. The project began with a pilot in the market services group, and is now being implemented in the remainder of the affected business units. More than one hundred subject matter experts are involved in the project. The overall project is 60% complete.

### ***Records Retention Project***

To enhance compliance with the ISO's records retention policy, this project involves taking an inventory of all corporate records and ensuring that they are retained or discarded in accordance with approved retention schedules and outstanding litigation holds. This is a company-wide effort that is currently on track for completion this year.

### ***Compliance Automation***

This project will automate processes for compliance with regulatory standards in order to improve efficiency and accuracy. The initial phase was a pilot focused on compliance with NERC's Critical Infrastructure Protection requirements. This pilot project, which used existing ISO systems to validate compliance with the requirements, was a tremendous success. With the lessons learned and the improved understanding of the technology, the team has begun to plan the next phase of the project, in which it will develop the design for the new compliance automation system.

### ***Compliance with NERC Mandatory Reliability Standards***

The semi-annual certification of compliance with Critical Infrastructure Protection (CIP) standards covers version one of these standards, which were in effect from January 1, 2010 through March 31, 2010. The ISO is prepared to certify its compliance to WECC by August 13, 2010. The ISO is now complying with version two of the CIP standards, which went into effect April 1, 2010. The ISO will certify compliance with these standards in the next semi-annual certification, due in January 2011.

On January 20, 2010, the ISO certified compliance during calendar year 2009 with 56 standards identified by NERC.