

Memorandum

To: Audit Committee of the ISO Board of Governors
From: Roger Collanton, Vice President, General Counsel & Chief Compliance Officer
Date: December 10, 2015
Re: Compliance Committee update

This memorandum does not require Committee action.

The Board of Governors' *Compliance and Ethics Program Policy* provides that the Chief Compliance Officer will administer the ISO's compliance and ethics program "under the oversight of the Audit Committee of the Board of Governors," and with support from Executive Management and the Compliance and Ethics Committee. The Compliance and Ethics Committee met on September 22, 2015. This is the Chief Compliance Officer's update on significant compliance initiatives since the previous report, dated September 10, 2015.

WECC compliance audit

The Corporate Compliance Group and employees throughout the company spent much of the year preparing for WECC's triennial audit of the ISO's compliance with mandatory reliability standards. This was the third time that the ISO has been audited since reliability standards became mandatory in 2007, and the first since NERC changed its enforcement process and evidentiary requirements to focus on risk-based controls, meaning the tools and processes that a utility applies to assure compliance with a standard, as opposed to simple evidence of compliance. After participating in the regional risk-based activities, the ISO successfully demonstrated a strong compliance program and robust controls and consequently received a substantially decreased audit scope (in comparison to the ISO's past audits).

WECC conducted the audit from November 9 through 20, and we are pleased to report that the results were excellent. The two week audit covered the Operations and Planning standards and Critical Infrastructure Protection standards. During the first week, the ISO responded to data requests. During the second week, a total of 16 auditors from WECC were on site, conducting in-person interviews and continuing to issue data requests for evidence.

The auditors found no violations. They attributed the positive results to the ISO's strong culture of compliance and robust control environment the ISO demonstrated earlier in the year by participating in the regional risk-based monitoring activities.

Transition to CIP version 5

The auditors previewed the ISO's compliance with version 5 of the critical infrastructure protection cybersecurity standards, which are not in effect until April 2016. Version 5 was adopted in November 2013, and NERC initiated a program to help industry transition directly to version 5 from the currently enforceable version 3 standards.

The ISO embraced the transition to version 5 early and submitted its evidence to WECC as part of the version 5 review that took place during the WECC audit. The extent of the changes varied from minor terminology changes to major computer network configuration changes that dictated how interactive access is obtained within the electronic security perimeter.

Although the auditors had no findings regarding the ISO's compliance with version 5, they identified six areas of concern and one recommendation all around documentation, together with two positive observations about the ISO's progress. Their input will help to improve the ISO's processes and controls, and assure full compliance ahead of the April 2016 effective date.

Compliance training

In November, all ISO employees completed annual compliance training. This year's training covered, among other things, the code of conduct, prevention of sexual harassment and workplace violence, records management and protecting the security of the grid. In connection with the training, employees completed forms disclosing investments and other potentially conflicting interests, and acknowledged important ISO employment policies. This year, the ISO collected these forms on line, through a new automated system. This system improves the ISO's access to these records, both to analyze the disclosures as they are provided and to serve as a repository with an audit trail afterwards.