Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Chief Compliance Officer

Date: October 20, 2011

Re: **Compliance Update**

This memorandum does not require Board action.

The *Compliance and Ethics Program Policy*, as revised by the Board in March 2010, provides that the Chief Compliance Officer will administer the Compliance 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. This is the report of the Compliance Officer and the Compliance and Ethics Committee about progress on compliance initiatives since the previous report on July 6, 2011.

The Compliance and Ethics Committee met on August 17, 2011. A status report on major compliance initiatives follows.

Annual Compliance Training

On October 3, the ISO rolled out mandatory compliance training for all employees. For the first time, the ISO is providing this training by computer, which offers several advantages over the live lectures that were used in the past. The training is interactive for every employee because questions must be answered in order to continue the presentations. The flexibility of computer-based training allows every employee -- trainees and trainers – to use their time more efficiently than the traditional half-day of time dedicated to in-person training. In addition, the format allows for similarly high quality of presentation on the subject matter as employees received with the in-person training. This year's subjects include the employees' code of conduct, the corporate compliance program, safety, prevention of harassment and prevention of workplace violence.

Compliance Risk Assessment

As part of the corporate initiative to establish a compliance culture, the Corporate Compliance team is assessing compliance risks in the areas of the tariff, NERC

mandatory standards, and corporate policies. Both Internal Audit and Corporate Compliance will use the results of the assessment to develop and prioritize annual proactive monitoring schedules.

The team is getting guidance from outside experts to identify, rate and prioritize compliance risks in the areas of the tariff, other FERC regulatory requirements, and corporate policies. The assessment is comprised of a combination of individual interviews and focus groups of five to ten personnel, across six ISO business units. The team anticipates issuing a final report by the end of October prioritizing risks across all areas of ISO compliance, and providing recommendations for risk mitigation. The results of this overall risk assessment will be a key input to the ISO's compliance monitoring program for 2012.

Corporate Policies

The corporate policy compliance program will establish a process for creating, reviewing, approving, maintaining, and monitoring corporate policies. The Business Planning and Operations team has prepared a draft policy, procedure, and template for creating new corporate policies and has vetted the documents internally. In addition, a monitoring process is under development that will ensure that corporate policies are available to all appropriate ISO personnel, are stored in a single central location, and are reviewed annually.

eRecords

The corporate compliance team also oversees the initiative to improve how the ISO manages records. The initiative encompasses the establishment of a corporate document repository in SharePoint, which will be mandatory for the creation, and storage of all record and non-record documentation. The project includes a solution to store email records, standardized templates for document creation, and the enforcement of document retention schedules across the organization. As part of the ISO's transition to SharePoint, each division is given a 30 day pilot of SharePoint to test the system and receive additional training and adjustments of the initial SharePoint structure. This pilot approach has been well received with a successful adoption rate. SharePoint sites have been built for more than 55% of the ISO's 77 individual business units, with completion expected in November 2011. After completion of the sites, each business unit will be required to migrate its electronic data to the sites. This will help the ISO conform to records retention requirements, reduce electronic storage space and ultimately enhance search and retrieval capabilities.