

Memorandum

To: Audit Committee of the ISO Board of Governors

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

Date: March 12, 2014

Re: **Acceptance of Code of Conduct Certification Process Report for 2013**

This memorandum requires Committee action.

EXECUTIVE SUMMARY

PricewaterhouseCoopers LLP completed its review of the California Independent System Operator Corporation's code of conduct compliance processes for our employees, substantially full-time contractors and members of the Board of Governors for 2013, and issued its report on February 5, 2014.

The tariff requires that an independent accounting firm conduct an annual review of the code of conduct certification process. Furthermore, in the ISO's 2011 FERC audit, which included in its scope the ISO's compliance with independence requirements, FERC recommended that the ISO design better controls for monitoring potential conflicts of interest, including improved disclosure forms, procedures for spot-checking for potential conflicts of interest, and more effective internal auditing of the process. Management worked with PwC to implement FERC's recommendations, starting with the 2011 code of conduct audit and continuing to the current 2013 audit.

The FERC recommendations are reflected within the scope of the attached Code of Conduct Certification Process Report for 2013, issued by PwC on February 5, 2014, which also satisfies the tariff requirement. In particular, the scope of the 2013 review included the following:

- Inspected conflict of interest forms for signature and written disclosure of any conflicts;
- Performed independent confirmation of a sample group of employees' responses to conflict of interest form to determine if any exceptions were noted by the employee;
- Confirmed the status of "completed" for all employee required training, including training on the Code of Conduct;

- Confirmed that the Legal department conducted an assessment of all disclosed conflicts.

PwC performed these procedures with only two minor exceptions. Specifically, the ISO's internal analysis of the annual Code of Conduct disclosure forms did not include two potential conflicts of interest that were indicated on two separate employees' Conflicts of Interest Disclosure forms. Once this oversight was brought to Management's attention, we promptly corrected the analysis.

Therefore, Management proposes the following motion:

Moved, that the Audit Committee of the ISO Board of Governors accepts the Code of Conduct Certification Process Report issued on February 5, 2014 by PricewaterhouseCoopers LLP for the testing of the ISO's code of conduct certification procedures for 2013.