 <b>California ISO</b> Your Link to Power	<b>Board Policy (Corporate Governance)</b>	Review Date: Policy No.:	xx/xx/xxxx TBD
<b>California ISO Principles, Policies &amp; Standards Framework</b>		Version No.:	1.0
		Effective Date	4/19/2006

## 1. INTRODUCTION

The Principles, Policies & Standards framework is a three-tier approach to provide direction and guidance to the organization. *Principles* set forth key values and objectives. *Policies* apply the Principles to the strategic and operational needs of the Corporation. *Standards* provide specific tools and instructions in accordance with the Policies. Details about how to develop, draft and manage Policies and Standards are set forth in the Corporate Policy Creation Procedures and the Corporate Standards and Guidelines Creation Procedures.

## 2. PURPOSE

The California ISO will ensure that its Principles, Policies and Standards are appropriate for its current organizational structure, operating conditions and the external business environment. Existing Principles, Policies and Standards will be reviewed annually. As part of this review, the Corporate Secretary, in consultation with the Corporate Management Committee, will confirm that Principles, Policies and Standards remain current and meet business needs; that processes are in place for training new hires and reinforcing all employees' understanding of Principles, Policies and Standards; and that changes to Principles, Policies and Standards are actively communicated. A report with the results of the assessment will be presented to the President and CEO and the Governance and ADR Committee of the Board.

## 3. APPROVAL PROCESS

### 3.1 Principles


All Principles will require Board of Governors approval, after consideration and recommendation by the Governance ADR Committee.

### 3.2 Policies

Policies require approval by the Board of Governors, a Board Committee (as determined by its terms of reference or other delegation by the Board), or by Management.

Board of Governors approval is required for the following Policies (Board Policies):

- 3.2.1 All Policies that delegate authority from the Board to Management, such as financial approval thresholds, and that set limitations on that authority;
- 3.2.2 All Policies that impact strategic direction for the Corporation;
- 3.2.3 All Policy matters that materially change the risk profile of the organization, as recommended by the President and CEO; and
- 3.2.4 All Policies specifically identified in the Corporation's Bylaws.

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Management approval at the President and CEO level is required for all Policies that are related to operational or day-to-day management of the Corporation and affect the entire business enterprise (Corporate Policies). Subordinate Policies may be adopted at the division or department level provided they complement Corporate Policies (Supporting Policies). All Supporting Policies must be approved by the division Officer or Vice President or department Director, as appropriate.

The Corporate Secretary will review each proposed Policy change, based on the above criteria, to determine which level of approval is required. The Corporate Secretary will provide an annual report to the Governance ADR Committee of all Policy changes and related approvals.

### 3.3 Standards

Standards generally require approval by the President and CEO, the responsible Officer or Vice President, or the responsible Director (Corporate Standards). Approval levels for Corporate Standards parallel the approval level for the Policy that they support. Subordinate Standards may be adopted at the division or department level provided they complement Corporate Standards (Supporting Standards). Supporting Standards do not require approval by the division Officer or Vice President or department Director due to the level of detail generally covered in these documents; however, the applicable division Officer or Vice President or department Director remains responsible for any Supporting Standards established under their purview.

The Corporate Secretary will review each proposed Corporate Standard change, based on the above criteria, to determine which level of approval is required. The Corporate Secretary will provide an annual report to the Governance ADR Committee of all Corporate Standard changes and related approvals.

## 4. Role of Internal Audit

The Corporation's Enterprise Risk Management Department and Internal Audit group will play a key role in assessing the level of compliance with the Principles, Policies and Standards established in accordance with this framework. In this role, the Director of Enterprise Risk Management and Manager of Internal Audit shall coordinate with the Corporate Secretary in preparing the annual report to the Governance and ADR Committee of the Board in accordance with this framework.