

Memorandum

To: ISO Board of Governors
From: Nancy Saracino, Chief Compliance Officer
Date: December 7, 2010
Re: **Compliance Update**

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 July 16, 2010.

Compliance and Ethics Committee Report

The Compliance and Ethics Committee met in October and plans to meet again later this month. Since July, all ISO employees completed mandatory compliance training, which included live presentations on the code of conduct, the tariff compliance program, the document retention policy, anti-harassment policy, protecting confidential information, and injury and illness prevention. The Committee has formed a team to explore the possibility of computer based training for future years, and whether the ISO should train employees in person every other year, rather than annually, consistent with the practice of larger companies. We will consider this only if we can develop a computer-based training so that employees get a review of these important policies annually.

In addition, on November 1, the ISO released internally a list of investments that are prohibited under the codes of conduct. This list is intended to make it easier for governors and employees to comply with investment restrictions.

Corporate Compliance Group Initiatives

The Corporate Compliance group has been working on several other compliance-related initiatives.

Tariff Compliance Framework

The Corporate Compliance group has finished decomposing the tariff into discrete requirements, identifying owners for each requirement, and mapping to each requirement the relevant process

documents and sections of business practice manuals. They are now in the final phases of identifying the controls for each requirement, and are developing a process to maintain a database of controls going forward. This initiative was designed to provide a methodical, disciplined program that allows the ISO to validate compliance with its tariff and ensure that the controls and procedures are in place for ongoing compliance. It has been an extensive and time-consuming effort for much of the company, as each business unit and person responsible for the various provisions of our 2000-page tariff engaged in the assessment.

Records Retention Project

To enhance compliance with the ISO's records retention policy, and in preparation for the move to the Iron Point facility, the ISO has almost completed a project to reduce significantly the documents maintained on site. Corporate Compliance is now preparing to roll out an e-mail repository in the first quarter of 2011, and a records repository in the following quarter.

Compliance with NERC Mandatory Reliability Standards

The ISO is preparing for the 2010 annual self-certification, covering the timeframe January 1, 2010 through December 31, 2010. There are 50 standards to self-certify, comprising of 207 requirements. Since early October, the compliance team has been working with the business units to review and update all evidence of compliance. In an effort to streamline the evidence review process, the compliance team created a SharePoint collaboration site and provided training to each of the compliance liaisons that would be required to use the site. As we continue to develop the culture of compliance, the compliance team will continue to work with the business units to transition the ownership of updating and maintaining the evidence to each of the respective business units.

Compliance Automation

By automating the compliance business processes, the compliance team and each business unit with compliance responsibilities will gain accuracy and efficiency. All requirements work is completed, and the team is waiting until the electronic records management project completes the planning phase and begins design of the corporate repository.

Operations Compliance Initiatives

Rewriting Operations Procedures

The Operations Compliance group has been revising operating procedures to ensure they are clear and that important information is easy to find. This project is 80% complete. Training on the structure of the revised procedures will begin in the first quarter of 2011.

Simulator Project

To better prepare floor personnel, Operations Compliance has been leading them through simulated emergency scenarios. To date, each crew has completed four different live simulations. Beginning in 2011, there will be a new dedicated simulator room at both the Iron Point and Alhambra facilities. In addition, the simulator is being enhanced to make it more closely reproduce operating conditions, and a library of scenarios is being created.