

Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer

Date: October 20, 2011

Re: **Decision on Corporate Policy Amendments**

This memorandum requires Board action.

Management recommends changes to two policies: the Market Surveillance Committee Charter and the Employees Code of Conduct and Ethical Principles, as well as conforming changes to the Governors Code of Conduct and Ethical Principles.

The changes to the Market Surveillance Committee charter would establish that individual members are subject to the Employees Code of Conduct and Ethical Principles and would make the Market Surveillance Committee's quorum rules consistent with those applicable to the Board of Governors' quorum rules. Management also recommends several minor clarifying amendments to the charter.

The changes to the Employees Code of Conduct and Ethical Principles and the Governors Code of Conduct and Ethical Principles would lower the dollar value of gifts that can be accepted from business-related sources. The proposed changes are in response to the findings and recommendations in the recent FERC audit of the ISO.

MARKET SURVEILLANCE COMMITTEE CHARTER

The Market Surveillance Committee is an advisory committee established by the ISO Board of Governors pursuant to the ISO bylaws. The MSC operates under a charter issued by the Board. This memorandum recommends revisions to the MSC's charter to bring the charter in line with corporate best practices, reflect current business practices, reconcile the charter with the tariff, use consistent terminology within the charter, and create consistency between the MSC and the Board on the definition of a quorum.

DISCUSSION AND ANALYSIS

Management recommends three categories of revisions to the MSC charter.

The first revision would establish that individual MSC members are expected to abide by the ISO's Employees Code of Conduct and Ethical Principles and support the ISO's core values

of integrity, teamwork, excellence, people-focus, and open communication. These are the same standards against which all ISO employees and contractors are held. As a corporate best practice, Management recommends revising the MSC charter to establish that members of the MSC should also follow these rules. Additionally, this revision will help make clear in a transparent fashion that MSC members also have a role to play in fostering and maintaining the ISO as a values-driven organization focused on high levels of personal conduct.

The second revision would alter the quorum rules applicable to MSC meetings. The specific revision would create consistency between the definition of a quorum for the MSC and the Board. A quorum of the MSC is currently defined as three members. Based on this definition, in instances where the MSC only has three members and one member is unable to attend the meeting, the remaining two members would be unable to take action. Making the definition of a quorum consistent with the definition used for the Board would allow the MSC to continue to act until a third member is appointed.

The third category of revisions involves three separate clarifying and conforming changes to the charter. The first such revision would clarify that administrative support to the MSC is not provided exclusively by the ISO's Department of Market Monitoring. The charter currently provides that administrative support is only provided by the Department of Market Monitoring, even though current practice is that other ISO business units also assist the MSC. The second such revision would change the charter to state that the MSC *may*, rather than *must*, review and comment upon Department of Market Monitoring analyses and reports. The tariff establishes that such review and commentary is discretionary rather than obligatory. The third such revision would create consistent terminology to describe the Board's role in appointing members of the MSC. Section II.B. of the charter currently uses inconsistent terminology, describing the Board's function as either confirming or appointing new members. Management recommends that the more appropriate term is "appoint," as the power to name new members rests with the Board, rather than with Management. This is consistent with the MSC's role as an advisory committee established by the Board that operates pursuant to a Board-approved charter.

Redline and clean copies of the proposed revisions are attached.

Management recommends the following motion:

Moved, that the ISO Board of Governors approves the proposed revisions to the charter of the Market Surveillance Committee, as described in, and attached to, the memorandum dated October 20, 2011.

EMPLOYEES AND GOVERNORS CODES OF CONDUCT AND ETHICAL PRINCIPLES

In the recent FERC audit, FERC issued findings and recommendations which included a recommendation that the ISO reduce its gift limit in its Employees Code of Conduct and Ethical Principles. Currently, employees and members of the Board are precluded from accepting a gift totaling more than \$250 from any single business-related source (e.g., a market participant or vendor) in a twelve month period. FERC recommended that the ISO reduce its gift limit to a level consistent with best practices of other ISOs and RTOs, all of which have lower gift limits.

Management analyzed gift limits and best practices of other ISOs and RTOs and the value of gifts received by employees over the past few years. Management also consulted with ISO departments that would most likely be impacted by a change to this rule. Based on that analysis, Management determined that the gift limit should be reduced from \$250 to \$100. This limit strikes the proper balance to achieve the goals of a gift limit. Specifically, it provides the ISO with the necessary flexibility to engage appropriately with its business contacts to foster the relationships necessary to manage our business, such as with the occasional gift exchange around the holidays. Additionally, the limit is low enough that it essentially eliminates any appearance that gifts may influence the independence of the ISO in its business or policy decision process. Moreover, the proposed gift limit is within the range of the gift limits imposed by other ISOs and RTOs, and is therefore consistent with the best practices as recommended by FERC in its recent audit. Management also determined that this rule should apply to the Governors Code of Conduct as the same reasoning applies to that policy.

Redline copies of the proposed changes are attached.

Moved, that the ISO Board of Governors approves the proposed revisions to the Employees Code of Conduct and Ethical Principles and the Governors Code of Conduct and Ethical Principles, as described in, and attached to, the memorandum dated October 20, 2011.

MANAGEMENT RECOMMENDATION

Management recommends the Board approve the proposed modifications to the Market Surveillance Committee charter and the gift limit in the Employees and Governors Codes of Conduct as described above.