



**California ISO**  
Shaping a Renewed Future

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## **Compliance and Ethics Program Policy** **Version #3.0**

Draft for review

**Effective Date**

### REVISION HISTORY

VERSION NO.	DATE	SUGGESTED REVIEW DATE	REVISED BY	DESCRIPTION
1.0	1/25/2007		Board of Governors	Policy Adopted
2.0	3/26/2010	3/26/2011	Board of Governors	Policy Amended
2.1	2/8/2011	2/8/2012	Compliance and Ethics Committee	Reviewed; updated ISO logo and made non-substantive changes
3.0	9/13/2012	9/13/2013	Board of Governors	Annual review. Revised language in section 7.1 and made other non-substantive revisions to improve readability; general revision to comply with new ISO standard policy format

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## **1.0 INTRODUCTION**

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The California Independent System Operator Corporation is committed to compliance with applicable laws and regulations and is continuously and proactively reviewing its operations and activities to ensure compliance. The ISO also seeks to promote an organizational culture that encourages ethical conduct and a commitment to compliance. An effective Compliance and Ethics Program has been identified as a primary means by which the ISO can achieve the compliance objectives established by the Board. This document establishes the policy for, and describes the major components of, the Compliance and Ethics Program, which consists of a system of program administration and various policies, standards and internal controls, as well as other measures designed to prevent and detect misconduct.

The ISO Board, executive management, and each ISO division, department and business unit have responsibility for compliance with applicable laws and regulations. This policy is intended to help ensure that responsibilities for managing specific areas of compliance are clearly assigned and that those responsibilities are well understood across the ISO. This policy will be revised as necessary to improve the efficiency and effectiveness of information sharing and the overall quality of the Compliance and Ethics Program.

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## **2.0 SCOPE**

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This policy applies across the ISO and should be understood by the Board, executive management, and each division, department and business unit. It is the responsibility of each division, department and business unit to adopt and adhere to policies and standards consistent with the objectives of the Compliance and Ethics Program. All employees are expected to have a basic understanding of the legal principles applicable to their business activities and to have read and understood their obligations under the Employees Code of Conduct and Ethical Principles (the "Code"). Training at various levels across the company is part of the Compliance and Ethics Program and is discussed further under section 6.0 of this policy.

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## **3.0 ROLES AND RESPONSIBILITIES**

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### **3.1 General Responsibilities**

The Compliance and Ethics Program operates under the oversight of the Audit Committee of the Board. Compliance is the responsibility of executive management and every ISO division, department and business unit. It is the responsibility of all ISO employees to comply with applicable laws and regulations and to have a basic understanding of the legal principles that apply to their corporate activities.

### **3.2 Board and Audit Committee Responsibilities**

The Board, by delegation to the Audit Committee, will oversee the Compliance and Ethics Program and provide direction and support to the Chief Compliance Officer. The Audit Committee will in turn report to the Board in accordance with its charter.

### **3.3 Chief Compliance Officer**

The ISO will designate a Chief Compliance Officer with responsibility for compliance activities. The Chief Compliance Officer will have substantial authority within the ISO and will have direct access to the President, executive management, General Counsel, and the Board of Governors. The Chief Compliance Officer will establish a management level Compliance and Ethics Committee and will report to the Audit Committee periodically, but in no circumstance less frequently than annually on compliance activities and employee compliance with the Code.

### **3.4 Compliance and Ethics Committee Responsibilities**

The Compliance and Ethics Committee is responsible for Compliance and Ethics Program implementation, reporting, administration, and training. The Compliance and Ethics Committee will collaborate with the business unit responsible for enterprise risk management to ensure that compliance risks are effectively identified, analyzed, communicated and reported, and that mitigation measures and other corrective actions are accomplished.

Additionally, the Compliance and Ethics Committee will be responsible for (1) periodically reviewing the Code and making recommendations for any necessary or desirable changes to the Code; (2) recommending additional tools or materials it deems necessary or desirable to assist in the attainment of the objectives of the Compliance and Ethics Program; and (3) recommending initiatives designed to foster an ethical culture throughout the organization.

### **3.5 Executive Management Responsibilities**

Executive management provides direction to the Chief Compliance Officer and the Compliance and Ethics Committee with respect to management level Compliance and Ethics Program responsibilities and appropriate articulation and interpretation of ISO policies. In addition, as noted above, management at all levels is responsible for being knowledgeable about the contents and operation of the Compliance and Ethics Program, setting a tone that promotes compliance, and helping to create an organizational culture that is consistent with the goals of the program.

### **3.6 Division/Department/Business Unit Responsibilities**

Each ISO division, department and business unit is responsible for identification of the laws and regulations applicable to ISO activities for which it is responsible with support from the Legal Department, and for compliance with all laws and regulations applicable to their activities in accordance with the Compliance and Ethics Program and this policy.

### **3.7 Compliance Representative Responsibilities**

Compliance representatives from each ISO division, department and business unit will be responsible for communication between their respective units and the Chief Compliance Officer's staff and for assistance to that staff with respect to compliance issues in their units.

### **3.8 Accountability and Ownership**

The Compliance and Ethics Committee is responsible for maintaining and implementing this policy.

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## **4.0 OBJECTIVES**

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The ISO has identified an effective Compliance and Ethics Program as a primary vehicle to achieve the compliance objective. An effective Compliance and Ethics Program will:

- Help prevent legal and policy violations; and,
- Enhance the ISO's focus on conducting business ethically and with integrity, which is an ISO core value.

As a result, this will increase confidence in ISO operations and activities, which in turn will support other strategic objectives and the core values of the ISO.

In furtherance of these strategic objectives, the ISO has established a Compliance and Ethics Program that addresses the key elements contained in both the FERC policy statements and the Federal Sentencing Guidelines (which describe the key elements of an effective compliance and ethics program) as follows:

### **4.1 Risk Assessment**

The ISO will periodically assess its risks of non-compliance with applicable laws and regulations, identify its higher-priority legal risk areas, and take appropriate steps to modify the design and implementation of its Compliance and Ethics Program, policies and processes in light of the results of the risk assessment process.

### **4.2 Policies and Standards**

The ISO will maintain written policies and standards to be followed by all of its employees and certain contractors or agents to make responsibilities for compliance clear and minimize the prospect of non-compliance. The Code contains the ISO's underlying legal and ethical standards with which all employees must be familiar and must comply. The Code and other ISO policies and standards require compliance with applicable laws and regulations, honest and ethical conduct, prompt internal reporting of suspected non-compliance, and accountability for adherence to ISO policies and standards. The Code has been approved by the Board of Governors, and any substantive changes to the Code must be approved by the Board.

The ISO will adopt and maintain more detailed policies and standards to govern appropriate legal risk areas.

#### **4.3 Board Oversight**

The Chief Compliance Officer (Section 3.3), with support from the Compliance and Ethics Committee (Section 3.4) and executive management, will administer the Compliance and Ethics Program under the oversight of the Audit Committee of the Board of Governors.

#### **4.4 Due Diligence in Hiring**

The ISO will conduct background checks and other appropriate due diligence so as to prevent the ISO from hiring or promoting individuals who have engaged in illegal activities or other conduct inconsistent with an effective compliance and ethics program.

#### **4.5 Communication and Training**

All employees will periodically participate in training programs or receive publications that explain in a practical manner what is required of them with respect to compliance. In addition, executive management will periodically provide the Board with Compliance and Ethics Program related training.

#### **4.6 Monitoring, Auditing, Evaluation, and Publication**

The ISO will take reasonable steps to achieve compliance with applicable laws, regulations and ISO policies and standards. These steps will include a mechanism to ensure that potential gaps are periodically reassessed as laws and regulations change, periodic audit and review of internal controls and reports to executive management on the findings of such audits and reviews, and monitoring of the execution of corrective actions that are adopted to fill gaps and respond to audit recommendations. All employees are required to report potential illegal or improper conduct through appropriate internal channels, or anonymously, under a program that provides assurance of non-retaliation.

#### **4.7 Enforcement**

The applicable policies and standards will be enforced consistently at all levels of the company. To this end, the ISO will adopt disciplinary guidelines for employees. To the extent practicable, agreements with contractors and agents will require adherence to applicable policies and standards.

#### **4.8 Response and Improvement**

Once a violation has been detected, the ISO will take prompt, reasonable measures to respond appropriately and to prevent further similar offenses, including any necessary modifications to the Compliance and Ethics Program or the applicable policies and standards.



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## **5.0 PROGRAM REQUIREMENTS**

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### **5.0 Management Support**

The Board and management at all levels, starting with the Chair and the President and CEO, are committed to the objectives of the Compliance and Ethics Program, and are involved in ensuring the effective execution of the program. Management is responsible for being knowledgeable about the contents and operation of the Compliance and Ethics Program, for setting a tone that promotes compliance and business ethics, and for otherwise helping to create an organizational culture that is consistent with the goals of the program. Compliance activities will be a part of management goals and sufficient resources will be deployed to make sure they are effectively engaging all appropriate employees. The Chief Compliance Officer will be responsible for compliance activities. Other departments will have access to the Chief Compliance Officer to ensure that messages are well communicated and the applicable ISO policies and standards are enforced. In addition, management will ensure that the Chief Compliance Officer has access to management, all employees, ISO records, and other resources necessary for effective implementation of the Compliance and Ethics Program.

#### **5.1 Employee Code of Conduct and Ethical Principles**

The Code is a statement of general corporate policy that provides fundamental principles, values and a framework for action within the ISO. The Code and appropriately similar documents for contractors or agents will discuss the ISO commitment to comply with applicable laws, rules, regulations and all other legal obligations, including contractual commitments. Emphasis will be placed on the prevention of fraud, abuse and misconduct as a matter of business ethics incumbent upon executives, employees and, as appropriate, contractors and other agents.

The Code will be distributed to all employees and made available on the corporate intranet, with a description of methods for resolving questions of interpretation.

#### **5.2 Other Policies and Standards**

In addition to the Code, the ISO also will prepare written policies and standards as necessary for particular risk areas relevant to ISO activities that focus on the laws, rules and regulations applicable to those activities. These policies and standards may specify the nature of documentation required to guide individuals who perform activities and fill roles in which the risk of non-compliance is determined to be significant through the ISO process for managing enterprise risks, or by other means.



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## **6.0 COMMUNICATIONS AND TRAINING**

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### **6.1 Scope**

Compliance training will extend to all employees and to the Board. Training will be ongoing and periodic; it does not merely consist of initial training at the beginning of a person's employment with the ISO. There will be general session training applicable to all personnel and separate sessions that focus on compliance issues relevant to employees' specific duties. In addition, more in-depth training will be developed for those employees who participate in activities that present a significant risk of fraud or abuse or otherwise constitute a significant risk as determined by the business unit responsible for enterprise risk management.

The Code will be distributed in writing and employees will be required to sign and date a statement that reflects their knowledge of and commitment to the Code and other selected applicable ISO policies and standards. To the extent appropriate and possible, contracts with independent contractors, vendors and other agents of the ISO will include appropriate provisions of the applicable policies and standards.

Training will emphasize the ISO commitment to compliance with applicable laws and regulations, the applicable ISO policies and standards, and contractual commitments. Employees will be reminded of their compliance and ethics obligations and encouraged to report misconduct to the appropriate persons within the organization or to use the code of conduct reporting tool if appropriate. Specific training will be made available on an as-needed basis in order to achieve the objectives of the Compliance and Ethics Program.

Attendance and participation in compliance training will be made a condition of employment. Failure to comply with the training requirements may result in disciplinary action, up to and including termination.

### **6.2 Frequency**

General compliance training will be required annually for all employees and will cover the Code and selected applicable ISO policies and standards that apply across the ISO. Specific compliance training will be developed and administered on an as-needed basis consistent with the objectives of the Compliance and Ethics Program

### **6.3 Effective Communication**

Employees are encouraged to approach and communicate with the Chief Compliance Officer or other members of the Compliance and Ethics Committee. The ISO has in place a policy regarding confidentiality and non-retaliation to support these communications. In order to encourage reporting, multiple paths of reporting will be available to employees, including an anonymous reporting tool, and open lines of communication will be maintained for those outside the ISO to report suspected wrongdoing.

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## **7.0 COMPLIANCE**

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### **7.1 Disciplinary Guidelines**

The ISO will adhere to disciplinary guidelines for employees who fail to comply with applicable laws and regulations, the Code, or any other applicable policies or standards. The disciplinary guidelines provide that employees may be subject to disciplinary action, up to and including termination for violating ISO policies. The disciplinary guidelines for violation of a particular ISO policy or standard may be established in that specific document and should describe the procedures for handling disciplinary issues and the persons within the ISO responsible for taking action in such cases. The disciplinary guidelines will be published so that all ISO employees are educated about such matters. The ISO attempts to ensure that the guidelines will be consistently applied in a manner that ensures all levels of employees are subject to the same types of disciplinary action for the commission of similar violations.

### **7.2 Internal Audit and Monitoring**

The Compliance and Ethics Committee will prepare an annual report on the status of the Compliance and Ethics Program, in coordination with the business unit responsible for enterprise risk management and Internal Audit, which will be provided to executive management and the Audit Committee. Periodic reports may also be provided as appropriate.

Audits should address compliance with applicable laws and regulations, and the ISO may in its discretion engage outside auditors to assist in this process, particularly in areas relevant to ISO core functions. Among other things, the audit activities may focus on whether there has been adherence to the education and training activities required by the Compliance and Ethics Program and compliance with the Code. In addition, the Chief Compliance Officer and the Compliance and Ethics Committee will periodically verify that they are satisfying their obligations hereunder and that the Program is being implemented as contemplated herein.

### **7.3 Response and Corrective Action**

If an audit or other information reveals a possible violation of the Code or applicable laws and regulations, the Chief Compliance Officer or designee(s) should, unless extraordinary circumstances dictate other action, promptly investigate the conduct to determine whether a violation actually occurred. If a violation did in fact occur, steps will be taken to correct the problem, including, where appropriate, promptly notifying the appropriate authorities. The ISO will follow its internal investigation procedures in conducting such investigations.

### **7.4 Incentives**

The ISO will seek to use incentives to the extent appropriate to ensure the effectiveness of its Compliance and Ethics Program under applicable legal and regulatory standards. The Compliance and Ethics Committee must, on an ongoing basis, determine the manner in which incentives should be used for program effectiveness.

## 7.5 Documentation

The Chief Compliance Officer and the Compliance and Ethics Committee will ensure that adequate documentation of Compliance and Ethics Program activities is maintained to meet applicable legal and regulatory requirements and to ensure that the ISO is able to demonstrate the efficacy of the program.

## 7.6 No Rights Created

This policy is a statement of the fundamental principles and key policies and standards that govern the conduct of ISO business. It is not intended to and does not create any obligations or rights to any employee, client, supplier, competitor, or any other person or entity.

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## 8.0 RESOURCES AND RELATED POLICIES

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Below is a list of additional resources, policies and procedures that are relevant to this policy.

- [Disciplinary Guidelines](#)
- [Employee Code of Conduct and Ethical Principles](#)
- [Contractors Code of Conduct and Ethical Principles](#)
- [Governors Code of Conduct and Ethical Principles](#)
- [Charter of the Audit Committee](#)
- [Employee Handbook](#)

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## 9.0 CONTACTS

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For questions regarding this policy, please contact Dan Shonkwiler at [dshonkwiler@caiso.com](mailto:dshonkwiler@caiso.com).

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## 10.0 APPROVAL

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This policy has been reviewed and approved by the following managers prior to obtaining Board approval:

Sponsoring Officer/Corporate Secretary:

Nancy Saracino

Name

Signature

Date

President and CEO:

Steve Berberich

Name

Signature

Date