



California ISO
Your Link to Power

Compliance **and Ethics** Program Policy

 California ISO <small>Your Link to Power</small>	Board Policy	Revision Date Version No.	3/26/2010 2.0
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1. OVERVIEW

1.1 1.1 — Purpose

The California Independent System Operator Corporation (“CAISO”) is committed to compliance ~~required to comply~~ with applicable laws and regulations and is ~~committed to~~ continuously and proactively reviewing its operations and activities to assure compliance ~~with legal and regulatory requirements~~. The ISO also seeks to promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law. ~~A~~Creating an effective Compliance and Ethics Program has been identified as a primary means by which the CAISO can achieve the compliance objectives ~~set by the recently completed Strategic Business Plan~~ established by the Board. The purpose of this document is to establish the Policy for ~~and describe the major components of the~~ Compliance and Ethics Program, which consists of a system of ~~p~~Program administration and various policies, procedures and internal controls, as well as other measures designed to prevent and detect misconduct. ~~including the procedure for exceptions and changes to the approved Policy, which is essential to the creation of an effective Compliance Program consistent with this objective.~~

The Board, ~~E~~Executive ~~M~~Management, and each CAISO ~~D~~Division, ~~D~~Department and ~~B~~Business ~~U~~Unit has responsibility for compliance with applicable laws and regulations. This Policy is intended to help assure that responsibilities for managing specific areas of compliance are clearly assigned and that those responsibilities are well understood across the CAISO. This Policy will be revised as necessary based on feedback to improve the efficiency and effectiveness of information sharing and the overall quality of the Compliance and Ethics Program.

1.2 1.2 — Areas Affected

This Policy applies across the CAISO and should be understood by the Board, ~~E~~Executive ~~M~~Management, and each ~~D~~Division, ~~D~~Department and ~~B~~Business ~~U~~Unit. It is the responsibility of each ~~D~~Division, ~~D~~Department and ~~B~~Business ~~U~~Unit to adopt and adhere to ~~P~~olicies and ~~S~~tandards consistent with the objectives of the Compliance and Ethics Program. All employees ~~engaged in corporate activities will be~~ 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 corporation ~~is will be~~ part of the Compliance and Ethics Program and ~~are~~ is discussed further under Section 4 of this Policy.

1.1.3 Objectives

The CAISO has identified an effective Compliance and Ethics Program as a primary vehicle to achieve the compliance objective ~~for two primary reasons. First, A~~ an effective Compliance and Ethics Program will (1) help prevent legal and/or policy violations and (2) enhance the ~~corporation~~ISO’s focus on conducting business ethically

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and with integrity, which is one of the ISO's core values. ~~generally operate to reduce the CAISO's exposure to criminal, administrative, and civil liability.~~ As a result, this will increase confidence in CAISO operations and activities, which in turn will support other strategic objectives and the core values of the corporation ISO.

~~A secondary benefit of establishing a formal compliance program, as recognized in the Federal Energy Regulatory Commissions (FERC) October 20, 2005 Policy Statement on Enforcement, is that the CAISO may be afforded greater deference in a criminal or civil prosecution related to violations of applicable laws and/or regulations, and may receive reduced civil or criminal penalties if a violation is found to have occurred.~~

In furtherance of ~~this~~ these strategic objectives, the ~~CAISO~~ ISO ~~intends to~~ 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:

1.3.1 Risk Assessment

~~4.1.1~~ 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.

1.3.2 Policies and Standards

The ~~CAISO~~ ISO will ~~maintain~~ ~~will adopt~~ written ~~P~~ policies and ~~S~~ standards to be followed by all of its employees and ~~other~~ 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 ~~Company~~ ISO ~~P~~ policies and ~~S~~ standards ~~will at a minimum~~ require compliance with applicable laws and regulations, honest and ethical conduct, ~~including ethical handling of actual or apparent conflicts of interest, full and fair disclosure, compliance with applicable laws and regulations,~~ prompt internal reporting of suspected violations, and accountability for adherence to ~~CAISO~~ ISO ~~P~~ policies and ~~S~~ standards. The Code has been approved by the Board of Governors, and any changes to the Code must be approved by the Board.

The Board of Governors has also adopted a Governors' Code of Conduct for members of the Board, which will be reviewed and revised periodically.

~~4.1.2~~ The ISO will adopt and maintain more detailed policies and procedures to govern appropriate legal risk areas.

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1.1.31.3.3 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 ADR/Audit Committee of the Board of Governors.

1.1.41.3.4 Prevention Due Diligence in Hiring

The ISO will utilize 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. ~~Every effort will be used to identify and resolve gaps in compliance and in the exercise of due diligence, including background checks, to deny employment to individuals who may have a propensity for misconduct.~~

1.1.51.3.5 Communication and Training

Effective methods for communication with respect to the applicable Policies and Standards will require all employees periodically to participate in training programs or ~~and/or~~ receive publications that explain in a practical manner what is required with respect to compliance. In addition, Executive Management will periodically provide the Board of Governors with Compliance and Ethics Program related training.

1.1.61.3.6 Monitoring, Auditing, Evaluation, and Publication

Reasonable steps to achieve compliance with ~~the~~ applicable laws and regulations and the Principles, Policies and Standards will be taken. These steps will include a mechanism to assure 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 ~~will be~~ required encouraged to report potential illegal or improper conduct through appropriate internal channels, or anonymously, under a program that provides assurance of non-retaliation.

1.1.71.3.7 Enforcement

The applicable Policies and Standards will ~~consistently~~ be enforced consistently at all levels of the corporation. To this end, the ISO will adopt disciplinary guidelines for employees. ~~through education and/or appropriate disciplinary mechanisms, including, as appropriate, discipline of individuals who fail to report misconduct by others, or who directly violate any applicable laws or regulations, the Compliance Program, or applicable Policies and Standards To~~

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the extent practicable, agreements with contractors and agents will require adherence to policies and standards ~~or possible termination of agreements with respect to contractors or agents.~~

1.3.8 Response and Improvement

1.1.8

After a violation has been detected, the ~~CAISO~~ISO will take prompt, reasonable measures to respond appropriately and to prevent further similar offenses, including any necessary modifications of the Compliance and Ethics Program ~~and/or~~ the applicable ~~P~~olicies and ~~S~~standards.

2. PROGRAM POLICY REQUIREMENTS STATEMENTS

~~The following Policy statements include elements intended to assure that the Compliance Program is effective.~~

~~2.1~~ Federal Sentencing Guidelines

~~The Compliance Program will address the key elements or steps contained in the Federal Sentencing Guidelines and other relevant principles (see Sections 1.3.1 through 1.3.7 above).~~

2.2.1 Management Support

The Board of Governors and ~~M~~management at all levels, starting with the Chair~~man~~ and the President ~~and Chief Executive Officer~~, are committed to the objectives of the Compliance and Ethics Program, and ~~are will be~~ 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 reaching all appropriate employees. The Chief Compliance Officer (~~see~~ Section 3.3) will be ~~assigned~~ responsible~~ility~~ for compliance activities. ~~and all o~~Other departments will have access to the Chief Compliance Officer to ensure that messages are well communicated and the ~~P~~olicies and ~~S~~standards are enforced. In addition, management will ensure that the Chief Compliance Officer has access to management, all employees, the ISO's records, and other resources necessary to effective implementation of the Compliance and Ethics Program.

2.3.2 Employee's Code of Conduct and Ethical Principles

~~The CAISO will have in place a written policy that establishes the commitment to legal compliance and outlines the corporate policies to ensure that business conduct is ethical~~

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~~(the “Employees Code of Conduct and Ethical Principles”). In addition, a separate written policy that establishes a specific code of ethics will be applied to members of the Board of Governors.~~

The ~~Employees Code of Conduct and Ethical Principles~~ will be considered a statement of general corporate policy that provides fundamental principles, values and a framework for action within the ~~CAISO~~ISO. The ~~Employees Code of Conduct and Ethical Principles, and or~~ appropriately similar documents for contractors or agents, will discuss the ~~CAISO~~ISO’s commitment to comply with applicable laws, ~~federal and state,~~ 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 Board of Governors has formally adopted an Employees Code of Conduct and, along with the supplemental Ethical Principles, will serve as the policy of the corporation, consistent with the Principles, Policies and Standards Framework.—The Employees Code of Conduct and Ethical Principles~~ will be distributed to all employees and ~~made~~ available on the corporate intranet, with a description of methods for resolving questions of interpretation.

~~2.3~~ ~~2.4~~ ~~Other Policies~~ ~~and Standards~~

In addition to the ~~Employees Code of Conduct and Ethical Principles~~, the ~~CAISO~~ISO will also prepare written ~~P~~olicies and ~~S~~tandards as necessary for particular risk areas relevant to the ~~corporation~~ISO’s activities that focus on the laws, rules and regulations applicable to those activities. These ~~P~~olicies and ~~S~~tandards 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 ISO’s process for managing enterprise risks, or by other means.

~~2.5~~ ~~Exceptions and Changes~~

~~No exceptions or changes to this Policy will be made without written approval from the Compliance Committee (as described in Section 3.4), or their authorized representative; provided, however, that the ADR/Audit Committee will be informed of any exceptions or changes and no exception or change may be made by the Compliance Committee if the exception involves a matter subject to ADR/Audit Committee approval.—All determinations with respect to exceptions or changes will be made in accordance with the Principles, Policies and Standards Framework.~~

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~~Proposed exceptions or changes to this Policy must be submitted to the Compliance Committee. A requested exception or change must include a business case defining the exception or change, purpose of the exception or change, and alternative considerations to making the exception or change.~~

3. RESPONSIBILITIES

3.1 3.1 — General Responsibilities

~~Compliance with this Policy is,~~ The Compliance and Ethics Program operates under the oversight of the Audit Committee of the Board of Governors. Compliance is the responsibility of Executive Management and every CAISO ISO Division, Department and Business Unit, ~~under the oversight of the ADR/Audit Committee of the Board of Governors.~~ It is the responsibility of all ISO employees and agents as appropriate to comply with applicable laws and regulations and to have a basic understanding of the legal principles that apply to their corporate activities.

3.1.3.2 Board and ADR/Audit Committee Responsibilities

The Board, through a delegation to the Audit Committee, will oversee the Compliance and Ethics Program and provide direction and support to the Chief Compliance Officer ~~pursuant to a delegation to the ADR/Audit Committee.~~ The ADR/Audit Committee will in turn report to the Board in accordance with its charter.

3.1.3.3 Chief Compliance Officer

The CAISO ISO will designate a Chief Compliance Officer with responsibility for compliance activities. The Chief Compliance Officer will have substantial authority within the CAISO ISO and will have direct access to the President ~~and Chief Executive Officer,~~ other Executive Management, Legal 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 ADR/Audit Committee periodically, but in no circumstance less frequently than annually on compliance activities and employee compliance with the Code.

3.1.3.4 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 Enterprise Risk Management Department to assure that compliance risks are effectively identified, analyzed, communicated and

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reported, and that completion of mitigation measures and other corrective actions are accomplished.

In addition, 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.

3.43.5 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 with respect to appropriate articulation and interpretation of the ISO's 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, for setting a tone that promotes compliance, and for otherwise helping to create an organizational culture that is consistent with the goals of the Program.

3.53.6 Division/Department/Business Unit Responsibilities

Each CAISO ISO Division, Department and Business Unit is responsible for identification of the laws and regulations applicable to CAISO ISO activities for which it is responsible with support from the Legal and Regulatory Department, and for compliance with all laws and regulations applicable to their activities in accordance with the Compliance and Ethics Program and this Policy.

3.63.7 Compliance Representative Responsibilities

Compliance representatives from each CAISO ISO Division, Department and Business Unit will be responsible communication between their respective units and the Chief Compliance Officer's staff and for assistance to that staff with respect to ~~for communication with the Compliance Committee regarding~~ compliance issues arising under the Compliance Program or this Policy in their units.:-

4. COMMUNICATIONS AND TRAINING

4.1 Scope

Training in compliance will extend to all employees, ~~including the Board, Officers, Directors and Managers,~~ and to the Board. Training will be ongoing and periodic; it does and not merely consist of initial training at the ~~onset of the Compliance and Ethics~~

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~~Program or at the~~ beginning of a person's employment with the **CAISO**. 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 Enterprise Risk Management Department.

The ~~Employees Code of Conduct and Ethical Principles~~ 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 ~~Employees Code of Conduct and Ethical Principles~~ and other selected applicable ~~P~~principles, ~~P~~olicies and ~~S~~standards. ~~Contracts with independent contractors, vendors and other agents of the corporation will, t~~To the extent ~~necessary,~~ appropriate and possible, ~~contracts with independent contractors, vendors and other agents of the ISO will~~ include appropriate provisions of the applicable ~~P~~principles, ~~P~~olicies and ~~S~~standards, ~~including areas addressed by the Employees Code of Conduct and Ethical Principles.~~

Training will emphasize the **CAISO**'s commitment to compliance with applicable laws and regulations, the applicable ~~P~~principles, ~~P~~olicies and ~~S~~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 utilize the ~~C~~code of ~~C~~conduct ~~R~~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 be disciplined, up to and including termination.

4.2 Frequency

General compliance training will be required annually for all employees and will cover the ~~Employees Code of Conduct and Ethical Principles~~ and selected applicable ~~P~~principles, ~~P~~olicies and ~~S~~standards that apply across the **CAISO**. Specific compliance training will be developed and administered on an as needed basis consistent with the objectives of the Compliance ~~and Ethics~~ Program

4.3 Effective Communication

Employees ~~will be~~ encouraged to approach and communicate with the Chief Compliance Officer or other members of the Compliance ~~and Ethics~~ Committee. The **CAISO** ~~will have~~ has in place a Policy regarding confidentiality and non-retaliation to support these communications. ~~In order to encourage reporting, M~~ultiple ~~ore than one~~ paths of reporting will be available to employees ~~in order to minimize the risk of a diversion or cover-up,~~ including an anonymous reporting tool, and open lines of communication will be maintained for those outside the ~~corporation~~ **ISO** to ~~report~~ **Report**

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suspected wrongdoing.

5. ENFORCEMENT AND PREVENTION

5.1 ~~5.1~~—Disciplinary Guidelines

The ~~CAISO~~ISO will adhere to guidelines regarding disciplinary action for employees who fail to comply with applicable laws and regulations, the ~~Employees Code of Conduct and Ethical Principles~~, or any other applicable ~~P~~policy or ~~S~~standard. The disciplinary guidelines ~~for violation of a particular Policy or Standard~~ may be established in ~~each~~that specific document and, ~~in every instance~~, will describe the types of disciplinary action that may be imposed, as well as the procedures for handling disciplinary issues and the persons within the ~~CAISO~~ISO responsible for taking action in such cases. The disciplinary guidelines will be published so that all ~~CAISO~~ISO employees are educated about such matters. The ~~ISO attempts to ensure that the~~ guidelines will be consistently applied in a manner that assures all levels of employees are subject to the same types of disciplinary action for the commission of similar offenses.

5.2 ~~5.2~~—Internal Audit and Monitoring

~~After the Compliance Program is operational, procedures will be followed to monitor and audit the success of the program.~~The Compliance and Ethics Committee will prepare an annual report on the status of the Compliance and Ethics Program in coordination with Enterprise Risk Management and Internal Audit, which will be provided to ~~E~~executive ~~M~~management and the ~~ADR~~Audit Committee. Periodic reports may also be provided as appropriate.

Audits should address compliance with applicable laws and regulations, and the ~~CAISO~~ISO may in its discretion engage outside auditors to assist in this process, particularly in areas relevant to ~~CAISO~~ISO's business. ~~Among other things, t~~The audit activities ~~will also~~may focus on whether there has been adherence to the education and training activities required by the Compliance and Ethics Program and ~~to verify that all employees are in fact conforming to compliance with the Employees Code of Conduct and Ethical Principles.~~ 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.

5.3 Response and Corrective Action

If an audit or other information reveals a possible violation of the ~~Employees Code of Conduct and Ethical Principles~~ 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~~

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appropriate, notifying the appropriate authorities ~~within a reasonable period promptly if, after a reasonable inquiry, there is reason to believe that there may have been a violation of criminal, civil, or administrative law.~~ The ~~CAISO~~ISO will follow its internal investigation procedures in conducting such investigations.

5.4 ~~5.4~~ Incentives

The ISO will seek to utilize 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 ~~P~~program effectiveness.

5.5 ~~5.5~~ 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 ~~P~~program.

5.6 ~~5.6~~ No Rights Created

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

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