

Memorandum

To: ISO Board of Governors

From: Steve Berberich, Vice President, Technology and Corporate Services
and Chief Financial Officer

Date: March 17, 2010

Re: *Decision on Investment Policy*

This memorandum requires Board action.

EXECUTIVE SUMMARY

This memorandum outlines proposed changes to the California Independent System Operator Corporation's Investment Policy. The proposed changes are as follows:

- Extending the Investment Policy to include the restrictions on the proceeds of the 2009 bond offering;
- Include the ISO Medical Retiree Plan Trust within the scope of this policy;
- Revisions to titles in order to reflect the ISO's current organizational structure and processes; and
- Other changes intended to clarify the policy without changing its substance.

MOTION

Moved, that the ISO Board of Governors approves the changes to the ISO's Investment Policy, as detailed in the memorandum dated March 17, 2010.

BACKGROUND AND PROCESS

Through the ISO's Investment Policy, the Board delegates to Management the authority to invest corporate funds and provides the guiding principles for supervising, monitoring and evaluating these investments to optimize returns within prudent risk parameters. Any modifications to the policy must be approved by the Board.

In December 2008, in response to the unprecedented financial crisis, the Board approved major revisions to this policy to significantly enhance the controls and safeguards. Among these revisions was the addition of a policy review section that requires the Chief Financial Officer to

conduct an annual review of the policy. As a result of this review, Management is proposing the following modifications and amendments to the indicated sections of the policy.

2009 Bond Proceeds

Appendix B of the policy has been modified to include the investment guidelines set forth in the 2009 Bond Indenture. Bond proceeds must remain invested according to the language in this section.

ISO Medical Retiree Plan Trust

The scope of the policy has been expanded to include funds currently held in trust on behalf of the ISO Medical Retiree Plan Trust and those funds designated to be transferred to the ISO Medical Retiree Plan Trust. Prior to this revision, the investment of those funds had not fallen within the scope of this policy.

Authorized Investments

The Maximum Stated Maturity section has been revised to allow for investments up to 30 years for funds held in trust on behalf of the ISO Medical Retiree Plan Trust. This will allow for better matching of these assets to the expected liabilities of this trust. This does not change the current policy with regard to the five year maximum stated maturity limit on all other authorized investments.

A new type of bank obligation has been added. Deposits guaranteed by a “AA” or better rated, non-US government will now be approved. These types of deposits became a haven in late 2008 and early 2009 as concern over the stability of banks increased. While the immediate concerns have decreased, adding this type of investment to the authorized list will allow for flexibility in the event of future banking predicaments.

Legal Changes

The reference to the ISO Code of Conduct has been removed from the Legal Compliance section. The legal test for investments is being added directly to the Prohibited Investments section of the policy. This change will eliminate the cross-reference and allow the document to stand on its own. Management proposes to directly incorporate the detailed rules that the Federal Energy Regulatory Commission has adopted for regional transmission organizations and codified in the Code of Federal Regulations. FERC’s regulations are equivalent to the existing policy. This change will enable the ISO to track any changes to or interpretations of FERC’s regulations without further revisions to the policy.

Delegation of Authority and Titles

The Delegation of Authority section has been revised to state even more clearly that Management is not required to seek Board approval for particular investments provided they comply with the policy. Additionally, all references to “Internal Investment Manager” have

been changed throughout the document to “Treasurer or his/her designee” to reflect the ISO’s current organizational structure.

CONCLUSION

The proposed revisions are consistent with management’s intention to continually monitor and strengthen the Investment Policy. Management recommends adoption of the revised Investment Policy, included as Attachment 1 to this memorandum (a redlined version is found in Attachment 2).