



California ISO

Investment Policy
Version # 7.17.2

Effective ~~December 18, 2017~~ April 1, 2019

REVISION HISTORY

VERSION NO.	DATE	SUGGESTED REVIEW DATE	REVISED BY	DESCRIPTION
1.0	8/26/1999	--		Policy Adopted
2.0	6/14/2005	--	Approved by ISO Board of Governors	Amendments related to bond proceeds, clarifications, authorized investments and other policy and administrative changes
3.0	12/17/2008	--	Approved by ISO Board of Governors	General revisions, enhancements to controls and safeguards, and changes to authorized and prohibited investments
4.0	3/26/2010	--	Approved by ISO Board of Governors	General revisions, inclusion of the VEBA Retiree Medical Plan Trust, and modifications related to authorized investments for the VEBA Trust.
5.0	9/13/2012	9/13/2013	Approved by ISO Board of Governors	Transition to corporate template, separation of commercial paper from corporate obligations, removal of VEBA Retiree Medical Plan Trust, and other modifications comply with new ISO standard policy format
5.1	7/2/2013	7/2/2014	CFO	Annual review. Moved appendix contents into the body of the policy; other non-substantive changes.
5.2	5/6/2014	5/6/2015	CFO	Annual review. Very minor updates to formatting.
VERSION NO.	DATE REVIEW STARTED	EFFECTIVE DATE	REVISED BY	DESCRIPTION
6.0	2/5/2015	7/16/2015	Approved by ISO Board of Governors	Updated revision history table to match new standard. Combined certain sections to eliminate redundancy and improve readability. Consolidated permissible security types, limits and restrictions into a single table in Section 17.2. Clarified the language in Section 17.1 regarding the minimum number of credit ratings required to invest in a security.
7.0	4/26/16	7/21/2016	Approved by ISO Board of Governors	2016 Annual Review. Added information regarding Money market mutual funds subject to new SEC money market reforms, including floating NAVs, liquidity fees and redemption gates, added to permissible security types.
7.1	8/22/2017	12/18/2017	CFO	2017 Annual Review; added note that Board approved changes effective in v7.0.
7.2	2/19/2019	4/1/2019	CFO	2019 Annual Review: added interconnection funds to the scope of restricted funds; modified universe of investible bond funds under permissible security types.

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1.0 INTRODUCTION

The investment policy provides written guidelines, approved by the ISO Board of Governors, for the investment management of monetary assets of the California Independent System Operator Corporation.

2.0 DELEGATION OF AUTHORITY

Consistent with the *Delegation of Authority to Approve Commitments of the Corporation by the President and Chief Executive Officer of the ISO*, initial investments with a particular broker/dealer or financial institution shall be authorized by the Chief Executive Officer (CEO). Thereafter, purchases and redemptions of authorized investments through the approved entity may be made by the Chief Financial Officer (CFO) or designees, provided only that they are consistent with this investment policy.

3.0 SCOPE

This policy applies to the investment activities of the unrestricted funds of the ISO. Unrestricted funds are defined as funds available for general corporate use for operations and other reserves. These funds typically consist of the following types:

- operating revenues;
- funds related to longer-term corporate obligations, with the exception of the liabilities associated with the Retiree Medical Plan;
- Operating Cost Reserve, which is defined in the ISO Tariff with a targeted funding level of not less than 15 percent of the Operations and Maintenance budget; and
- capital reserves, which consist of the cash funded capital component of the revenue requirement.

This policy does not apply to the investment activities of the funds outlined below.

- Bond proceeds — bond proceeds being held are invested according to the bond indenture of the related bond issuance and are more restrictive than guidelines in this policy.
- Funds held by the ISO on behalf of the ISO Market or specific market participants — restricted funds of this nature are typically held in bank accounts or in money market mutual funds, as required by the ISO Tariff with the following possible exceptions:
 - With respect to funds held by the ISO from a single entity (such as a collateral account), if that entity requests or authorizes in writing an alternative investment, the ISO may agree to such an investment at its discretion and with the approval of the ISO CEO or CFO.
 - With respect to market-related funds that potentially relate to more than one market participant, if the ISO determines that the funds are likely to be held for

an extended time period, the ISO may invest such funds in a U.S. Treasury or government agency security of an appropriate maturity with the approval of the ISO CEO or CFO.

- With respect to generation interconnection deposits and non-refundable amounts held on behalf of others the ISO may invest such funds in ~~money market funds and bank deposit products~~ non-negotiable certificates of deposit.
- Retirement Savings Benefits Plan (401(k)) and funds held on behalf of the liabilities associated with the Retiree Medical Plan; these funds are governed by separate investment policies.

4.0 ROLES AND RESPONSIBILITIES

4.1 ISO Board of Governors

The ISO Board of Governors is responsible for reviewing and approving this policy not less than once every three years. Any substantive modifications or amendments to this policy must also be approved by the ISO Board of Governors.

4.2 Chief Financial Officer

The Chief Financial Officer owns and is accountable for the ISO's investment policy and is responsible for the following:

- reviewing the sufficiency of this policy annually and submitting substantive modifications and amendments to the Board of Governors for approval;
- maintaining a system of internal controls, as outlined in [Section 7](#);
- ensuring that all investment transactions and holdings remain in compliance with this policy and any bond indenture terms; and
- submitting reports to the Board of Governors and the Corporate Management Committee (CMC), as outlined in [Section 8](#).

4.3 Controller

The Controller is responsible for ensuring the preparation, posting, and reconciliation of accounting entries associated with investment transactions.

4.4 Corporate Management Committee

The CMC consists of the President & Chief Executive Officer, Vice President, General Counsel & Chief Compliance Officer, and the Chief Financial Officer ~~& Treasurer~~. Among other responsibilities, the CMC serves as an internal investment management committee.

5.0 OBJECTIVES

The ISO's investment decisions are guided by the following three primary objectives.

Safety of Principal

Safety of principal is the foremost objective of the investment policy and practices. It is the responsibility of the CFO and any external investment manager to ensure that all investments are made in accordance with existing laws, this policy, established departmental procedures, and any other restrictive agreements such as ISO bond agreements.

Liquidity

Adequate cash to meet all payment requirements will be maintained. This objective will typically be made by matching the maturity dates of investments with planned disbursements and by maintaining adequate levels of liquid securities to meet unforeseen disbursement requirements.

Earnings

The CFO and designee will seek to maximize returns on the ISO's financial assets within the parameters of this policy, after the objectives of safety of principal and liquidity have been met.

6.0 PRUDENT INVESTOR

Investments will be made with the same standard of care under the circumstances then prevailing, that reasonable persons acting in a like capacity and familiarity would use in the conduct of investing the funds to safeguard principal and maintain liquidity.

7.0 INTERNAL CONTROLS

The CFO will maintain a system of internal investment controls that shall be subject to review by the external financial auditor in connection with the annual financial statement audit. The CFO will be responsible to ensure the appropriate segregation of duties. Personnel involved in initiating and executing investment transactions are prohibited from the responsibilities of confirming and settling transactions, controlling various clearing accounts, preparing or posting the accounting entries, approving the entries, and reconciling the transactions. These procedures and segregation of duties may be reviewed and verified periodically by the Internal Audit department.

The CFO or designee will ensure compliance with this policy before executing the purchase of an investment by conducting an assessment of the following:

- the investment transaction is with a financial institution approved by the CEO (Refer to [Section 2.0](#));
- the investment will be held by the primary custodian (Refer to [Section 11.0](#));
- the investment is an allowable investment type and the allocation does not exceed portfolio limits by investment type or issuer (Refer to [Section 17.2](#));
- portfolio risk factors and mitigating safeguards (Refer to [Section 14.0](#));
- the investment carries at least two credit ratings from either Moody's, S&P or Fitch and meets the minimum credit rating standards (Refer to [Section 17.0](#));
- if applicable, the investment can be defined as senior debt, not subordinated (Refer to [Section 17.1](#));
- the investment does not have any of the characteristics of a prohibited investment ~~or~~ [and](#) is not included on the ISO's Prohibited Investments List (Refer to [Section 21.0](#)); and

8.0 REPORTING

The CFO will submit the following reports annually to the ISO Board of Governors:

- a list of investments that includes the investment type, issuer, credit ratings, maturity date, face value and cost on all securities. The market value and source of the market value information will also be provided;
- attestation that the portfolio is in compliance with the policy, or manner in which the portfolio is not in compliance; and
- portfolio performance information and any relevant benchmarks.

The CFO will submit a list of investments (first item above) quarterly to the CMC to review portfolio holdings and identify investments for special consideration. For example, if an investment has been downgraded by a credit rating agency to a level beneath the minimum levels required in this policy, the CMC must assess the appropriate action to take based on the CFO's recommendation.

9.0 EXTERNAL INVESTMENT MANAGERS

The CFO shall have the responsibility for selecting, monitoring and dismissing any external investment management firms engaged to manage ISO assets. The CFO is responsible for ensuring that any such investment managers fulfill their mandates within their contractual obligations, including investment guidelines that will be incorporated in each investment management contract, responsibilities of the investment manager, characteristics of the manager's style of investing, performance expectations, compensation, organizational requirements, reporting and other administrative requirements. The CFO is responsible for reporting quarterly on the status of each retained investment management firm at the CMC meetings and annually with the ISO Board of Governors.

10.0 COMPETITIVE BIDDING

Where appropriate, the CFO or designee may obtain competitive bids or offers for a particular security.

11.0 CUSTODY AND SAFEKEEPING

Individual securities purchased by the ISO will be held in a custodial account by a third-party custodian selected by the ISO. The custodian shall annually provide a copy of its most recent report on internal controls (Service Organization Control Reports), prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16.

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited with the ISO custodian prior to the release of funds.

Exceptions: Certain authorized investments in this policy have their distinct third-party custodian and therefore are not able to be held at the ISO's primary custodian. Examples could include money market funds, fixed income mutual funds, tri-party repurchase agreements, and certain bank obligations, such as non-negotiable certificates of deposit. Any investments that fall in this category will be approved prior to their purchase by the CFO. The Controller will ensure all assets are reconciled and recorded on the financial statements.

12.0 PORTFOLIO MIX

The ISO will maintain a portfolio of authorized investments, as defined in this policy, with diversified maturities, issuers and security types in order to avoid risks inherent in over-investing in any one sector. Portfolio holdings are limited as specified in the Authorized Investments section of this document. Within the parameters defined in this policy, the CFO may establish and revise further guidelines or objectives for the portfolio mix.

13.0 DIVERSIFICATION

Portfolio diversification is a tool for managing risk while maintaining liquidity. Issuer and portfolio diversification limits are established by security type in Section 17.2.

14.0 PORTFOLIO RISK MANAGEMENT

It is the responsibility of the CFO to anticipate and develop appropriate safeguards to address various types of investment-related risks. For example, the table below identifies common risk factors encountered in portfolio management and examples of tools or processes used to mitigate those risks.

Portfolio Risk Factors	Mitigating Safeguards
Credit Risk	<ul style="list-style-type: none"> • credit rating agencies • Moody’s Analytics expected default frequencies • minimum rating levels upon purchase • credit analysis • government regulations
Market Exposure	<ul style="list-style-type: none"> • diversification of maturities, security type, industry segments, collateral types and issuers
Regional/Industry Exposure	<ul style="list-style-type: none"> • consideration of regional and industry trends
Sovereign Risk	<ul style="list-style-type: none"> • analysis of international and political trends • diversified foreign investments
Counterparty Risk	<ul style="list-style-type: none"> • use of custodian services • appropriate documentation

15.0 THIRD PARTY PORTFOLIO REVIEW

Periodic third party reviews of the portfolio will be conducted by an independent investment advisor not less than annually, and more frequently as conditions warrant in the judgment of the CFO and CMC. The review will assess the overall investment strategy, security types, sector limits, issuer concentrations, credit quality and investment structures duration, and recommend modifications to the investment program, if necessary. The review will identify any watch list items. The investment advisor will make recommendations and may provide the outlook for economic conditions and trends in fixed income markets, and recommend sectors to avoid or decrease exposure. The investment advisor will recommend changes to the portfolio when appropriate to minimize potential risk.

16.0 EXCEPTIONS

Exceptions to the portfolio percentage limits in the Permissible Securities Table (refer to Section 17.2) that may become necessary because of special business circumstances (*i.e.*, market conditions or portfolio liquidation) may not be more than five (5) percent of the percentage limits specified in this policy. Amounts exceeding those limits must be approved prior to execution of the transaction by the CEO and ISO Board of Governors chair.

Other exceptions which might be warranted by special business circumstances shall require the written consent of the ISO Board of Governors chair.

The portfolio percentage limitations for investments outlined in the Permissible Securities Table (refer to Section 17.2) are as of the date of the purchase of the investment. Variations in the applicable percentages caused by items such as portfolio size fluctuations and market value movements shall be acceptable. The CFO will monitor current percentages and seek to rebalance the portfolio in a prudent way.

In the event that any unintended exceptions to this policy occur, it will be reported to the CFO, who will notify the CMC. Actions to eliminate any unauthorized exception to this policy will be cured in a time frame agreed to by the CFO, CMC and ISO Board of Governors chair, as appropriate.

17.0 AUTHORIZED INVESTMENTS

17.1 General Provisions

Credit Quality

All eligible securities must be rated by two of the three major credit rating agencies — Moody's Investors Service (Moody's), Standard & Poor's (S&P) or Fitch Ratings (Fitch) to be eligible for purchase. Securities must have at least two ratings that meet the minimum standards outlined in the Permissible Securities table in Section 17.2. In the case where only two of the three ratings are available, the lower of the two ratings will be considered the overall credit rating. Issuer ratings may be used in cases where securities have not been assigned a specific rating. Investments where, after acquisition by the ISO, the credit rating falls below the minimum criteria specified in this policy shall be presented to the CMC for assessment of appropriate actions that includes deciding to continue to hold the security or disposing of the security (potentially at a loss). The ISO may obtain expert advice to assess and determine a prudent course of action. A decline in a credit rating of a security below the minimums specified in this policy after acquisition by the ISO is not an exception that requires consent of the ISO Board of Governors chair, as provided for in the Exceptions section of this policy.

Senior Securities

All eligible securities must be senior notes or senior classes of the capital structure of the issuer or senior tranche or class of the collateralized issue. Notes, tranches or classes, preferred shares and equities that are all junior to senior notes of all eligible issuers, are prohibited.

Floating Rate Securities

The ISO may invest in a prudent amount of securities whose coupon rate may vary during the holding period. The floating rate securities must have coupon rates linked to a well-recognized money market index such as the 3-month Treasury Bill, LIBOR, prime rate, 11th District Cost of Funds (COFI), commercial paper, or federal funds.

Maximum Effective Maturity

Unless otherwise noted within each of the investment categories below, the maximum effective maturity is five (5) years from the settlement date of the purchase by the ISO.

Note: An authorized investment excludes any investment that is identified below as a “prohibited investment” or “prohibited security.”

17.2 Permissible Security Types

The following table provides a list of the types of securities that are permissible under the ISO’s Investment Policy and includes issuer and portfolio investment limits as well as restrictions by security type.

Security Type	Description	Maximum % Per Issuer	Maximum % of Portfolio	Restrictions
US Government Obligations	U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.	N/A	100%	Government National Mortgage Association (GNMA) obligations are a direct government obligation but are defined as mortgage-backed securities (MBS) under this policy and accordingly not permissible for direct purchase by the ISO (though permissible as collateral for other agreements).
Federal Agency and Government Sponsored Enterprises Securities	Senior obligations, participations or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government sponsored enterprises.	20%	75%	Eligible securities must be debentures and cannot be asset-backed securities (ABS) or MBS. Securities must have a minimum long term debt rating of A- or equivalent.
Sovereigns and Supranationals	Debt instruments issued by foreign governments and supranationals. Supranationals are multi-government sponsored	5%	20%	All securities must be U.S. dollar denominated. Securities must have a minimum long term debt rating of A- or equivalent.

Security Type	Description	Maximum % Per Issuer	Maximum % of Portfolio	Restrictions
	institutions that provide development financing, advisory services and other financial services to their member countries.			
Corporate Debt Obligations	Debt obligations issued by corporations and depository institutions, such as medium-term notes, and bonds.	5% whether issued directly or by an affiliate of any parent company.	30%	Commercial paper holdings should be considered when calculating the maximum percentage in any issuer name. Securities must have a minimum long-term debt rating of A- or equivalent.
Commercial Paper	Commercial paper and other short-term, unsecured promissory notes issued by domestic and foreign corporations.	5% whether issued directly or by an affiliate of any parent company.	40%	Other corporate debt obligations should be considered when calculating the maximum percentage in any issuer name. Asset-backed commercial paper (ABCP) is not permissible as an ISO investment but is a permissible holding for pooled investments such as money market funds and fixed income mutual funds. Securities must have a minimum short-term rating of A-1 or equivalent.
Bank Deposit Obligations	Deposit obligations of commercial banks such as: negotiable	5% for certificates of deposits	100%	Certificates of deposits and time deposits must either: 1) be at banks with a minimum long-term

Security Type	Description	Maximum % Per Issuer	Maximum % of Portfolio	Restrictions
	certificates of deposit (CDs), time deposits (non-negotiable CDs), and deposit accounts (checking, savings, etc.).	and time deposits No limit for deposit accounts		debt rating of A- or equivalent; 2) fully insured by the Federal Deposit Insurance Corporation; 3) secured at all times by collateral security consisting of U.S. government obligations or federal agencies; or 4) guaranteed by a non-U.S. government (minimum A-rated or equivalent) for principal and interest.
Tri-Party Repurchase Agreements	Repurchase agreements (repos) with financial institutions.	10%	25%	<p>Counterparty must have a minimum long-term debt rating of A- or equivalent.</p> <p>The counterparty must be a primary dealer of the Federal Reserve Bank of New York.</p> <p>All transactions must be fully collateralized by U. S. Treasury and government agency obligations, or other investments eligible within this policy.</p> <p>Collateral must be market-priced greater than the invested amount at the time of purchase (minimum of 102 percent) and valued at least monthly.</p> <p>Collateral must be delivered and under custody at a third party custodian different from</p>

Security Type	Description	Maximum % Per Issuer	Maximum % of Portfolio	Restrictions
				<p>the financial institution entering into the repo transaction.</p> <p>Transactions are limited to maturities up to one year unless the agreements are in connection with ISO bond proceeds, in which case the agreement shall not exceed the maturity of the relevant ISO bonds.</p>
Fixed Income Mutual Funds	Institutional fixed income ultra-short to intermediate-term-bond funds whose net asset value (NAV) may fluctuate.	5% of funds total assets	<u>100%</u> 25%	Investments in fixed income mutual funds or commingled funds shall be reviewed and approved by the CMC on a case-by-case basis.
Money Market Mutual Funds	Money market fund shares of an open-end investment company registered under the Investment Company Act of 1940, as amended.	5% of each money fund's total assets.	100%	<p>Investments must comply with the Securities and Exchange Commission (SEC) regulations under 2a-7. Funds with floating NAVs, liquidity fees and redemption gates, are permissible.</p> <p>Funds rated by any of the three major credit rating agencies or approved by the National Association of Insurance Commissioners (NAIC) as a permitted investment are preferred over unrated funds.</p> <p>Funds must have minimum fund assets of \$5 billion.</p>

Security Type	Description	Maximum % Per Issuer	Maximum % of Portfolio	Restrictions
Municipal & State Obligations	Obligations of state, provincial and local governments and public authorities within the United States.	5%	50%	<p>Securities must have a short-term rating of SP-1 or equivalent or a long-term debt rating of A- or equivalent.</p> <p>Approved credit enhancements for municipal obligations include:</p> <ul style="list-style-type: none"> • an irrevocable and unconditional bank letter of credit (LOC) from a bank with a minimum short-term rating of A-1 or equivalent; • insurance by any monoline insurer rated a minimum of A- or equivalent. <p>Credit enhanced securities must have an underlying issuer credit quality of A- or equivalent.</p> <p>Pre-Refunded Municipals</p> <p>Municipal obligations may be purchased if they are collateralized or have been funded to maturity by U.S. Treasury or government agency securities held in a trust arrangement to cover all principal and interest payments.</p>

18.0 MATURITY SCHEDULING

Investment maturities may be coordinated to meet projected cash flow needs, taking into account large routine disbursements as well as considering sizable receipts of funds.

19.0 EFFECTIVE MATURITIES

Individual security effective maturities should not exceed five (5) years at any time. In addition, an effective maturity by definition shall include puts, announced calls or other structural features that will allow the ISO to redeem the investments at a quantifiable price consistent with liquidity, safety and preservation of capital. Unannounced call dates and coupon reset dates are not effective maturities.

20.0 SALE OF SECURITIES PRIOR TO MATURITY

Securities may be sold prior to maturity to meet ISO cash needs, to realize profits or to shift into alternative investments. Losses on the sale of securities are acceptable under certain circumstances. For example, when the reinvested proceeds from the sale will provide income with greater present value than that of the instrument sold; when credit deterioration or decreasing market value is a concern; or when funds are needed to meet ISO cash requirements. In all cases, the CFO or designee will act in accordance with the prudent investor clause of this policy (see Section 6.0). Any losses on the sale of securities will be reported to the CMC at the next available meeting and recorded appropriately in the financial statements.

21.0 PROHIBITED INVESTMENTS

The following are prohibited securities:

- securities that the ISO is prohibited from holding under FERC orders, regulations, or policy regarding ISO investments;
- securities that the ISO would be prohibited from holding under 18 C.F.R. section 35.34 (j)(1)(i);
- floating rate securities with embedded options, interest rate caps, floors, collars, inverse interest rate relationships, leverage floaters, or indices not directly correlated with money market interest rate movements;
- interest rate swap agreements on the ISO portfolio investments are not permissible; however, interest rate swap agreements on ISO debt approved by the ISO Board of Governors are permissible for ISO debt structure management only;
- stripped securities such as IO (interest-only), PO (principal-only)
- subordinated issues, residuals, super POs, tiered indexed bonds, and two-tiered indexed bonds;
- collateralized trusts that have embedded leverage, CBO (collateralized bond obligations), CDO (collateralized debt obligations), CLO (collateralized loan obligations);
- the direct purchase of Asset Backed Securities (ABS), Government National Mortgage Association (GNMA) and agency-backed Mortgage Backed Securities (MBS);
- short sales, margin purchases, futures, options, and foreign currency purchases are not permitted for the investment portfolio;
- securities with deferred interest payments, extendible maturities at issuer's option;
- structured investment vehicles (SIVs) or off balance sheet funding instruments; and
- auction rate securities.

22.0 COMMUNICATIONS AND TRAINING

A current version of this policy will be available on the internal ISO website. Any substantive revisions to this policy will be approved by the ISO Board of Governors and communicated as necessary.

22.1 Training

Training will be provided to necessary personnel, as determined by the CFO.

23.0 COMPLIANCE

The CFO will ensure that all investment transactions and holdings remain in compliance with this policy and any bond indenture terms.

23.1 Disciplinary Guidelines

In accordance with the ISO Disciplinary Guidelines, discipline for a violation of this policy is the responsibility of management in coordination with human resources, which should seek legal advice from the office of the general counsel.

24.0 RESOURCES

- [Disciplinary Guidelines](#)
- [Prohibited Investment List](#)
- [Delegation of Authority to Approve Commitments of the Corporation](#)

25.0 CONTACTS

For questions regarding subject matter covered in this policy, please contact Ryan Seghesio, ~~VP, Chief Financial Officer~~CFO and Treasurer at (916) 351-4422 or rseghesio@caiso.com.

26.0 APPROVAL

This policy has been reviewed and approved by:

Responsible Manager:

Ryan Seghesio	Signature on File	12/18/2017
Name	Signature	Date

VP, General Counsel & Chief Compliance Officer:

Roger Collanton	Signature on File	12/18/2017
Name	Signature	Date

President & CEO

Steve Berberich	Signature on File	12/18/2017
Name	Signature	Date

Board Approved