ATTACHMENT 2

California ISO

Your Link to Power

Investment Policy

REVISION HISTORY

VERSION NO.	DATE	DESCRIPTION
1.0	08/26/1999	Initial Release
2.0	06/14/2005	Amendment 1
3.0	12/17/2008	Amendment 2

DELEGATION OF AUTHORITY

Consistent with the Delegation of Authority from the Chief Executive Officer (CEO) to the Officers and Authorized Persons, initial investments with a particular broker/dealer or financial institution shall be authorized by the CEO. Thereafter, purchases and redemptions of Authorized Investments through that entity may be made by the Chief Financial Officer (CFO) and his or her designees (Internal Investment Manager) under the authority granted for repetitive electronic transfers.

SCOPE

This policy applies to the investment activities of the California Independent System Operator Corporation, (the ISO). This policy will not apply to investments of 401K employee retirement funds. This policy applies to the following funds:

- Operating Funds/Operating & Capital Reserve Funds (Appendix A)
- Bond Proceed Funds (Appendix B)
- Funds held by the ISO on behalf of the ISO Market or specific market participants (Appendix C)

OBJECTIVES

1. SAFETY OF PRINCIPAL

Safety of principal is the foremost objective of the investment policies and practices. It is the responsibility of the CFO and any 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.

2. 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.

3. EARNINGS

Internal Investment Managers will seek to maximize returns on the ISO's financial assets within the parameters this policy, after the objectives of safety and liquidity have been met.

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 the funds to safeguard principal and maintain liquidity.

POLICY REVIEW

A review of the sufficiency of this policy will be conducted annually by the CFO and not less than once every three years by the ISO Board of Governors. Any modifications or amendments to this policy must be in written form and approved by the ISO Board of Governors.

INTERNAL CONTROLS

The CFO will maintain a system of internal investment controls which shall be subject to review by the ISO's external financial auditor in connection with the ISO's 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 shall be reviewed and verified periodically by Internal Audit.

The Internal Investment Manager will ensure compliance with this policy by conducting an assessment of the following before executing the purchase of investments other than cash and mutual funds:-

- Diversification-do not exceed portfolio limits by investment type
- Portfolio Risk-see factors listed under Portfolio Risk Management
- Permissibility of an Authorized Investment
- Exclusion from the list of "Prohibited Investments"
- Counterparty Credit Risk as demonstrated by Credit Ratings and other available sources of information including but not limited to security price trends.

LEGAL COMPLIANCE

The CFO will ensure that all investment transactions and holdings remain in compliance with this policy, the ISO Code of Conduct and any bond indenture terms.

REPORTING

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

- A list of investments identifying the investment type, issuer, agency rating(s), date of maturity, par and dollar amount invested on all securities. The market value and source of the market value information will also be provided.
- A reporting statement that the portfolio is in compliance with the policy or manner in which the portfolio is not in compliance.
- 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.

EXTERNAL INVESTMENT MANAGERS

Should an External Investment Manager be utilized, the Investment Manager should meet the following criteria as recommended by the SEC and the *CFA Institute:

- Asset management firm must be a SEC-registered investment advisor with a SEC Form ADV Parts I & II available annually and not be dually registered as a

FINRA-registered firm
- Must act as a fiduciary to the ISO
- Manage a minimum of $3 billion in institutional fixed income portfolios.
- Have a verifiable performance record for the prior five years that complies with the Global Investment Performance Standards (GIPS) set by the set by the CFA Institute
- Provide the ISO with all requisite monthly and quarterly reports.
- Must not trade securities with an affiliated broker/dealer or introducing broker or engage in directed brokerage
- Must disclose all potential conflicts of interest in advance and in writing
- Must disclose annually any pending litigation or material complaints

*(*The CFA Institute (www.cfainstitute.org) certifies the CFA (Chartered Financial Analyst).*

Appropriate performance benchmarks will be established for each portfolio managed by External Investment Managers. Analysis of performance will be performed on a quarterly basis and include:

- Maturity/Duration distribution
- Diversification by credit quality and sector
- Rates of return
- Reports of any realized and unrealized capital gains/losses
- Major purchases/sales
- Benchmark comparisons

Registered representatives or registered principals of a FINRA-registered broker-dealer firm are not permitted to manage assets for the ISO in either a discretionary or non-discretionary capacity. Such relationships are broker-dealer relationships and not a fiduciary investment management relationship.

COMPETIVE BIDDING

Where appropriate, the Investment Manager may obtain competitive bids or offers for a particular security.

SAFEKEEPING

Individual securities purchased by the ISO shall be held in a custodial account by a third party custodian that will accept all investments made by the ISO for Operating Funds and Operating & Capital Reserve Funds. The custodian will be designated as the book of record. All transactions will be reconciled to the custody account statements on a monthly basis.

The custodian must meet all of the following criteria:

- Minimum long term debt credit rating of A3 or A- as determined by any two of the major rating agencies
- Must maintain an unqualified SAS 70 audit (or equivalent)
- Maintain a minimum of $100 million in fidelity bond insurance
- Use third party pricing services consistent with FASB 157 Fair Value Measurement

The custodian will safe keep the assets for the ISO and price the securities at market value using third party pricing services at each month end. A complete and detailed listing of all securities held for this account, fair market values, amortized cost values of each security, realized and unrealized gains/losses, and a detailed transaction report will be provided to the client on a monthly basis. Verification of securities held in custody will be made annually by the external auditors. The custodian institution(s) will be required to issue timely confirmation to the ISO listing the specific instrument, rate, maturity and other pertinent information. Payment for securities should normally be "Delivery Versus Payment".

(Note: Money market and mutual funds have their distinct third party custodian so those investments do not need to be custodied at the ISO's primary custodian.)

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.

DIVERSIFICATION

Portfolio diversification will be a tool for managing risk while maintaining liquidity. The CFO has discretion to exceed the diversification limits shown below by not more than 5% as a result of liquidation or adverse market conditions that require reducing exposures to certain sectors in order to protect principal.

- No more than 5% of the portfolio will be invested with any issuer. This limitation does not apply to pooled investments such as money market or fixed income mutual funds There is no limit imposed for U.S. Government

Obligations GIC, BIC and Investment Agreements (procured in connection with ISO bond offerings) will not have a limit imposed.

- Federal Agency debentures are limited to 20% per issuer (Government National Mortgage Association) GNMA agency-backed asset backed securities (ABS) and mortgage backed securities (MBS) are not included in the definition of US Treasury and Federal Agency debentures and are defined as ABS and MBS which are not permissible under this policy.
- Money Market Fund and Treasury Money Fund investments are limited to a maximum of 5% of the specific fund's total assets and not the fund family total.

Maximum % of Total Portfolio Permissible	
US Government Obligations	100%
Federal Agency Securities (Maximum 20% per issuer)	100%
Government Sponsored Enterprises (GSE)	40%
International Agencies	20%
Corporate Debt Obligations	30%
Bank Obligations	
FDIC insured – (no limit)	
Non-FDIC insured	50%
Tri-Party Repurchase Agreements (10% per institution)	25%
Investment Agreements	45%
Fixed Income Mutual Fund	25%
Money Market Mutual Funds	100%
Municipal & State Obligations	50%
Pre-Refunded Municipals	75%

PORTFOLIO RISK MANAGEMENT

It is the responsibility of the CFO to anticipate and develop appropriate safeguards to address various types of Investment-related risks:

Risks:	**Safeguards:**
Credit Risk	-Credit rating Agencies -Moody's KMV expected default frequencies -Minimum rating levels upon purchase -Credit Analysis -Government Regulations
Market Exposure	-Diversification of maturities, Security type, industry segments collateral types and issuers
Regional/Industry Exposure	-Consideration of Regional and Industry trends
Sovereign Risk	-Analysis of international and Political trends -Diversified foreign investments
Counterparty Risk	-Approved and licensed FINRA broker-dealers -Appropriate documentation

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/or CMC. The review will assess the overall investment strategy, security types, sector limits, issuer concentrations, credit quality, investment structures, and 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, trends in fixed income markets, recommend sectors to avoid or decrease exposure. The Investment Advisor will recommend changes to the portfolio when appropriate to minimize potential risk.

The firm of the Independent Investment Advisor must be a registered Investment Advisor under the Investment Advisor Act of 1940 and must provide its ADV Part II to the ISO. The firm's consultants that advise the ISO must be registered as Investment Advisor Representatives and as such hold a Series 65 license or be a CFA charterholder.

EXCEPTIONS

Exceptions to the portfolio percentage limits within the "Diversification" section of this policy that may become necessary due to special business circumstances, (*i.e.* market conditions or portfolio liquidation) may not be more than 5% of the percentage limits specified in this policy. Such exceptions must be approved by the CEO and Audit Committee Chair or subsequent Chair of the Governing Board.

Other exceptions which might be warranted by special business circumstances shall require the written consent of the ISO Audit Committee Chair or Chair of the ISO Governing Board.

The portfolio percentage limitations for investments outlined in the "Diversification" section of this document are as of the date of the purchase of the investment and ongoing as measured monthly. Such limitations shall require rebalancing of the portfolio when market conditions permit and the liquidation of investments due to a decrease in the overall size of the portfolio.

Any intended exceptions to this policy must be approved in advance (*i.e.* prior to execution of the transaction) by the 1) CEO and 2) either the Audit Committee Chair or Chair of the Governing Board. In the event that any unintended exceptions to this policy do occur, it will be reported to the CFO as soon as the Internal Investment Manager becomes aware of the violation and the CFO will notify the Corporate Management Committee (CMC). Actions to eliminate any unauthorized exception to this policy will be cured in a time frame agreed to by the CFO, CMC and Governing Board Chair, as appropriate. If an investment rating for a security is reduced below the minimums set by this policy, the CFO will notify the CMC and an action plan will be agreed upon.

AUTHORIZED INVESTMENTS

GENERAL PROVISIONS

- *Credit Quality*
  All eligible securities must carry at least two credit quality ratings from either Moody's Investors Service or Standard & Poor's (S&P) or Fitch Investors Service to be eligible for purchase. In the case of split ratings, the lower of the two ratings will be considered the overall credit 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, including continuing 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 Board or Audit Committee chair as provided for in "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.

- *Maximum Stated Maturity*
  Unless otherwise noted within each of the investment categories below the maximum stated maturity is 5 years from the date of purchase by the ISO.

<u>Note</u>: An authorized investment excludes any investment that is prohibited.

<u>U. S. Government Obligations</u>
Marketable debenture securities which are direct obligations of the United States of America, issued by or guaranteed as to principal and interest by the U. S. Government and supported by the full faith and credit of the United States of America.

- U.S. Treasury bills, notes and bonds are eligible.
- General Services Administration
- Guaranteed Title XI financing

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 Securities

Senior debentures of any of the following federal agencies obligations represent the full faith and credit of the United States of America.

- Farmers Home Administration (FMHA)
- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank

Government Sponsored Enterprises (GSE)

Senior debentures, direct obligations of the following government sponsored enterprises (GSE) and agencies obligations which are not fully guaranteed by the full faith and credit of the United States of America issued by:

- Federal National Mortgage Association (FNMA)
- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal Farm Credit Bank (FFCB)
- Resolution Funding Corporation (REFCORP)

Eligible securities must be debentures and cannot be asset backed securities (ABS) or mortgage backed securities (MBS). Must be rated at least Aa3 by Moody's or AA- by S&P or equivalent.

International Agencies

Notes, bonds or debt instruments issued by international agencies including World Bank (WLDB), Asian Development Bank, Inter-American Development Bank, Agency for International Development (AID) must have a minimum long term debt rating of Aa3 by Moody's or AA- by S&P. All securities must be US dollar denominated or US dollar pay.

Corporate Debt Obligations

All commercial paper and other short-term, unsecured promissory notes issued by domestic and foreign corporations in U.S. Commercial paper must have a short-term rating of at least A-1 (S&P), or P-1 (Moody's) or equivalent. ISO investments in particular, issuer's commercial paper are limited to 5% of that issuer's total outstanding commercial paper. Asset-backed commercial paper (ABCP) is not permissible as an ISO investment but is a permissible holding for money market fund investments.

Direct corporate obligations including but not limited to Medium-Term Notes, Deposit Notes, and Bonds. Notes and bonds must have a long-term debt rating of at least A3 by Moody's or A- by S&P or equivalent.

Floating Rate Securities
Simple or straight floating rate securities whose interest rates are 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, with coupon resets weekly, monthly, quarterly or semi-annually are eligible investments. Eligible investments must be rated at least A3 by Moody's or A- by S&P or equivalent.

Bank Obligations
Negotiable Certificates of Deposit (CDs), Bank Time Deposits, Interest Bearing Demand Deposits, Checking accounts or other non-interest bearing accounts and obligations of commercial banks with a (1) minimum deposit rating of A by Moody’s or A2 by S&P or A by Fitch issued by a national or state chartered bank, or state or federal Savings Association, or state-licensed branch of a foreign bank with combined capital and surplus of at least $100 million dollars, or (2) fully insured by the Federal Deposit Insurance Corporation, or (3) secured at all times by collateral security consisting of U.S. Government Obligations or Federal Agencies.

Tri-Party Repurchase Agreements
Repurchase agreements ("repos") will be transacted only with financial institutions rated at least A3 by Moody's or A- by S&P or equivalent and counterparty must be a primary dealer of the Federal Reserve Bank of New York. All transactions must always be fully collateralized by U. S. Treasury, Federal Agency obligations, money market instruments, or corporate eligible within this policy. Collateral must be market-priced greater than the invested amount at the time of purchase (minimum of 102%) and valued at least monthly. Collateral must be delivered and custodied at a third party custodian different from the financial institution entering into the repo transaction.

Transactions are limited to 1 year maturities unless the agreement is in connection with ISO bond proceeds in which case the agreement shall not exceed the maturity of the relevant ISO bonds. Maximum 10% per financial institution.

Investment Agreements
Investment Agreements may be collateralized or uncollateralized. Collateralized investment agreements with banks, insurance companies, or broker-dealers must be with an institution that has a senior long term debt credit rating of A2 by Moody's and A by S&P. Investment agreements may be collateralized with appropriate margin by securities permissible under this policy and GNMA and Agency-backed MBS.

For uncollateralized investment agreements, with banks, insurance companies or broker-dealers must have a long-term counterparty rating of Aa2 by Moody's and AA by S&P.

Note, the purchase of ABS, GNMA and Agency-backed MBS are not permissible for direct purchase by the ISO. However, those securities are eligible investments if appropriately margined as collateral for collateralized Investment Agreements or GICs or BICs, referenced below.

Transactions are limited to 5 year maturities unless the agreement is in connection with ISO bond proceeds in which case the agreement shall not exceed the maturity of the relevant ISO bonds. Maximum 10% per financial institution.

- **Guaranteed Investment Contracts (GIC) and Bank Investment Contracts (BIC)**
  Guaranteed Investment Contracts (GIC) with insurance companies must have a long-term counterparty rating of Aa2 by Moody's and AA by S&P. For a GIC provided by an insurance company it must be pari passu with insurance policy holder obligations. The GIC must have a capital facility to cover economic losses and must have contingent liquidity provided by a committed standby line of credit from a financial institution with long-term senior debt rating of Aa2 by Moody's and AA by S&P. Bank Investment Contracts (BIC) or GIC with banks must have a long-term counterparty rating of Aa2 by Moody's and AA by S &P.

Fixed Income Mutual Fund

Investments in institutional fixed income ultra-short to intermediate-term bond funds whose net asset value (NAV) may fluctuate are permissible if the underlying securities in the fund are permissible within this policy. Funds investing in futures, options, derivatives, credit default swaps or securities prohibited by this policy are not eligible. Government or Federal Agency Funds investing in mortgage-backed securities are not permissible. Fund must have a verifiable performance history of 5 years, minimum credit quality of investments of Baa3/BBB- by Moody's or S&P investments, and average portfolio quality Aa2/AA Moody's or S&P.

The ISO investments are limited to not more than 5% of each fund's total assets. No more than 25% of ISO's total portfolio may be invested in fixed income mutual funds. Mutual funds investing in equities, preferred stocks or convertible bond securities are prohibited.

Maximum average duration of a fixed income fund is 2 years given the potential for fluctuation of fund share price with changes in interest rates.

Money Market Mutual Funds

Money Market Obligations are shares of an open-end investment company registered under the Investment Company Act of 1940, as amended. The investments must comply with the SEC regulations under 2a-7 and maintain a constant net asset value (NAV), offer daily liquidity, and have an average weighted maturity that does not exceed 90 days. Funds rated by S&P or Moody's or approved by the National Association of Insurance Commissioners (NAIC) as a permitted investment are preferred over unrated funds. Funds must have minimum fund assets of $5 billion. US Treasury or Government Funds are limited to no more than 25% of the fund assets in tri-party repurchase agreements. The ISO's investments are limited to 5% of each money fund's total assets. Enhanced cash, LIBOR Plus funds that are not SEC 2a-7 compliant, which underlying securities may include ABS, CMO, MBS, futures, and which net asset value (NAV) may fluctuate are not permissible as money market funds.

Municipal and State Obligations or Tax-Exempt Obligations

Direct obligations or obligations fully guaranteed by a state, territory, or a possession of the United States of America, or any political subdivision of any of the foregoing, or of the District of Columbia as well as obligations of any county or other local governmental body within the US must have a rating of SP-1 (S&P) or MIG-1 (Moody's) or equivalent for short-term securities; and notes or bonds must be rated A- (S&P) or A3 (Moody's) or equivalent rating. The ISO may not hold more than 10% of the outstanding debt of any single issuer.

Municipal obligations include, but are not limited to:
- Commercial paper
- Short Term Notes
- Bond Anticipation Notes (BANS)
- Tax Anticipation Notes (TANS)
- Revenue Anticipation Notes (RANS)
- General Obligations (GOs)
- Revenue Bonds
- Project Notes
- Put Bonds
- Variable Rate Demand Notes (VRDNs)

Credit Enhancements for Municipal Obligations

Approved credit enhancements for securities include:
- Bank Letter of Credit (LOC), irrevocable and unconditional, rated A-1 by S&P or P-1 by Moody's
- Insurance by any monoline insurer rated a minimum of A3 by Moody's or A- by S&P or equivalent

Credit enhanced securities must have an underlying issuer credit quality of A3 by Moody's or A- by S&P

Pre-Refunded Municipals

Municipal obligations may be purchased, if they are collateralized or have been funded to maturity by US Treasuries or Federal Agencies held in a trust arrangement to cover all principal and interest payments.

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.

EFFECTIVE MATURITIES

Individual security effective maturities should not exceed 5 years at any time. In addition, an effective maturity by definition shall include puts, announced calls, or other structural features which 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.

SALE OF SECURITIES PRIOR TO MATURITY

Securities may be sold prior to maturity to meet the ISO's 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 the ISO's cash requirements. In all cases, the Internal Investment Manager will act in accordance with the prudent investor clause of this policy. Any losses on the sale of securities will be reported in the monthly financial report and material losses (in excess of $100K) per position will be reported to the CMC at the next available meeting.

PROHIBITED INVESTMENTS

The following are prohibited securities:

- Securities that are contrary to FERC orders, regulations, or policy regarding ISO investments.
- Securities issued by a "Market Participant," as that term is defined in the tariff, or any affiliate of Market Participant if the affiliate's primary business interests involve generation, transmission, marketing, or distribution of electricity.
- 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 Governing Board 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 ABS, GNMA and Agency-backed MBS are not permissible for direct purchase by the ISO as the analysis of such investments requires specialized expertise and analysis tools. However, those securities are eligible investments if appropriately margined as collateral for collateralized investment agreements, GIC or BIC.

- 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.
- Auction rate securities

Appendix A

Operating Funds and Operating & Capital Reserve Funds

Operations related funds (Unrestricted): Funds available for general corporate use (though not all are available for current use) and include:

- Working Capital
- Funds related to longer-term corporate obligations

Operating & Capital Reserve Funds: The Operating & Capital Reserve account is defined in the ISO Tariff, with a targeted funding level of not less than 15% of the O & M budget.

Appendix B
Bond Related Funds

Restricted Bond Related Funds include bond repayment accounts for principal and interest deposits, a debt-service reserve fund, miscellaneous accounts, and unspent project funds from bond issuance.

The following restrictions relate to the Series 2008 Bonds. All future bond indentures would have similar restrictions.

ACCOUNTS RELATED TO SERIES 2008 BONDS

Collateralized Guaranteed Investment Agreement with Morgan Stanley dated August 4, 2008 in an initial amount of $19,697,000 at an interest rate of 3.752%.

ISO's Series 2008 Bond Indenture limits the investment of bond proceeds and other bond related funds to the following:

Government Obligations

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation); and
(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations;
- All direct or fully guaranteed obligations;
- Farmers Home Administration;
- General Services Administration;
- Guaranteed Title XI financing;
- Government National Mortgage Association (GNMA); and
- State and Local Government Series.

Investment Securities (includes Government Obligations)

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
    - Export-Import Bank;
    - Rural Economic Community Development Administration;
    - U.S. Maritime Administration;
    - Small Business Administration;
    - U.S. Department of Housing & Urban Development (PHAs);

- Federal Housing Administration;
- Federal Financing Bank.

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage
- Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short team certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by Standard & Poor's and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by Standard & Poor's and which matures not more than 270 calendar days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's;

(6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

a) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or Standard & Poor's or any successors thereto; or

b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in subsection (2) of the definition of Government Obligations above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and Standard & Poor's.

(8) Investment Agreements with any bank, insurance company, broker-dealer or corporation if:

a) At the time of such investment, (i) such bank has an unsecured, uninsured and unguaranteed obligation rated Aa2 or better by Moody's and AA or better by Standard & Poor's, or (ii) such insurance company or corporation has an unsecured, uninsured and unguaranteed rating or claims paying ability rated AAA by Moody's and AAA by Standard & Poor's; or such bank or broker-dealer has an unsecured, uninsured and unguaranteed obligation rated A2 or better by Moody's and A or better by Standard & Poor's provide that such broker-dealer or bank also collateralize the obligation under the investment agreement with U.S. Treasuries, GNMAs, FNMAs or FHLMCs; and

b) The Investment Agreement includes a provision to the effect that if any rating of such bank, insurance company, broker-dealer or corporation is downgraded below a minimum rating to be established at the time the Investment Agreement is executed, the Corporation shall have the right to require the provider collateralize its obligation or terminate such investment agreement.

Appendix C

Funds Held on Behalf of The ISO Market or Specific Market Participants

Funds held by the ISO on behalf of the ISO Market or specific market participants, subject to the following: such funds will typically be held as bank obligations (checking account balances) or in money market mutual funds (as defined in this document) with the following potential exceptions:

1. 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 investment in another investment permissible under this ISO investment policy, the ISO may agree to such an investment at its discretion and with the approval of the ISO CFO or CEO.
2. 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 "AAA" rated U.S. Government Treasury or Agency Security of an appropriate maturity with the Approval of the ISO CFO and CEO.