Investment Policy

Version #5.0

Draft for review

Effective [Effective Date]

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REVISION HISTORY

VERSION NO.	DATE	SUGGESTED REVIEW DATE	REVISED BY	DESCRIPTION
1.0	8/26/1999			Policy Adopted
2.0	6/14/2005		CFO	Amendments related to bond proceeds, clarifications, authorized investments and other policy and administrative changes
3.0	12/17/2008		CFO	General revisions, enhancements to controls and safeguards, and changes to authorized and prohibited investments
4.0	3/26/2010		CFO	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		CFO	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

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1.0 INTRODUCTION

The investment policy provides written guidelines, approved by the 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 CEO. Thereafter, purchases and redemptions of authorized investments through the approved entity may be made by the Chief Financial Officer and his or her designees provided only that they are consistent with this investment policy.

3.0 SCOPE

This policy applies to the investment activities of the ISO. This policy will not apply to investments of 401(k) employee retirement funds and funds held in trust on behalf of the ISO Medical Retiree Plan. 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)

4.0 ROLES AND RESPONSIBILITIES

4.1 Board of Governors

The 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 Board of Governors.

4.2 Chief Financial Officer (CFO)

The Chief Financial Officer is responsible for:

- 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
- Submitting reports to the Board of Governors and the Corporate Management Committee (CMC) as outlined in section 8.

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4.3 Controller

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

4.4 Accountability and Ownership

The CFO is responsible to review the sufficiency of this policy annually and submit substantive modifications and amendments to the Board of Governors for approval.

5.0 OBJECTIVES

5.1 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.

5.2 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.

5.3 Earnings

The CFO and his or her designee will seek to maximize returns on the ISO’s financial assets within the parameters of this policy, after the objectives of safety 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 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.

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

- allocation does not exceed portfolio limits by investment type (Refer to Section 13.0)
- portfolio risk factors and mitigating safeguards (Refer to Section 14.0)
- permissibility of an authorized investment (Refer to Section 17.0)
- exclusion from the ISO's list of prohibited investments (Refer to Section 21.0)
- counterparty credit risk as demonstrated by credit ratings and other available sources of information including but not limited to security price trends

8.0 REPORTING

The CFO will submit the following reports annually to the 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
- 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.

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 Board of Governors.

10.0 COMPETITIVE BIDDING

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

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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 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 percent as a result of liquidation or adverse market conditions that require reducing exposures to certain sectors in order to protect principal.

Maximum % of Total Portfolio Permissible by Investment Type

Investment Type	Maximum % of Portfolio
US Government Obligations	100%
Federal Agency and Government Sponsored Enterprises Securities (maximum 20% per issuer)	75%
Sovereigns and Supranationals (maximum 5% per issuer)	20%
Corporate Debt Obligations (maximum 5% per issuer)	30%
Commercial Paper (maximum 5% per issuer)	40%
Bank Deposit Obligations	100%
Tri-Party Repurchase Agreements (10% per institution)	25%
Fixed Income Mutual Funds	25%
Money Market Mutual Funds	100%
Municipal & State Obligations (maximum 5% per issuer)	50%

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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	• 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

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, 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 within the Diversification section of this policy that may become necessary because of special business circumstances (*i.e.,* market conditions or portfolio liquidation) may not be more than 5 percent of the percentage limits specified in this policy. Amounts exceeding those limits must be approved by the CEO and Audit Committee chair or subsequent Board chair.

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

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The portfolio percentage limitations for investments outlined in the Diversification and Authorized Investments sections of this document 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.

Any intended exceptions to this policy must be approved in advance (*i.e.,* prior to execution of the transaction) by:

1) the CEO; and
2) either the Audit Committee chair or Board chair

In the event that any unintended exceptions to this policy do 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 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.

17.0 AUTHORIZED INVESTMENTS

17.1 General Provisions

Credit Quality

All eligible securities must carry at least two credit quality ratings from Moody's Investors Service, Standard & Poor's (S&P), or Fitch Ratings 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 that includes 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 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.

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Maximum Stated Maturity

Unless otherwise noted within each of the investment categories below, the maximum stated maturity is five 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 U. S. Government Obligations

Up to 100 percent of the portfolio may be invested in 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.

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).

17.3 Federal Agency or United States Government Sponsored Enterprises

Up to 75 percent of the portfolio may be invested in 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. No more than 20 percent of the portfolio may be invested in the obligations of any one agency.

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

17.4 Sovereigns and Supranationals

Up to 20 percent of the portfolio may be invested in debt instruments issued by foreign governments and supranationals. Supranationals are multi-government sponsored institutions that provide development financing, advisory services and other financial services to their member countries. Securities must have a minimum long term debt rating of Aa3 by Moody's or AA- by S&P. All securities must be U.S. dollar denominated. No more than 5 percent of the portfolio may be invested in any one institution.

17.5 Corporate Debt Obligations

Up to 30 percent of the portfolio may be invested in debt obligations issued by corporations and depository institutions, such as medium-term notes, and bonds. Securities must have a long-term debt rating of at least A3 by Moody's or A- by S&P, or equivalent. No more than 5 percent of the portfolio may be invested in securities issued directly, or by an affiliate of any parent company. Commercial paper holdings should be considered when calculating the maximum percentage in any issuer name.

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17.6 Commercial Paper

Up to 40 percent of the portfolio may be invested in commercial paper and other short-term, unsecured promissory notes issued by domestic and foreign corporations with a short-term rating of at least A-1 (S&P), or P-1 (Moody's), or equivalent. No more than 5 percent of the portfolio may be invested in commercial paper issued directly, or by an affiliate of any one parent company. 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.

17.7 Bank Obligations

Up to 100 percent of the portfolio may be invested in deposit obligations of commercial banks such as: negotiable certificates of deposit (CDs), time deposits (non-negotiable CDs), and deposit accounts (checking, savings, etc.). For certificates of deposits and time deposits, no more than 5 percent of the portfolio may be invested in the deposits of any one bank and must either: 1) be at banks with a minimum long-term credit rating of A- by Moody’s or A3 by S&P 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 (AA rated or better) for principal and interest. There is no limit to the percentage of the portfolio that may be held at any one bank in deposit accounts.

17.8 Tri-Party Repurchase Agreements

Up to 25 percent of the portfolio may be invested in repurchase agreements (repos) with financial institutions rated at least A3 by Moody's, A- by S&P, or equivalent and the counterparty must be a primary dealer of the Federal Reserve Bank of New York. All transactions must be fully collateralized by U. S. Treasury and government agency obligations, or other investments eligible within this policy. Collateral must be market-priced greater than the invested amount at the time of purchase (minimum of 102 percent) and valued at least monthly. Collateral must be delivered and under custody at a third party custodian different from the financial institution entering into the repo transaction.

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. No more than 10 percent of the portfolio can be invested in the repos of any one counterparty.

17.9 Fixed Income Mutual Fund

Up to 25 percent of the portfolio may be invested in institutional fixed income ultra-short to intermediate-term bond funds whose net asset value (NAV) may fluctuate. Funds 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.

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The 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 percent of each fund's total assets. Mutual funds investing in equities, preferred stocks or convertible bond securities are prohibited.

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

17.10 Money Market Mutual Funds

Up to 100 percent of the portfolio may be invested in money market fund shares of an open-end investment company registered under the Investment Company Act of 1940, as amended. The investments must comply with Security and Exchange Commission regulations under 2a-7, maintain a constant 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. U.S. Treasury or government funds are limited to no more than 25 percent of the fund assets in tri-party repurchase agreements. ISO investments are limited to 5 percent 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, collateralized mortgage obligation (CMO), MBS, futures, and which NAV may fluctuate are not permissible as money market funds.

17.11 Municipal and State Obligations or Tax-Exempt Obligations

Up to 50 percent of the portfolio may be invested in municipal market securities. Municipal securities are obligations of state, provincial and local governments and public authorities within the United States. Securities must have a rating of SP-1 (S&P) or MIG-1 (Moody's) or equivalent for short-term securities or A- (S&P) or A3 (Moody's) or equivalent rating for long-term securities. The ISO may not hold more than 5 percent of the outstanding debt of any single issuer.

Municipal obligations include, but are not limited to:

- 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)

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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 U.S. Treasury or government agency securities held in a trust arrangement to cover all principal and interest payments.

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 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. 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.

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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 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
- 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.

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 Board 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.

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24.0 RESOURCES

- Disciplinary Guidelines

25.0 CONTACTS

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

26.0 APPROVERS

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

Responsible Manager:

Ryan Seghesio		
Chief Financial Officer and Treasurer	Signature	Date

Sponsoring Officer/Corporate Secretary:

Nancy Saracino		
Name	Signature	Date

President and CEO:

Steve Berberich		
Name	Signature	Date

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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 percent of the O&M budget.

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Appendix B

Bond Related Funds

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

The following restrictions relate to the Series 2008A Bonds and Series 2009A Bonds. All future bond indentures would have similar restrictions.

ACCOUNTS RELATED TO SERIES 2008A 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 percent.

ISO's Series 2008A Bond Indenture limits the investment of bond proceeds 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; and
   - Federal Financing Bank.

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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 term 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 (escrow), in the highest rating category of Moody's or S&P's or any successors thereto; or

b) 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

c) and 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.

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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 provided that such broker-dealer or bank also collateralizes 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 to collateralize its obligation or terminate the investment agreement.

ACCOUNTS RELATED TO SERIES 2009A BONDS

Forward Delivery Agreement with Citigroup Financial Products, Inc. dated September 11, 2009 in an initial amount of $14,200,000 at an interest rate of 3.34 percent.

ISO's Series 2009A 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 represent the full faith and credit of the United States of America, including:
    - Export-Import Bank;

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- Rural Economic Community Development Administration;
- U.S. Maritime Administration;
- Small Business Administration;
- U.S. Department of Housing & Urban Development (PHAs);
- Federal Housing Administration; and
- Federal Financing Bank.

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

   - senior debt obligations issued by FNMA or 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 term 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 five years after the date of purchase (ratings on holding companies are not considered as the rating of the bank), provided, however, that such rating requirements will not be applicable to the extent such deposit accounts are insured by the Federal Deposit Insurance Corporation;

4) commercial paper that 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 that 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 that 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 (escrow), in the highest rating category of Moody's or Standard & Poor's or any successors thereto or
   b) 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
   c) 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

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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, 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 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 provided that such broker/dealer or bank also collateralizes 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 to collateralize its obligation or terminate such investment agreement;

9) repurchase agreements: with any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least A- by S&P and A3 by Moody's; or any broker-dealer with retail customers or a related affiliate thereof which broker/dealer has, or the parent company (which guarantees the provider) that has long term debt rated at least A- by S&P and A3 by Moody's, which broker/dealers fall under the jurisdiction of the Securities Investors Protection Corporation; or any other entity rated at least A- by S&P and A3 by Moody's (each an eligible provider), provided that:
   a) permitted collateral shall include U.S. Treasury obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and collateral levels must be at least 102 percent of the total principal when the collateral type is U.S. Treasury obligation, 103 percent of the total principal when the collateral type is GNMA and 104 percent of the total principal when the collateral type is FNMA and FHLMC (eligible collateral);
   b) the trustee or a third party acting solely as agent therefore or for the issuer (custodian) has possession of the collateral or the collateral has been transferred to the custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral shall be marked to market;
   c) the collateral shall be marked to market on a daily basis and the provider or custodian shall send monthly reports to the trustee and the issuer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the custodian holding the collateral;

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d) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

e) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below A- by S&P or A3 by Moody's, as appropriate, the provider must, notify the issuer and the trustee within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall: post eligible collateral or assign the agreement to an eligible provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the trustee, repurchase all collateral and terminate the repurchase agreement with no penalty or premium to the issuer or the trustee.

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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, 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 the 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. Treasury or government agency security of an appropriate maturity with the approval of the ISO CFO or CEO.

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