



TO: Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – January 5, 2009

DATE: January 6, 2009

A meeting of the Finance Committee was held on January 5, 2009, at the SCPPA office in Pasadena.

Committee members in attendance were: Chairman Bill Carnahan (*SCPPA*); Ed Zacherl (*Anaheim*); Bob Liu (*Burbank*); Peggy Keigler (*Colton*); Dave Davis (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

Others present were: Laci Hehn and Bobby Hilo (*Colton*); Stephen Cole, (*Fulbright & Jaworski*); Dan Hartman, Mike Berwanger and Will Frymann (*Public Financial Management*); Brian Koch and Therese Savery (*LADWP*); and Craig Koehler, Steve Homer and Richard Helgeson (*SCPPA*).

1. Investment Report

The Committee reviewed the Investment Report for the month of November 2008, and agreed to forward the report to the Board for receipt and filing.

2. Project Budget Comparison Reports

The Committee reviewed the Budget Comparison Reports for the period ended September 30, 2008. Listed below is the net Authority Cost for each of the following budgets:

- | | |
|---------------------------------------|---|
| • Hoover Upgrading Project: | Approximately \$2K (0.10%) over budget |
| • Magnolia Power Project: | Approximately \$907K (7.21%) over budget |
| • Mead-Adelanto Transmission Project: | Approximately \$13K (0.23%) under budget |
| • Mead-Phoenix Transmission Project: | Approximately \$1.51M (79.67%) over budget |
| • Natural Gas Project - Barnett: | Approximately \$2.50M (42.48%) under budget |
| • Natural Gas Project - Pinedale: | Approximately \$3.62M (57.05%) under budget |
| • Ormat Geothermal Project: | Approximately \$1.82M (77.41%) under budget |
| • Palo Verde Power Project: | Approximately \$6.38M (28.24%) under budget |
| • San Juan Unit 3 Power Project: | Approximately \$1.72M (8.74%) over budget |
| • Southern Transmission System: | Approximately \$493K (2.32%) under budget. |

3. Opportunities for Renewable Energy Projects

Brian Koch of Los Angeles Department of Water and Power and David Walden provided the Committee with an overview of potential Renewable Energy Projects and financing opportunities through 2011. With SCPPA's emphasis on obtaining renewable energy resources, there are potential financing opportunities for three wind projects and a geothermal project currently underway for 2009, and wind and other renewable energy projects planned through 2011 that exceed \$2 billion in potential financing opportunities. The Committee will review the potential issues associated with financing for these planned renewable energy projects and report back at the next meeting.

4. RFP for Renewable Energy Project Underwriting Services

In consideration of the volume of Renewable Energy projects that SCPPA is pursuing and undertaking, SCPPA has conceived establishing a separate pool of underwriting firms which would be approached for future financing of any Renewable Energy projects. The distribution of the RFQ is intended to be broad, including all of the major underwriting firms as well as regional and MBE/WBE/DBE firms. The Committee reviewed a draft and approved a Request for Qualifications and Proposals for Renewable Energy Project Underwriting Services. The schedule contemplates issuing the RFQ the week of January 7, with a deadline of January 19. SCPPA Board approval of the selected team is expected to be at the February Board meeting.

5. Utah Milford Wind I and Windy Point Project Update

The Committee received an update in connection with the Utah Milford I Wind Project and the Windy Point Wind Project. The Milford Wind Project is planned for three phases, with the first 200 MW contemplated to be a purchase at COD in 2009. The Windy Point Wind Project is planned for two or three phases, and is contemplated for completion during 2010 and 2011.

6. Canyon Power Project – Final Interim Financing Report

PFM provided a final report in connection with Anaheim's interim financing for the Canyon Power Project. The Canyon Power Project Revenue Notes priced successfully on December 2nd. The sale presented the market with a very desirable security of which Citi was able to leverage and secure a strong rate. SCPPA sold \$104 million of Revenue Notes maturing 12/2/09, with a coupon of 2.50% at a yield of 1.00%. The transaction produced approximately \$105 million of proceeds for the project. The less than 13 month term made the securities money market eligible and the project was able to obtain the highest available short-term ratings.

7. Southern Transmission System Upgrade Financing – Final Report

PFM provided a final report in connection with the financing for the Southern Transmission System Upgrade. The STS Upgrade Revenue bonds priced successfully December 9th in a very difficult market. The sale was heavily focused on the retail sector, resulting in approximately \$83.9 million in retail sales.

8. Market and VRDO Update

PFM presented a market and VRDO status report regarding potential restructuring on existing SCPPA variable rate debt. December was an increasingly tenuous month for variable rate programs. Dexia was further downgraded by S&P, which was not helpful to the 2008 Palo Verde Series or the Southern Transmission 1996, 2000, and 2001 Series bonds. Berkshire Hathaway is now the only remaining

straight AAA rated bond insurer. Swap valuations particularly for LIBOR based fixed-payer swaps have increased in value to counterparties as taxable rates have in some cases approached record lows. SCPPA will continue to monitor the term out provisions for the outstanding variable rate programs and begin developing solutions to prevent the need to amend project budgets for accelerated debt service.

9. Potential Tax and Other Implications in Connection with LADWP's Investment Policy Change to Purchase STS Bonds

Stephen Cole, of Fulbright & Jaworski, provided the Committee with a report regarding the potential tax and other implications in connection with LADWP's Investment Policy change to allow purchase of 1991 Southern Transmission System Bonds. PFM has approached AIG and Lloyds to determine feasibility and consent to proceed and are awaiting response to proceed with Indenture changes which would enable LADWP to purchase these bonds. The Committee recommended PFM to continue to monitor and report any developments.

10. Southern Transmission System 1991 Refinancing

PFM provided an update in connection with the refinancing for the Southern Transmission System 1991 Series. The SCPPA STS 1991 bonds are VRDO insured by AMBAC and backed by a Lloyds TSB letter-of-credit for purchase price, and the bonds are hedged by a bond rate swap with AIG under which SCPPA pays a fixed rate of 6.38%. Because AMBAC was downgraded below Aa3/AA- SCPPA underwent a process to see if it could replace or wrap AMBAC's obligation as long-term credit enhancer. PFM remains confident in the fundamental underpinning of the strong STS credit and the strong Lloyd's LOC. SCPPA's near term plans hinge on the viability of AMBAC/Lloyd's and thus far SCPPA has been economically unaffected. The SCPPA Working Group continues to explore options as responses from AIG are pending.

11. Southern Transmission System 1996 B Refinancing

PFM provided an update in connection with the refinancing for the Southern Transmission System 1996 B Series. The Committee recommended the Board approve a resolution authorizing the issuance of the 2009 A STS Refunding Bonds and approval of all related agreements and a continuing disclosure resolution. The 1996B refinancing transaction is proceeding according to schedule. However some of the driving assumptions for this transaction have changed.

12. Southern Transmission System 2000 and 2001 Refinancing

PFM provided an update in connection with the potential refinancing for the Southern Transmission System 2000 and 2001 Series. The STS 2000 and 2001 Series bonds are hedged by interest rate swaps, insured by FSA with lines of credit. The downgrade of FSA and the increased scrutiny of Dexia have continued to put significant pressure on these bonds. While there are currently no STS 2000 bank bonds, there are approximately \$32 million of bank bonds on the STS 2001 Series because of investor concerns with the Dexia liquidity facility. If the 2000 and 2001 bonds cannot be remarketed at reasonable rates, then SCPPA should consider an interim structure that would include refunding of the bonds to a short maturity with "hard put" feature, and transfer of interest rate swaps as insured or uninsured swaps, and negotiation of interest rate swap terms if uninsured. The Committee recommended PFM to continue to monitor.

13. Magnolia Power Project A Refunding Revenue Bonds 2007-1 Refinancing

PFM provided an update in connection with the potential refinancing for the Magnolia Power Project A, Refunding Revenue Bonds 2007-1 Series. The Magnolia 2007 bonds are VRDOs hedged by interest rate swaps, insured by MBIA with a line-of-credit from KBC which was amended to remove the automatic termination events. MBIA may not remain viable as a long-term credit enhancement provider. The KBC "credit patch" expires in April 2009 and will require action by SCPPA to avoid the bonds becoming bank bonds. The Magnolia swap with JPMorgan could present SCPPA with the need to post collateral if MBIA is downgraded by S&P. MBIA is currently rated Baa1 by Moody's and AA by S&P. If MBIA is downgraded below AA-, then an Insurer Event will have occurred which would necessitate SCPPA to post collateral for the value of the swap in excess of \$10 million to avoid termination of the swap. PFM recommended the availability of the Project Stabilization funds for the Magnolia Participants sufficient to cover the collateral posting in the event of further downgrades of MBIA. PFM and JPMorgan are examining options for SCPPA in regard to any necessary collateral posting, and PFM is starting work on longer term solutions to address expiration of the KBC patch in April, 2009.

14. Unsolicited Proposals

The Committee reviewed an unsolicited proposal presented by Goldman Sachs in connection with tendering the Palo Verde 1997B bonds. The Committee recommended to consider the proposal and that PFM request Goldman Sachs to reduce the fee structure and absorb the legal fees necessary (amount to be determined) in connection with the transaction review. In connection with unsolicited proposals for the Magnolia Power Project 2007 Swap, the Committee recommended no action at this time but continue monitoring in the overall scope of restructuring the Magnolia Power Project A, Refunding Revenue Bonds 2007-1 Series.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, FEBRUARY 2, 2009, AT 10:30 A.M. AT THE SCPPA OFFICE**