



TO: Board of Directors

FROM: Robert K. Rozanski

SUBJECT: Finance Committee Report – January 4, 2010

DATE: January 6, 2010

A meeting of the Finance Committee was held on January 4, 2010, at the SCPPA office in Pasadena.

Committee members in attendance were: Bill Carnahan and Robert Rozanski (*SCPPA*); Ed Zacherl (*Anaheim*); Bob Liu (*Burbank*); Peggy Keigler (*Colton*); Bill Fox (*Glendale*); Peter Huynh (*LADWP*); Shari Thomas (*Pasadena*); and Reiko Kerr (*Riverside*).

Others present were: Stephen Cole (*Fulbright & Jaworski*); Mike Berwanger, Dan Hartman and Will Frymann (*Public Financial Management*); Nina Sanchez (*LADWP*); and Richard Helgeson and Steve Homer (*SCPPA*).

1. Investment Reports

The Committee reviewed the Investment Reports for the month of November 2009, and agreed to forward the reports to the Board for receipt and filing.

2. Project Budget Comparison Reports

The Committee reviewed the Project Budget Comparison Reports for the twelve-month period ended September 30, 2009 for Hoover Upgrading Project, and the first quarter ended September 30, 2009 for all other SCPPA projects. Listed below is the net Authority cost for each of the following budgets:

- | | |
|---------------------------------------|---|
| • Hoover Upgrading Project: | Approximately \$1.6K (0.1%) under budget |
| • Magnolia Power Project: | Approximately \$0.2M (1.9%) under budget |
| • Mead-Adelanto Transmission Project: | Approximately \$84.0K (1.4%) over budget |
| • Mead-Phoenix Transmission Project: | Approximately \$20.0K (0.9%) under budget |
| • MWD Small Hydro Project: | Approximately \$0.4M (51.5%) over budget |
| • Natural Gas Project – Barnett: | Approximately \$1.3M (27.7%) under budget |
| • Natural Gas Project – Pinedale: | Approximately \$3.3M (54.9%) under budget |
| • Natural Gas Prepay Project 1: | Approximately \$1.5M (37.2%) under budget |
| • Ormat Geothermal Project: | Approximately \$76.0K (3.7%) under budget |
| • Palo Verde Power Project: | Approximately \$5.4M (25.8%) under budget |
| • Pebble Springs Wind Project: | Approximately \$0.1M (2.1%) under budget |
| • Southern Transmission System: | Approximately \$1.2M (5.7%) over budget |
| • Tieton Hydro Project: | Approximately \$0.7M (39.5%) under budget |

The Committee requested that SCPPA provide a one-page summary of the Project Budget Comparison Reports.

3. Renewable Energy Project Financing Update

Public Financial Management (PFM) provided an update on near-term renewable project financings, as follows:

- **Leaning Juniper Wind Project:** PFM reported that it is unlikely that this project will be moving forward.
- **Raser Geothermal Project:** PFM reported that negotiations continue to be challenging and are progressing at a slow pace.

4. Milford I Wind Energy Project Financing Documents

PFM provided an update on the Milford I Wind Energy Project financing and reported that bond ratings are expected to be received during the week of January 11th, pricing is scheduled to begin toward the end of January, and the financing transaction is scheduled to close on February 9th.

It was also reported that several issues remain outstanding: an appraisal from Black & Veatch needed to finalize the tax analysis, discussions with participants regarding restrictions on the use of facility output, and completion of the rating agency process. In addition, the project participants revisited the funding level for an Operating Reserve Fund to address variable operating expenses (i.e., Tier 2 or non-prepaid power, and renewable energy credits), and agreed to reduce the previously agreed upon funding level from \$5.5 million to \$3.0 million. The source of funding will be a portion of a \$5.5 million liquidated damages payment received by SCPPA in connection with the developer's failure to meet a specified commercial operation date.

5. Milford II Wind Energy Project

PFM provided an update on the Milford II Wind Energy Project financing. This 100 MW project is located adjacent to the Milford I Wind Energy Project, and has an estimated commercial operation date in late 2010. The project participants are expected to be LADWP (65%), Anaheim (25%), and Pasadena (10%); Anaheim is expected to lay off its entitlement share to LADWP, subject to a three-year recall option. The participants' approval processes are ongoing.

The Committee discussed the need to finalize legal documents and agreements in connection with the Milford II Wind Energy Project, and agreed to forward a resolution to the Board for consideration and adoption that would authorize reimbursement of project expenditures incurred prior to the issuance of bonds, from anticipated bond proceeds. The Committee deferred action on remaining items to the February 1, 2010 Finance Committee meeting.

6. Windy Point/Windy Flats Wind Energy Project

PFM provided an update on the Windy Point/Windy Flats Wind Energy Project. It was reported that the commercial operation date for Phase 1 has been achieved, and Phase II is expected to be achieved by the end of January 2010. The participants consist of LADWP (92.37%) and Glendale (7.63%). Glendale has executed a layoff agreement for its entitlement share to LADWP (i.e., similar to the Linden arrangement).

This estimated \$550 million prepayment transaction will include both phases of this 262.2 MW project. The developer intends to apply for a Department of Energy grant at the end of January 2010, and SCPPA will have 90 days upon the developer's receipt of such grant funds to complete the transaction. A financing kick-off meeting is planned in mid-February and Rating Agency meetings are planned in mid-March. JP Morgan is the lead underwriter, and given the size of the transaction, participants are expected to consider adding additional underwriters to the syndicate.

7. Miller Ranch Wind Project

PFM provided an update on the Miller Ranch Wind Project. This estimated 51 MW to 121 MW project will be the "second phase" of the Linden Wind Energy Project ("Linden") that is located in the state of Washington. The project participants consist of LADWP and Glendale. It was reported that four configuration alternatives are being considered given the surrounding wind sites, and the Linden business arrangement and related legal documents will be used as a basis to fast track this project.

8. Mead-Adelanto Project and Mead-Phoenix Project Revenue Bonds

The Mead-Adelanto Project Revenue Bonds, 1994 Series A and the Mead-Phoenix Project Revenue Bonds, 1994 Series A include auction rate bonds, defined as "ACES," and an equivalent principal amount of related inverse floating rate bonds, defined as "Inverse Floaters." The total amount of interest that SCPPA pays on all the ACES and Inverse Floaters is based on a fixed interest rate; that interest is then allocated between the ACES and Inverse Floaters.

Ambac Assurance Corp. provided bond insurance for the ACES and Inverse Floaters. Due to Ambac's rating downgrades, the ACES suffered failed auctions causing the interest rate to increase to the "Maximum Rate," as defined in the relevant Indentures of Trust. The Maximum Rate is the product of the "Applicable Percentage" times the JJ Kenney Intermediate Bond Index. The Applicable Percentage is based on the ratings of the ACES and Inverse Floaters, which in turn is based on Ambac's ratings. Under the relevant Indentures, the Auction Agent is responsible for calculating the Maximum Rate, after being notified of the Applicable Percentage by the Trustee.

During the interest period from January 1, 2009 to June 30, 2009, the Maximum Rate was calculated using an Applicable Percentage of 170%, but the correct Applicable Percentage should have been 180%. Thus, holders of the ACES were paid slightly less than what they were entitled to under the relevant Indentures (estimated to be approximately \$6,500.00) and holders of the Inverse Floaters were paid slightly more. The Committee authorized payment of this additional amount, not to exceed \$15,000.00, consistent with the requirements of the related Indentures. Further, the Committee requested recommendations for tracking and mitigating the potential for future such occurrences.

9. Metropolitan Water District (MWD) Small Hydro Project Budget Amendment

The Committee was briefed on the need to increase working capital associated with the MWD Small Hydro Project, and recommended a resolution be forwarded to the Board that would amend the Fiscal Year 2009-10 budget to provide \$400,000 of additional working capital that would be included in participant billings over a two month period.

10. SCPPA Agency Agreements

The Committee was briefed on proposed changes to the SCPPA agency agreements, and concurred with the Executive Director's recommendation to establish an Ad Hoc Committee consisting of attorneys representing select member agencies to review and evaluate the implications of such changes.

11. Magnolia Power Project Basis Swaps

PFM provided an update with respect to the implementation of two basis swaps, from SIFMA to a percentage of three-month LIBOR. It was reported that current swap indications have ranged between 78% and 80% of 3-month LIBOR, which is short of the 85% target level. The Committee requested PFM to evaluate options to enhance potential savings.

12. Palo Verde 1987A, 1989A and 1997B Forward Securities Purchase Contracts

The Committee was updated on matters relating to the Palo Verde 1987A, 1989A and 1997B Forward Securities Purchase Contracts. The Committee requested PFM to analyze and confirm compliance with yield restrictions on the tax-exempt bonds.

13. Market and VRDO Update

PFM provided a market and VRDO status update and reported that SCPPA's variable rate portfolio has remained relatively stable, with some improvement in the performance of Dexia-backed bonds; and that swap valuations are at levels similar to the prior month.

14. Auction Rate Securities

The Committee was briefed on legal actions pursued by other entities concerning auction rate securities, and agreed that it would be beneficial to be briefed by a specified law firm that has expertise with respect to such actions, and to hold future discussions with respect to this matter in closed-session.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, FEBRUARY 1, 2010,
AT 10:30 A.M. AT THE SCPPA OFFICE.**