



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – January 8, 2007

DATE: January 9, 2007

A meeting of the Finance Committee was held on January 8, 2007, at the SCPPA office in Pasadena.

Committee members in attendance were: Acting Chairman Craig Koehler (*SCPPA*); Mark Mazak (*Anaheim*); Bob Liu (*Burbank*); Jeannette Olko (*Colton*); Ruwen Liu (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

Others present were: Stephen Cole (*Fulbright & Jaworski*); Dan Hartman and William Frymann (*Public Financial Management*); Andrew McKendrick and Corey Piette (*via teleconference*) (*PFM Swaps Group*); Peter Huynh and Therese Savery (*LADWP/SCPPA*); and Richard Helgeson (*SCPPA*).

1. Investment Report

The Committee reviewed the Investment Report for November 2006 and agreed to forward the report to the Board for receipt and filing.

2. Update on Mead-Adelanto CMS Competitive Bidding

PFM provided a summary of the results of the competitive bidding process in connection with the Mead-Adelanto Constant Maturity Swap. SCPPA negotiated document terms with five firms within SCPPA's underwriting team. SCPPA requested bids to mid market on a CMS in association with the Mead-Adelanto project. All five firms responded, and Bear Stearns Financial Products was the lowest bidder with a bid of 1.25 bps. The present value of one basis point for this transaction is approximately \$127,000. The competitive bidding resulted in savings (relative to other negotiated swaps) of 2.75 to 6.75 bps, or approximately \$317,000 to \$825,000.

The Committee recommended that Bear Stearns receive the winning bid, and that any additional Bond Counsel work required not to exceed \$10,000 be paid by Bear Stearns. SCPPA will receive 100% of a 10-year LIBOR minus approximately 41bps for 100% of a 1-month LIBOR CMS. The CMS will have a \$100 million notional amount. The trade date will be in January 2007, with a 1-year forward starting date, and will terminate on September 15, 2030. The average expected savings resulting from the swap would be approximately 128 bps or \$1.28 million per annum.

3. Merrill Lynch Bridge Loan Review

PFM provided an analysis and summary of the issues in connection with the proposed takeout financing. In moving forward with the long-term takeout of the gas reserves financing, the participants provided direction regarding the structuring elements. The bonds will be taxable with an amortization to match the estimated useful life of the acquired reserves, and will be individualized for each participant to reflect its respective gas allocation. The bonds will be issued as three financings (one for each participant) and will have separate series, indentures, DSRFs, and be insured and commonly marketed. The interest rate will be fixed initially. There will be no debt service step up, but O & M step up for all participants. PFM has developed indicative financing statistics. The estimated \$70 million transaction may be sized to allow for additional capital draws for future drilling costs and assumes 25-year level debt service of approximately \$5 million per annum.

The Committee requested that PFM provide a minimum/maximum analysis and a summary of the estimated gross and PV savings by participant. The Committee recommended that the Board approve Merrill Lynch as the underwriter for the transaction, and authorized the Working Group to begin work on preparing the necessary documents for the proposed financing.

4. Update on Gas Prepay

PFM provided an updated financing schedule. The Committee requested that PFM provide a summary of outstanding business issues in connection with the Prepaid Gas Agreement. A meeting has been scheduled for January 24th to review the business issues, firm access rights, and other matters in connection with the gas prepay financing transaction.

Immediately following the SCPPA Finance Committee meeting, the Magnolia Finance Committee met to discuss the following:

1. Update on Magnolia Refunding

PFM provided a summary of the responses to the RFP in connection with the proposed refunding for a portion of the Series 2003-1 Bonds. All firms within SCPPA's underwriting team responded to the RFP and proposed a variety of structures and recommendations for SCPPA's consideration. As the current market does not support a traditional fixed rate refunding, two options appear to be likely: a BMA Swap, and a LIBOR Indexed Floater with Cost of Funds Swap. PFM would recommend either structure. A short list of firms that have proposed these two structures will be developed and the resulting firms will be interviewed at a date to be determined.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING WILL BE HELD
MONDAY, FEBRUARY 5, 2007, AT 10:30 A.M.
AT THE SCPPA OFFICE**