



TO: Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – February 2, 2009

DATE: February 3, 2009

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A meeting of the Finance Committee was held on February 2, 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*); Steve Lins (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Brian Seinturier (*Riverside*).

**Others present were:** Greg Broeking (*Imperial Irrigation District*); Stephen Cole, (*Fulbright & Jaworski*); Dan Hartman and Mike Berwanger (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler and Richard Helgeson (*SCPPA*).

**1. Investment Reports**

The Committee reviewed the Investment Reports for the month of December 2008, and the quarter ended December 31, 2008, and agreed to forward the reports to the Board for receipt and filing.

**2. SCPPA Unaudited Quarterly Financial Statements**

The Committee reviewed the unaudited Quarterly Financial Statements for the period ended December 31, 2008, and agreed to forward the statements to the Board for review and filing.

**3. Southern Transmission Project Revenue Bonds 2009, Subordinate Series A Pricing Results**

Public Financial Management (PFM) provided a report in connection with the pricing for the Southern Transmission System Project Revenue Bonds 2009, Subordinate Series A. SCPPA priced successfully on January 22 despite a turbulent environment and fared very well when compared to the market comparables from previous calmer weeks.

**4. RFP for Renewable Energy Project Underwriting Services**

The Committee reviewed the responses to the Request for Qualifications and Proposals for Renewable Energy Project Underwriting Services. SCPPA received 19 responses to the Renewable Project Underwriter RFP. Following the review, the Committee recommended a short list of firms for interviews. The Committee also recommended the adoption of a Board Resolution approving a group of underwriters. Based on the original schedule, SCPPA conducted interviews on February 9 with 6 firms being considered for the underwriting pool to discuss their potential role on select upcoming renewable transactions.

**5. 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. MBIA no longer remains viable as a long-term credit enhancement provider, and its credit problems create major issues for the ongoing remarketing rates and swap provisions. SCPPA implemented a KBC credit "patch" in April 2008, which expires in April 2009, and will require action by SCPPA to avoid all of the bonds becoming Bank Bonds. KBC has offered a 3-year LOC for a VRDO refunding deal for \$223 million and Bank of America has offered a 3-year \$111 million LOC. PFM and the Committee have recommended LOC-backed VRDOs as the best option. The other options are more expensive and have higher associated risks. In regard to the swap, PFM and the Committee have recommended maintaining and transferring the current interest rate swaps to the refunding transaction and "re-couponing" the existing swaps to lower the rate to a current market rate amending the swaps. These amendments will require SCPPA to make a payment to the swap counterparties, which will be made from proceeds of the new bonds. The transferred swaps become uninsured swaps with collateral provisions that are less likely to be triggered. The Committee is also considering the implementation of a basis swap, from SIFMA to a percentage of 3-month LIBOR. The Committee recommended the Board approve a resolution authorizing the issuance of the 2009 A Magnolia Refunding Bonds and approval of all related agreements.

**6. Milford I Wind Project Update**

The Committee received an update in connection with the Milford I Wind Project. The Committee recommended forwarding the Board an amended Power Sales Contract and an amended Power Purchase Agreement, for approval. After interviews, the Committee also recommended, for Board approval, a resolution delegating to the Finance Committee the authority to select, with the concurrence of the Executive Director, the lead underwriter of the Bonds, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee and subject, in addition, to the resolution to the satisfaction of the Finance Committee of any conflicts which such an underwriter may have as a result of previous relationships with the Project. The selection of the lead underwriter and such additional managers of the Bonds as the Finance Committee may deem appropriate shall be carried out by those Authority members participating in the Project by a vote of each such member's representative on the Finance Committee voting in accordance with Section 6 of the Power Purchase Agreement.

**7. Windy Point Wind Project Update**

The Committee received an update in connection with the Windy Point Wind Project. Following the interviews, the Committee recommended, for Board approval, a resolution delegating to the Finance Committee the authority to select, with the concurrence of the Executive Director, the lead underwriter of the Bonds, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee and subject, in addition, to the resolution to the satisfaction of the Finance Committee of any conflicts which such an underwriter may have as a result of previous relationships with the Project, and further subject to such other conditions as determined by the Finance Committee. The selection of the lead underwriter and such additional managers of the Bonds as the Finance Committee may deem appropriate shall be carried out by those Authority members participating in the Project by a vote of each member's representative on the Finance Committee voting in accordance with each participating member's project share pursuant to the voting methodology established through the Renewable Electric Energy Resource Project Development Agreement.

**8. Northwest Wind Project Update (Linden Project and Miller Ranch Project)**

The Committee received an update in connection with the Northwest Wind Project. Following the interviews, the Committee recommended, for Board approval, a resolution delegating to the Finance Committee the authority to select, with the concurrence of the Executive Director, the lead underwriter of the Bonds, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee and subject, in addition, to the resolution to the satisfaction of the Finance Committee of any conflicts which such an underwriter may have as a result of previous relationships with the Project, and further subject to such other conditions as determined by the Finance Committee. The selection of the lead underwriter and such additional managers of the Bonds as the Finance Committee may deem appropriate shall be carried out by those Authority members participating in the Project by a vote of each member's representative on the Finance Committee voting in accordance with each participating member's project share pursuant to the voting methodology established through the Renewable Electric Energy Resource Project Development Agreement.

**9. Leaning Juniper Wind Project**

Following the interviews, the Committee recommended, for Board approval, a resolution delegating to the Finance Committee the authority to select, with the concurrence of the Executive Director, the lead underwriter of the Bonds, with such appointment being subject to the negotiation of fees or other compensation acceptable to the Finance Committee and subject, in addition, to the resolution to the satisfaction of the Finance Committee of any conflicts which such an underwriter may have as a result of previous relationships with the Project, and further subject to such other conditions as determined by the Finance Committee. The selection of the lead underwriter and such additional managers of the Bonds as the Finance Committee may deem appropriate shall be carried out by those Authority members participating in the Project by a vote of each member's representative on the Finance Committee voting in accordance with each participating member's project share pursuant to the voting methodology established through the Renewable Electric Energy Resource Project Development Agreement.

**10. Market and VRDO Update**

PFM provided a market and VRDO status report regarding potential restructuring on existing SCPPA variable rate debt. January was a fairly stable month in the variable rate market and resets have dropped significantly. Berkshire Hathaway is now the only straight AAA rated bond insurer remaining, and insurers in general have offered less economic benefits to issuers. Swap valuations have slightly recovered during January.

**11. Southern Transmission System 1991 Refinancing**

PFM provided an update in connection with the potential refinancing for the Southern Transmission System 1991 Series Bonds. The remarketed rates on the 1991 bonds are low by comparison, while the bonds are under significant pressure for puts. PFM remains confident in the fundamental underpinning of the strong STS credit and the strong Lloyd's LOC for purchase price. The potential procurement of alternative credit enhancement is currently in AIG's court, and SCPPA and PFM are awaiting AIG's response to that item so that SCPPA may proceed with Indenture changes that would enable LADWP to purchase these bonds that could not be remarketed to others. 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 the response from AIG is pending.

## **12. Southern Transmission System 2000 and 2001**

PFM provided an update in connection with potential refinancing for the Southern Transmission System 2000 and 2001 Series Bonds. Refunding of the 2000 or 2001 VRDOs would require consent of the swap provider and change in swap terms. If the 2000 or 2001 Bonds cannot be remarketed at reasonable rates, then SCPPA should consider an interim structure. In consideration of the STS 1991 series and the Magnolia 2007-1 series, it is likely that any remaining LOC or liquidity capacity which SCPPA is able to procure would not be available for the STS 2000 and 2001 series.

## **13. Palo Verde Project 1997B Escrow Restructuring**

The Committee recommended adoption of a resolution by the Board in connection with proceeding with a tender offer to purchase the Palo Verde Project 1997 Series B Bonds, and the authorization to retain the necessary parties to effectuate the transaction. Moneys to pay for the purchased bonds would come from the sale of securities in the escrow securing the 1997 Series B Bonds. The Committee also discussed other expenses and solicitation fee parameters.

## **14. Prepaid Gas Project No. 1**

The Committee recommended adoption of a resolution of the Board to approve documents collateralizing AIG-PF Broadgate Limited's obligation under the Commodity Swap between SCPPA and AIG-PF Broadgate Limited (due to the downgrade of AIG, the Guarantor).

## **15. Unsolicited Proposals**

PFM presented one unsolicited proposal received from Morgan Stanley in connection with Extendable Reset Notes. The Committee requested PFM to provide additional information at the next meeting.

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