



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – April 2, 2007

DATE: April 3, 2007

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A meeting of the Finance Committee was held on April 2, 2007, at the SCPPA office in Pasadena.

**Committee members in attendance were:** Acting Chairman Bill Carnahan (*SCPPA*); Mark Mazak (*Anaheim*); Bob Liu (*Burbank*); Jeannette Olko (*Colton*); Ruwen Liu (*Glendale via teleconference for agenda item 7 and Magnolia discussion*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

**Others present were:** Russell Dowell (*Anaheim*); Reiko Kerr and Gary Nolff (*Riverside*); Stephen Cole (*Fulbright & Jaworski*); Dan Hartman and William Frymann (*Public Financial Management*); Therese Savery and Peter Huynh (*LADWP/SCPPA*); and Craig Koehler, Steve Homer and Richard Helgeson (*SCPPA*).

### 1. Investment Reports

The Committee reviewed the Investment Reports for January and February 2007, and agreed to forward the reports to the Board for receipt and filing.

### 2. SCPPA Financial Statements

The Committee reviewed the unaudited Quarterly Financial Statements for the period ended December 31, 2006, and agreed to forward statements to the Board for review and filing.

### 3. Project Budget Comparison Reports

The Committee reviewed the Budget Comparison Reports for the period ended December 31, 2006, for all projects. The following reflects the net Authority Cost for each of the budgets:

- Hoover Upgrading Project: Approximately \$5.7K (0.94%) under budget
- Ormat Geothermal Project: Approximately \$707K (27.39%) under budget
- Magnolia Power Project: Approximately \$816K (3.35%) under budget
- Mead-Adelanto Transmission Project: Approximately \$126K (1.18%) under budget
- Mead-Phoenix Transmission Project: Approximately \$87K (2.38%) under budget
- Natural Gas Project: - Pinedale: Approximately \$3.6M (18.7%) under budget

- Natural Gas Project – Barnett: Approximately \$168K (10.77%) over budget
- Palo Verde Power Project: Approximately \$2.6M (8.08%) under budget
- San Juan Unit 3 Power Project: Approximately \$5.2M (12.38%) under budget
- Southern Transmission System Project: Approximately \$2.9M (6.64%) under budget.

#### 4. Mead-Adelanto CMS Pricing – Final Report

Public Financial Management (PFM) provided a final report in connection with the Mead-Adelanto Constant Maturity Swap (CMS). In connection with its outstanding Mead-Adelanto Transmission Project, SCPPA executed a CMS with Bear Stearns Financial Products, Inc. (BSFP) on January 31, 2007. PFM Asset Management LLC (PFM) negotiated the structure, terms, and pricing of the CMS directly with BSFP, who was selected as the swap counterparty based on (with the assistance from Fulbright) the results of a previously distributed and competitively bid Request for Qualifications for a swap provider and subsequent request for gross spread bids. The transaction consisted of a \$100 million CMS effective February 1, 2008, whereby SCPPA pays BSFP 100% of one-month LIBOR in exchange for receiving 100% of the ten-year Constant Maturity LIBOR swap rate, minus 41.4 bps. The average expected savings resulting from the swap will be approximately 1.28 bps, or \$1.28 million per annum.

PFM provided its Fair Market Opinion that the margin to the CMS rate received by SCPPA on the swaps falls within a range of values deemed to fair and reasonable for similar transactions.

#### 5. Swap Termination Valuation Update

PFM provided the Committee with an update to the swap termination valuation. Since the last valuation, SCPPA has entered into a new constant maturity swap and the credit ratings of several counterparties have improved. The valuation on SCPPA's eight outstanding swaps was (\$80.5) million as of December 29, 2006. This negative valuation decreased from (\$82.4) million from the previous quarter, due to increases in swap rates in the market. The Committee agreed to forward the report to the Board for review and filing.

#### 6. Liquidity Cost Summary

PFM provided a summary of SCPPA's liquidity providers and related costs. SCPPA currently has eight outstanding variable rate or auction rate bond issues, which are spread across several projects. Five of the eight issues are VRDOs and have either a Letter of Credit or a Liquidity Facility. Only the 1991 bonds have a Letter of Credit, and the remaining four issues have Liquidity Facilities and Bond Insurance. PFM and SCPPA will contact the current providers to review rates and possible changes.

#### 7. Gas Prepayment Financing Update

PFM provided the Committee with an update regarding the Gas Prepayment financing. The terms are effectively complete and the gas volumes are being finalized. With no step-up, the deal is structured so that each Participant's share can terminate independent of others. A SWAP RFP for matching commodity swaps (Counterparty/SCPPA and Counterparty/J Aron) is out and due back by April 6. There will be a total of 5 or 6 commodity swaps, and each Participant (through SCPPA) will have a separate swap agreement, and Confirmation for the prepay transaction.

There will be no cross collateralization, as each Participant will have its own sub account in Working Account or Sub-accounts within most Funds under the Indenture. Substantial work has been completed

on the Indenture which, include extremely complex provisions to accommodate cash flow and rating requirements of structured financing to satisfy the no step-up provision among the Participants. The Indenture will cover all series of bonds with 5 or 6 Prepaid Agreements with SCPPA. The Debt Service Reserve Fund is expected to be established at 3 months of maximum gas costs to be covered by 5 Or 6 surety bonds provided by MBIA selected in a competitive process. The Working Capital Fund to be cash funded and invested in a GIC, would be used in the event of commodity swap payment shortfalls and sized at 3 months of commodity swap payments at high gas price assumption.

For the bond structure, the Indenture and POS are being designed to allow for a fixed rate and a choice to use LIBOR indexed notes with a LIBOR based swap, which is entirely up to the Participants' discretion. The current bond market provides 3-8 bps (2-5 cents per MMBtu) benefit using LIBOR notes/swap with little, if any, incremental risk. The decision to use LIBOR notes or fixed rate bonds can be made up to the day of pricing.

The Committee also received an update of the fees in connection with the Gas Prepayment for PFM and Fulbright. As of April 2, PFM has accrued \$260K in fees with a \$350K cap. Fulbright has incurred an additional \$275K (in addition to the \$93K approved and paid last year). The Committee will continue to monitor and provide a status as the transaction continues. The current schedule contemplates approvals in May by the Participants of the Gas Supply Agreements, and for all documents at the SCPPA Board meeting. If May approvals by the Participants are not attained, then a special SCPPA Board meeting in June would be required.

**8. Milford Wind (UPC) Financing (LADWP, Burbank, Pasadena)**

PFM provided the Committee with an update to the Milford Wind (UPC) financing. The Power Purchase Agreement is complete and is under review by the Participants (LADWP, Burbank and Pasadena). The structure assumes a take or pay with collateral. The \$270 million bond issue for the prepay is expected to occur in fall 2008.

**9. Pebble Springs Financing (LADWP, Burbank, Glendale)**

PFM provided a summary of the proposed financing in connection with the Pebble Springs Wind Project. SCPPA is currently soliciting tax-exempt financing or prepayment structure proposals for the financing of a 100 MW wind project to be located in Oregon. LADWP, Burbank and Glendale are the interested SCPPA Members/Participants. Under this transaction, SCPPA would enter into a 20 year power purchase agreement with the developer which would include an option for SCPPA to purchase the project on or before the commercial operation date, expected to be December 31, 2008. The approximate purchase price of the prepaid energy would be \$210 million that would be due and payable on the commercial operation date. Although financing would not occur until late 2008, SCPPA would like to designate a lead underwriter to assist in the economic evaluation of the project.

The Committee recommended that PFM proceed with a draft RFP for selection of an underwriter, to be reviewed at the May meeting.

**10. STS Upgrade**

The Southern Transmission System Participants received an update to the STS Upgrade and related financing. There are several open issues under consideration. One is the environmental work to be done on Unit 1 and 2 as a result of AB1368. A steering committee is being formed to make sure this moves forward. A second issue being reviewed is how to allocate the common facilities with Unit 3 with

LADWP not being the operator. The third issue is ownership of the upgrade plus ownership in the original facilities. For the upgrade SCPPA is considering the issuance of bonds to cover the construction draws as a privately placed issue under a new Indenture, subject to tax issues associated with this proposed structure.

## **11. Unsolicited Proposals**

PFM provided a summary of the unsolicited proposals, submitted by Merrill Lynch regarding Prepaid Energy Contracts. The Committee deferred discussion and recommended no action at this time.

## **12. SCPPA Budget 2007-08 Planning Schedule**

The Committee will be briefed on the schedule for the approval process for SCPPA's Draft 2007/08 Administrative and General and Project Budgets. The approval process and timeline is as follows:

- April 3            Executive Director review (A&G, Projects)
- April 9            Executive Committee review (A&G)
- April 12          Budget Workshop review
- April 19          Board Meeting – Draft 2007/08 Administrative and General and Project Budgets will be presented.

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

### **1. Magnolia Financing Update**

PFM provided a financing update and savings analysis in connection with the Magnolia Power Project A, Refunding Revenue Bonds, Series 2007-1. The current opportunity to refund the Magnolia 2003 A bonds is perhaps the best that SCPPA has had. The expected gross savings are \$25.7 million, and PV savings are \$15.0 million, or 7.4%. PFM recommended moving forward with the documentation and approvals for the Magnolia financing.

The Committee recommended that the Board approve the refunding at BMA-15bps under a 5-year regression, for a maximum issue of \$250 million. The 2007 refunding and PV savings should meet the following parameters at which the transaction would be executed. The minimum would be 6.50% at BMA-9 bps (as the policy does not differentiate between LIBOR and BMA) and 8.50% PV savings at the BMA-25 bps trading level. Currently it is 7.4%.

The Committee recommended the selection of MBIA Insurance Corporation as the bond insurer with a winning competitive bid of 25 bps including reimbursement of associated legal fees capped at \$30,000, subject to best efforts to lower legal fee reimbursement .

The Committee recommended approval of fees for PFM at \$175,000: \$50,000 for the Bonds and \$125,000 for the swaps (inclusive of costs), and Fulbright at \$160,000: \$35,000 for the Swaps and \$125,000 for work related to the bonds documents.

The Committee recommended that the Board adopt a resolution authorizing the documents (other than the Official Statement and the Liquidity facility, which will be approved at the Board meeting in May) required for the sale and issuance of the 2007 Refunding Bonds, including, but not limited to, the

execution and delivery of two interest rate swap agreements, one with Citibank, N.A., New York and the other with Bear Stearns Financial Products Inc.

**2. Gas Reserves Acquisition Financing Update**

PFM provided a summary and update in connection with the Gas Reserves Take-Out financing. In moving forward with the long-term takeout of the gas reserves financing, the Participants have provided direction for the structuring elements. The bonds will be issued as taxable fixed rate debt (synthetic fixed rate may be considered). The amortization of the bonds will generally match the estimated life of the acquired reserves, with individualized amortization for each SCPA Participant that reflects its own gas allocation. The bonds will be issued as separate series, common marketing, and include bond insurance for all series. The legal structure includes: no step-ups for debt service, but O&M step-up across all Participants; an Indenture for each series of bonds; and Debt Service Reserve Fund for each series of bonds. The schedule of capital drilling is being reviewed to determine the inclusion of additional costs to appropriately size the bond issue. Since the takeout bonds will not be issued prior to July 1, 2007 maturity of the Draw Down Bonds, an extension of the maturity of the Draw Down Bonds will be requested from Merrill Lynch.

**3. Proposed Magnolia Operating Agent Budget FY07-08**

The Committee received the proposed Magnolia Operating Agent Budget for fiscal year 2007/2008, and deferred the review and approval to the Operating Committee.

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**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING  
WILL BE HELD MONDAY, MAY 7, 2007, AT 10:30 A.M. AT THE SCPA OFFICE**