



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – May 5, 2008

DATE: May 6, 2008

A meeting of the Finance Committee was held on May 5, 2008, at the SCPPA office in Pasadena.

Committee members in attendance were: Acting Chairman Craig Koehler (*SCPPA*); Ed Zacherl (*Anaheim*); Bob Liu (*Burbank*); Jeannette Olko (*Colton*); Dave Davis (*Glendale*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside via teleconference*).

Others present were: Stephen Cole (*Fulbright & Jaworski*); Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Steve Homer, Manny Robledo, and Richard Helgeson (*SCPPA*).

1. Investment Reports

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

2. SCPPA Unaudited Financial Statements

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

3. Project Budget Comparison Reports

The Committee reviewed the Budget Comparison Reports for the period ended March 31, 2008, for all projects. The following reflects the net Authority Cost for each of the budgets:

- Hoover Upgrading Project: Approximately \$23K (1.95%) over budget
- Magnolia Power Project: Approximately \$855K (2.26%) under budget
- Mead-Adelanto Transmission Project: Approximately \$535K (3.38%) over budget
- Mead-Phoenix Transmission Project: Approximately \$1.0M (16.16%) under budget
- Natural Gas Project - Barnett: Approximately \$3.1M (28.17%) over budget
- Natural Gas Project - Pinedale: Approximately \$9.9M (50.76%) under budget
- Ormat Geothermal Project: Approximately \$26K (0.79%) over budget
- Palo Verde Power Project: Approximately \$8.8M (13.51%) under budget
- San Juan Unit 3 Power Project: Approximately \$4.9M (6.79%) over budget
- Southern Transmission System Project: Approximately \$7.1M (10.36%) under budget.

4. Swap Termination Valuation Update

PFM provided the Committee with an update to the Quarterly Swap Termination Valuation as of March 31, 2008. The valuation on SCPPA's ten outstanding swaps was (\$113.6M) as of March 31, 2008, and has decreased by \$17.2M from the previous quarter.

5. VRDO/ARS Update

PFM provided the Committee with an update of VRDO and ARS market issues. Displacement of ARS rates began at the end of 2007 and beginning of 2008. During March and April VRDO and ARS problems have continued to persist. SCPPA has continued to aggressively address the Southern Transmission 2003 Series A bonds, Mead-Adelanto/Mead-Phoenix 2004 Series A bonds, and the Palo Verde Series 1996 B and 1996 C Series, in light of the issues that continue to persist with the VRDO and ARS markets.

6. Southern Transmission 2003 Series A Current Refunding

PFM updated the Committee on the current refunding of the Southern Transmission 2003 Series A bonds. The refunding strategy is being implemented as directed by the Finance Committee and as approved by the SCPPA Board in March, as a fixed rate refunding and termination of the associated interest rate swap with Citi and the amendment of the interest rate swap with JP Morgan to pay for costs of issuance and to provide other moneys to the Participants. Excess proceeds from JP Morgan swap termination may be used for debt service costs on other STS projects. JPMorgan was approved as the sole underwriter for the 2008 refunding bonds. The Committee is recommending proceeding without insurance, since there has been no firm commitment from Assured Guarantee and there is relatively no savings with insurance. The POS was mailed last week and consistent with the 30-day requirement, the redemption notice was sent out for redemption on June 4th. Pricing is scheduled for May 7th, and closing is scheduled for June 4th.

7. Mead-Adelanto/Mead-Phoenix 2004 Series Refinancings

PFM provided an update for the Committee on the VRDO refinancing of the Mead-Adelanto/Mead-Phoenix 2004 Series A bonds. PFM continues to believe that VRDO structure with Aa3/AA- underlying ratings and Line of Credit make the most sense for the Mead-Adelanto/Mead-Phoenix refinancings. Approval for Lines of Credit bid has been received from UBS and is pending at JP Morgan. PFM has started the rating process with Moody's and Fitch, and expects to receive Aa3/AA- long-term ratings, respectively. The estimated closing for these financings will be in July 2008.

8. Palo Verde 1996 B and 1996 C Series Refinancing

PFM provided the Committee with an update of the refunding in connection with the Ambac insured VRDO program for the Palo Verde Series 1996 B and 1996 C Series. The Palo Verde VRDOs which have been trading at unfavorable levels relative to BMA/SIFMA, have started to trade worse in recent weeks. While the Mead-Adelanto/Mead-Phoenix 2004 refinancings have taken precedence to date, it appears that the Palo Verde VRDOs may be more of a concern at this point with the increasing possibility of the bonds becoming "bank bonds". The Committee is recommending a Letter of Credit VRDO refunding. PFM and the Committee are recommending that SCPPA select Citi as the underwriter and remarketing agent on the new bonds, subject to approval by the Finance Committee and the Board. An additional Remarketing Agent may also be considered. Fees should be approximately the same for Mead-Adelanto/Mead-Phoenix at \$1 per bond for takedown and 7 bps for remarketing. SCPPA will need to find a way of slotting the Mead-Adelanto/Mead-Phoenix and

Palo Verde transactions in together. On disclosure, PFM would like to determine if a short form OS (LOPC bank information vs. a full-blown statement with project/participant information included) would be acceptable as it may save time.

The Committee is recommending a Special Board Meeting (call-in) in June for approval of the Mead-Adelanto/Mead-Phoenix and Palo Verde transactions if the legal documents are sufficiently complete.

9. Tieton Hydro Power Purchase Memorandum of Understanding

The Committee received an overview of the opportunity to acquire interests in the Tieton Hydropower facility located in Washington through a Prepaid Service Contract tax equity structure. Currently Burbank is interested, and LADWP and Glendale have also expressed interest. The Committee is recommending Citi as the underwriter and for placing the equity, given their proven experience and expertise in this type of complex electric prepay tax equity financing structure. Given the project cost, an estimated tax equity requirement of approximately \$25M and electricity prepayment of \$40M would be required. An \$8M deposit would also be required by June 12th and would be funded by Burbank. The balance of approximately \$55M would be financed by January 2, 2009, or a date otherwise mutually agreed to by Power Holdings LLC (the seller) and SCPPA. The Committee is recommending the Board approve a reimbursement resolution to reimburse Burbank for the deposit, and delegating authority to the Executive Director to enter into the necessary agreements with Power Holdings LLC.

10. Gas Prepayment Project No. 2 Update

The Committee received an update on the Gas Prepayment Project No. 2. The Project No. 2 prepay continues to progress and is nearing approvals by the LADWP Board and SCPPA Board, respectfully.

The Gas Prepayment Project No.1 Participants were provided a draft form prepared by Fulbright to provide monthly reporting and certification for the gas prepayment transaction. The first report is due to SCPPA approximately 30 days following the first month of gas flow, which commences on July 1.

11. Unsolicited Proposals

PFM provided a summary of the unsolicited proposals received. The Committee recommended no action on the proposals received.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, JUNE 2, 2008, AT 10:30 A.M. (PLACEHOLDER)
AT THE SCPPA OFFICE**