



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – May 7, 2007

DATE: May 8, 2007

A meeting of the Finance Committee was held on May 7, 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*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

Others present were: Reiko Kerr (*Riverside*); Stephen Cole (*Fulbright & Jaworski*); Dan Hartman (via teleconference) and William Frymann (*Public Financial Management*); Jocelyn Mariano and Nina Sanchez (*LADWP/SCPPA*); and Craig Koehler and Richard Helgeson (*SCPPA*).

1. Investment Reports

The Committee reviewed the Investment Reports for March 2007 and the quarter ended March 31, 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 March 31, 2007, and agreed to forward statements to the Board for review and filing.

3. Gas Prepayment Financing Update

Public Financial Management (PFM) provided an update to the Gas Prepayment financing and approval process. The Swap RFP for matching commodity swaps (Counterparty/SCPPA and Counterparty/ J. Aron) is complete. Three firms submitted responses: AIG, Royal Bank of Scotland (RBS), and RBC. The Committee has requested that J. Aron endeavor to clarify all business issues, including automatic termination provisions, with a final round of bids from the three commodity swap counterparties on the short list. The final bids are expected by the end of the week.

The Committee also reviewed the status of the legal and financial advisory fees incurred to date in connection with the Prepay Gas Project.

4. Milford Wind (UPC) Financing (LADWP, Burbank, Pasadena)

PFM and SCPPA provided the Committee with an update to the Milford Wind (UPC) financing and other potential hedging opportunities. The Milford Wind (UPC) Project (LADWP, Burbank, Pasadena) contemplates a prepayment of approximately \$269 million in exchange for guaranteed energy for a 20-year basis. UPC would contribute approximately \$30 million, while approximately \$110 million would be provided by a tax investor (to be determined). An option for ownership may be exercised at the end of year 10 based on the current market value of the Project, taking into account the encumbrance from the remaining prepaid transaction. Lehman Brothers has already been approved by the Board as the lead underwriter for the Project financing.

The Pebble Springs Project (LADWP, Burbank, Glendale) contemplates a similar structure. While only half the size of UPC, the 100 MW Project would also utilize a prepayment structure, a tax investor, and purchase with a buyout option. PPM would be the project developer and the purchase option would occur at the date of commercial operation. The Committee has requested PFM to prepare a draft RFP for selection of an underwriter for the Pebble Springs Project financing.

PFM has indicated that this financing model or variations has applications to other renewable projects like the geothermal project currently under consideration.

5. STS Upgrade

The Southern Transmission System Project Participants received an update on the STS Upgrade and related financing. The Committee recommended that the Board approve a resolution authorizing the following: issuance of bonds for the upgrade of the STS Project; execution and delivery of an Indenture of Trust authorizing the issuance of STS Revenue Bonds, 2007 Subordinate Draw Down Series A; a Supplemental Indenture of Trust relating to such Bonds; a Bond Purchase Agreement; an Amendment No. 1 to the Southern Transmission Agreements; and certain related actions, subject to approval by the IPP Coordinating Committee and IPP Board.

6. Gas Reserves Acquisition Draw Down Bonds Extension

The Committee recommended that the Board adopt a Resolution approving the extension of the Draw Down Bonds to January 1, 2008 and the execution and delivery of a Supplemental Indenture of Trust relating to the Natural Gas Acquisition Project.

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

1. Magnolia Financing Update

PFM provided an update to the savings and swaps that were successfully executed April 30, 2007, with Bear Stearns and Citibank at a Swap Spread to Mid of 3.5 bps in connection with the Magnolia Power Project A, Refunding Revenue Bonds, Series 2007-1. In connection with the refunding, SCPPA achieved a number of goals for the pricing of the Series 2007-1 transaction. These included expected interest cost for 30-year debt of approximately 4%, low negotiated bond insurance premiums of 25 bps, in excess of \$24.0 million gross and \$14.5 million PV savings from refinancing 2003A Bonds, and exceeding the targeted 7.0% savings of refunded principal at 7.17%. The total principal amount refunded is \$202,375,000, refunding par amount of \$223,670,000, and the All-In True Interest Cost (TIC) is 4.09%.

The Committee recommended that the Board approve a resolution authorizing the following: execution and delivery of a Third Supplemental Indenture of Trust authorizing the issuance of the Magnolia Power Project A. Refunding Revenue Bonds, 2007-1; a Standby Bond Purchase Agreement; an Official Statement; and certain related actions. The Committee also recommended that the Board approve PFM Asset Management LLC to serve as Investment Advisor to SCPPA in connection with the procurement of the guaranteed investment contract (GIC) for the Debt Service Reserve Fund related to the Magnolia Power Project A, Refunding Revenue Bonds, 2007-1.

2. **Magnolia Debt Service Reserve Fund Investment Options**

PFM will provide the Committee with investment options for the Debt Service Reserve Fund associated with the Magnolia 2007-1 Refunding Bonds. PFM has recommended a GIC initially collateralized that would be bid to AAA and AA rated investment providers. The Committee recommends that the Board approve PFM Asset Management LLC (PFMAM) as the investment advisor to SCPPA in connection with the structuring and bidding of the Agreement. Upon successful completion of this engagement and in consideration of PFMAM's services as investment advisor, the Committee has recommended that the PFMAM be compensated with a fee of \$27,500 to be paid by the investment agreement provider.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, JUNE 4, 2007, AT 10:30 A.M. AT THE SCPPA OFFICE**