



TO: Board of Directors
FROM: Bill D. Carnahan
SUBJECT: Meeting of the SCPPA Finance Committee – June 1, 2009
DATE: June 2, 2009

A meeting of the Finance Committee was held on June 1, 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*); Dave Davis (*Glendale*); Greg Broeking (*Imperial Irrigation District*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Reiko Kerr (*Riverside*).

Others present were: Stephen Cole (*Fulbright & Jaworski*); Dan Hartman and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler, Richard Helgeson (*SCPPA*); and Kellie Ward (*SCPPA Summer Legal Intern*).

1. Investment Report

The Committee reviewed the Investment Report for the month of April 2009, and agreed to forward the report to the Board for receipt and filing.

2. Public Financial Management Contract

The Committee reviewed Public Financial Management's contract and retainer proposals and recommended extending the contract for one year at the current rates. In addition, consideration will be given for accrued and unbilled time invested in renewable projects as individual projects and financing are completed.

3. Renewable Energy Projects: Financing Update

Public Financial Management (PFM) provided an update on near-term renewable projects.

Milford I

The potential financing for this project is approaching, but the structure is dependent on the Developer's (First Wind) tax equity placement efforts. Amended PPAs are in place which allows First Wind to continue to try and place tax equity for the project. The tax-exempt prepayment financing would be approximately \$260 million. If First Wind can't place the tax equity, then SCPPA has the

obligation to buy the project outright at a predetermined price of \$400 million including the additional possibility of a \$10 million penalty payable by First Wind for timing adjustment. First Wind is required to notify SCPPA 60 days prior to COD on its ability to place the tax equity. The timing of the financing could be anywhere from late 2009 to the end of 2010 with potential window of completion of only 90 days.

Northwest Wind (Linden/Miller)

The project is near to reaching a business arrangement and the financing process needs to commence soon. The project is being developed by enXco and is 50 MWs for the first phase (Linden) at a cost of approximately \$139 million. The project involves a second phase (Miller) for 150 MWs. The business arrangement still involves milestone payments beginning in September 2009. SCPPA will receive security interests in the project, including all contracts and work product, in return for its milestone payments. SCPPA has the ability to issue BANs and/or use a long-term financing for this project.

Significant changes to the participant mix have occurred since the last meeting. Burbank and Pasadena have withdrawn from the project and Glendale is reviewing possibility of a lay-off arrangement with LA in order to remain in the project but would otherwise withdraw. The initial LADWP Board approval is being sought June 2nd.

Windy Point

The base project structure is 202 MWs (Phase 1) with a possible additional 60 MWs (Phase 2) and will include a tax-exempt prepayment with a DOE Grant for ITC monetization. SCPPA will have an early Buy-Out Option at FMV after year 5. A revised timetable is pending from the Developer but the construction has already begun. The latest guaranteed COD is December 31, 2009 for Phase 1 and July 1, 2010 for Phase 2. Prepayment bonds totaling approximately \$500 million will need to be issued shortly after COD and after receipt of the DOE Grant. Tax counsel review of the transaction is underway.

Raser Geothermal

The Raser Geothermal Project is located in Utah and will be in two phases, with the first phase at 22 MWs and the second phase at 33 MWs. The current project participants are LADWP, Burbank, Glendale, and Pasadena. SCPPA will be coordinating a call to recommend selection of an underwriter for this project.

The Committee recommended using U.S. Bank as Trustee for the Linden/Miller and Windy Point Projects.

4. Canyon Power Project Update

The Committee received an update in connection with the Canyon Power Project. The project is on track and the AQMD process is nearing completion. CEC licensing is expected to be issued at the end of September. The project is expected to cost approximately \$320 million and the completion timeline is anticipated to span a 14-16 month period. Remaining construction costs are expected to total approximately \$216 million. Responses were received for an RFP that was issued for selection of an underwriter in connection with the project financing. A conference call is scheduled for sometime during the week of June 8 to discuss the responses and the selection process.

5. Palo Verde Subsequent Tender

PFM provided an update on the market in connection with the SCPPA's ability to take advantage of another tender offer or direct sale of escrowed securities for the Palo Verde 1997B Bonds. The market has moved in a direction that it is no longer beneficial to take advantage of a subsequent tender or direct sale of escrowed securities and is temporarily on hold. PFM will continue to monitor.

6. Mead-Adelanto and Mead-Phoenix Standby Bond Purchase Agreement (SBPA) Renewals

PFM provided an update regarding discussions with JPMorgan Chase in connection with negotiation of renewals to the SBPAs for the Mead-Adelanto and Mead-Phoenix Bonds that expire October 1, 2009. The SBPAs relate to the 2008 Bonds. PFM recommended a renewal at 125 bps range (as required by JPMorgan Chase) consistent with the going market rate and will contact JPMorgan Chase to begin the renewal process.

7. Magnolia Power Project Basis Swap

The Committee contemplated the addition of a separate basis swap detached and unaffiliated with the 2009 bond transaction that was completed earlier this year. PFM provided an update and economic feasibility for the Committee in considering the implementation of a basis swap, from SIFMA to a percentage of three-month LIBOR. Recent pressure on Treasury rates have reduced the extreme outperformance of taxable rates over tax-exempt rates resulting in reduced basis swap economics. Currently, the basis swap represents favorable pricing levels to historical averages and would generate approximately 81 bps of value and SCPPA could expect to receive approximately \$25-30 million of present value benefit over time from a \$200 million non-amortizing basis swap. SCPPA's ability to realize the historical cost savings from a basis swap would represent a significant reduction in the debt service budget for the Magnolia Project. PFM recommends moving forward using three-month LIBOR rather than one-month LIBOR, given the depressed level of one-month LIBOR. Given the limiting factors of the current counterparties that are in place (Citi and JPMorgan Chase, and JPMorgan Chase no longer willing to extend any new credit facilities), the Committee requested PFM to look at other possible counterparties. PFM will report back to the Committee.

8. Market and VRDO Update

PFM provided a market and VRDO status report regarding potential restructuring on existing SCPPA variable rate debt. SCPPA's outstanding variable rate bonds continued to trade at very competitive levels throughout the month of May. The most troubled remaining issues are the Southern Transmission System 2000 bonds and Southern Transmission System 2001 bonds. PFM continues to monitor and recommends no immediate action in regards to these two bond series.

9. AIG Update

AIG has been repeatedly downgraded by the rating analysts to the current levels of A3/A-, where ratings appear to have stabilized as a result of the Federal capital infusions. All of SCPPA's investment contracts with AIG are guaranteed by the AIG parent company and have been collateralized.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, JULY 6, 2009, AT 10:30 A.M. AT THE SCPPA OFFICE.**