



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – June 4, 2007

DATE: June 5, 2007

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A meeting of the Finance Committee was held on June 4, 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:** Ned Basin, Larry Silva, and Ruwen Liu (*Glendale*); Stephen Cole (*Fulbright & Jaworski*); Dan Hartman (*Public Financial Management*); Peter Huynh (*LADWP/SCPPA*); and Craig Koehler, Steve Homer and Richard Helgeson (*SCPPA*).

## 1. Investment Report

The Committee reviewed the Investment Reports for April 2007, and agreed to forward the report to the Board for receipt and filing.

## 2. Project Budget Comparison Reports

The Committee reviewed the Budget Comparison Reports for the period ended March 31, 2007, for all projects. The following reflects the net Authority Cost for each of the budgets:

- Hoover Upgrading Project: Approximately \$21.6K (1.79%) under budget
- Ormat Geothermal Project: Approximately \$1.04M (26.80) under budget
- Magnolia Power Project: Approximately \$565K (1.55%) over budget
- Mead-Adelanto Transmission Project: Approximately \$208K (1.29%) under budget
- Mead-Phoenix Transmission Project: Approximately \$44K (0.80%) under budget
- Natural Gas Project: - Pinedale: Approximately \$11.4M (39.24%) under budget
- Natural Gas Project - Barnett: Approximately \$1.6M (36.87%) over budget
- Palo Verde Power Project: Approximately \$4.5M (9.20%) under budget
- San Juan Unit 3 Power Project: Approximately \$3.4M (5.33%) under budget
- Southern Transmission System Project: Approximately \$4.4M (6.62%) under budget.

### **3. Cost of Capital**

PFM provided an update of the Cost of Capital analysis for SCPPA based on updated FY 2006 information. On a combined project basis, SCPPA decreased its cost of capital by 53 bps since June 30, 2005. The change in cost of capital in FY 2006 is primarily the result of the inclusion of scheduled prior payments on the Palo Verde Project, the issuance of Magnolia 2006-1 Series bonds, an update to the variable rate assumption, and the amortization of another year of debt service and unamortized premium or discount. The Committee agreed to forward the Cost of Capital report to the Board for receipt and filing.

### **4. Variable Rate Comparison**

PFM provided an update on variable rate bond performance. SCPPA currently has nine outstanding variable rate or auction rate bond issues which are spread across several projects. Six of the nine issues are VRDOs and three of the nine are ARS. SCPPA's bonds are currently all remarketed by Bear Stearns, Citigroup, or UBS. The Committee requested PFM to draft a letter to the remarketing agents for their ARS performance. The Committee agreed to forward the Variable Rate Comparison report to the Board for receipt and filing.

### **5. Gas Prepayment Update**

PFM provided an update to the Gas Prepayment, which included the commodity swap, status of the City Attorneys review process, and the planned June 7-8 negotiating process with J. Aron.

### **6. Pebble Springs Financing (LADWP, Burbank, Glendale)**

PFM provided an update regarding the proposed Pebble Springs financing. The ownership option has been withdrawn by PPM at this time. The resulting project would be a power purchase agreement and would not involve any prepayment or financing at this time. PPM has indicated that a purchase option may be available in a later phase.

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

The Committee received an update to the Milford Wind (UPC) financing. 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.

### **8. Unsolicited proposals**

PFM provided the Committee with an update of unsolicited proposals received since the last meeting. One proposal was received from the Bank of New York for a constant maturity swap versus percentage of LIBOR Basis Swap. The Committee recommended no action at this time.

Bill Carnahan also provided an update on other renewable projects, including SB-1 (Solar Roof Initiative), the STS Upgrade, Greenpath North, and the Joint IID/LADWP Geothermal Project. He also reported on the notice by Vernon of their intent to sell their generation assets which include Vernon's entitlement share in Palo Verde and the potential problem that it would raise. General Counsel was requested to draft a letter to Vernon stating SCPPA's concerns.

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

**1. Magnolia Refunding Update**

PFM provided an update to the savings and swap that was 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, refunding gross savings of \$22,531,894 and refunding PV savings of \$13,615,449, and exceeding the targeted 7.0% savings of refunded principal at 7.17%. The total principal amount refunded is \$206,035,000, refunding par amount of \$223,260,000, and the All-In True Interest Cost (TIC) is 4.14%.

The Committee recommended that the Board President delegate the Executive Director the authorization to accept the initial pricing for the Bonds on June 12, 2007.

**2. Magnolia Reserve Fund Investment Update**

PFM provided the results of the competitive bidding process in connection with the bidding of the GIC investment for the Debt Service Fund for the Magnolia Power Project A, Refunding Revenue Bonds, Series 2007-1. Bids for the Fund were received from eight potential agreement providers on May 31, 2007. Following discussion with SCPPA's management and Bond Counsel, the winning bid was awarded to FSA Capital Management Services at 5.4840%. The agreement is scheduled to settle on June 13, 2007.

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**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING  
WILL BE HELD MONDAY, JULY 2, 2007, AT 10:30 A.M. AT THE SCPPA OFFICE**