



TO: Board of Directors
FROM: Bill D. Carnahan
SUBJECT: Meeting of the SCPPA Finance Committee – July 6, 2009
DATE: July 7, 2009

A meeting of the Finance Committee was held on July 6, 2009, at the SCPPA office in Pasadena.

Committee members in attendance were: Chairman Bill Carnahan (*SCPPA*); Russell Dowell (*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, Mike Berwanger, and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); Craig Koehler, Steve Homer, and Richard Helgeson (*SCPPA*); and Kellie Ward (*SCPPA Summer Legal Intern*).

1. Investment Report

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

2. Palo Verde Nuclear Generating Station Termination Funding Status Report

LADWP provided the Committee with the 2008 Funding Status Report on the Palo Verde Decommissioning. SCPPA and LADWP have discontinued funding since their respective floor termination requirement has been met. The projected cost for the remaining life of the project was based on the report issued in May 2005 by Thomas La Guardia Engineering Inc. Based on such decommissioning costs, SCPPA's Decommissioning trust funds are sufficiently funded at 120% of the estimated liability. All of the other Palo Verde Project participants are above the Floor contribution level in connection with their termination requirements as well.

3. Project Budget Comparison Reports

The Committee reviewed the Budget Comparison Reports for the period ended March 31, 2009. Listed below is the net Authority Cost for each of the following budgets:

- Hoover Upgrading Project: Approximately \$14.1K (1.19%) over budget
- Magnolia Power Project: Approximately \$1.32M (3.5%) under budget
- Mead-Adelanto Transmission Project: Approximately \$3.85M (22.76%) under budget
- Mead-Phoenix Transmission Project: Approximately \$4.24M (74.28%) over budget
- MWD Small Hydro Project: Approximately \$648.0K (48.71%) under budget
- Natural Gas Project - Barnett: Approximately \$6.27M (35.43%) under budget
- Natural Gas Project – Pinedale: Approximately \$10.07M (52.82%) under budget
- Ormat Geothermal Project: Approximately \$2.68M (37.86%) under budget
- Palo Verde Power Project: Approximately \$14.79M (21.82%) under budget
- Pebble Springs Wind Project: Approximately \$3.28M (65.24%) under budget
- San Juan Unit 3 Power Project: Approximately \$2.52M (4.28%) over budget
- Southern Transmission System: Approximately \$1.34M (2.11%) under budget.

The Budget Comparison Reports will be presented to the Board at the July meeting.

4. Renewable Energy Project Financing Update

PFM provided an update on near-term renewable project financings.

- Leaning Juniper – 90MW wind project located in Oregon; participants LADWP (75MW 83.3%), Glendale (10MW 11.1%), Pasadena (5 MW 5.6%); 2 phases: \$224 million and \$306 million; expected COD May 2010, and March 2011; financing approach is installment payments over two years; Goldman selected as underwriter.
- Milford I – 200 MW wind project located in Utah; participants LADWP (185MW 92.5%), Burbank (10MW 5%), Pasadena (5 MW 2.5%); \$400 million / \$260 million; expected COD November 2009; 1st quarter 2010 buyout/prepay; financing approach is PTC Tax Equity with prepayment with municipal ownership buyout; Barclays selected as underwriter.
- Milford II - 100 MW wind project located in Utah; participants LADWP; \$275 million / \$180 million; expected COD June 2010; funding is expected in 2010; financing approach is Tax Equity with prepayment; no underwriter selected yet.
- Northwest Wind (Miller) – 150MW wind project located in Washington: participants LADWP (112.5MW 75%), Burbank (15MW 10%), Glendale (22.5MW 15%); cost TBD; expected COD end of 2010; expected financing structure is PTC tax equity with a prepayment; Morgan Stanley selected as underwriter.
- Raser – 77MW geothermal project located in Utah; participants LADWP (41MW 53.2%), Burbank (11MW 14.3%), Glendale (11MW 14.3%), Pasadena (14MW 18.2%); cost TBD; expected COD end of 2010; expected financing structure will utilize PTC tax equity with a prepayment; Barclays selected as underwriter.

5. Linden Wind Energy Project

PFM provided the Committee with an update in connection with the Linden Wind Project. The Linden Project is a \$139 million, 50MW wind project located in Washington, with LADWP (45MW 90%) and Glendale (5MW 10%) participating, and is expected to be completed at the end of 2009. The expected

financing approach will be structured as installment payments, with the first payment due September 2009. Morgan Stanley has been selected as the underwriter. The Committee recommended to the Board the adoption of a resolution authorizing the execution and delivery of the Asset Purchase Agreement, the Power Sales Agreements, the Layoff Contract, the Agency Agreement, and other related agreements and documents relating to the Linden Wind Energy Project.

6. Windy Point Project

PFM provided the Committee with an update in connection with the Windy Point Project. Windy Point/Wind Flats is a \$500 million, 262.2MW (two phases), wind project located in Washington, with LADWP (242.MW 92.37%) and Glendale (20MW 7.63%) as participants, and the expected COD is December 2009. The financing approach is a DOE Grant with prepayment and could possibly be two financings, one for each phase. JPMorgan has been selected as the underwriter. The Committee recommended to the Board the adoption of a resolution authorizing the execution and delivery of the Power Purchase Agreement, the Power Sales Agreements, the Layoff Contract, the Agency Agreement, and other related agreements and documents relating to the Windy Point/Windy Flats Project.

7. Canyon Power Project Update

PFM provided an update on the project and related financing. SCPPA is proceeding according to plan on the Canyon Power Project financing. The project is expected to cost approximately \$320 million. The project completion timeline has begun and is anticipated to span 14-16 months. The project has \$104 million of Revenue Anticipation Notes outstanding which have a maturity of December 2, 2009, at which point all of the accrued interest to date would come due. The remaining construction costs are expected to total approximately \$216 million. SCPPA has recommended Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated as co-senior managers and JPMorgan Securities Inc., EJ De La Rosa & Co., Barclays Capital Inc. and Stone & Youngberg LLC as co-managers, subject to the negotiation of fees or other compensation acceptable to the Finance Committee. Since long-term financing will be contingent upon the AQMD process and CEC licensing which is expected to be issued in October, SCPPA will begin the process of scheduling rating agency meetings for September to enable SCPPA to complete a financing in the November timeframe. The Committee recommended to the Board the adoption of a resolution to appoint the underwriting team for the Canyon Power Project.

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

PFM provided an update regarding discussions in connection with negotiation of renewals to the SBPA for the Mead-Adelanto and Mead-Phoenix Transmission Project Bonds. The renewals are due prior to October 1, 2009, and discussion between PFM and JPMorgan Chase Bank are underway.

9. Magnolia Power Project Basis Swap

PFM provided an update for the Committee in connection with the implementation of a basis swap, from SIFMA to a percentage of three-month LIBOR. SCPPA is moving forward on the addition of a basis swap assuming that the swap can be executed at favorable levels. PFM has solicited interest from several swap counterparties and the firms identified have expressed possible interest in serving as counterparty to SCPPA. The Committee requested PFM to request fees and bids from selected counterparties, to be discussed at the August meeting. As of the last update, SCPPA could enter into a basis swap exchanging approximately 85% of 3-month LIBOR for SIFMA. Assuming historic average performance for the basis swap starting from the date of execution, SCPPA would expect to receive

approximately \$25-30 million of present value benefit over time from a \$200 million non-amortizing basis swap. The Committee requested that PFM negotiate with the swap counterparties, and Fulbright to begin drafting certain documents. SCPPA is expected to recommend to the Board the selection of the counterparty or counterparties, and the adoption of a resolution authorizing the transaction at the August Board meeting, subject to the transaction meeting the targeted economics.

10. Market and VRDO Update

PFM provided a market and VRDO status report. There have been no real changes since the last meeting. The most troubled remaining issues are the STS 2000 and STS 2001 Series bonds. Some improvement was seen in the STS 2001 Series bond trading in June, but significant concerns remain. The other significant change was the downgrading of Ambac to BBB by S&P at the end of June, but trading performance on the Ambac insured STS 1991 bonds has continued due to the Lloyd's Letter-of-Credit. LIBOR based fixed payor swaps mark-to-market values have increased slightly as taxable rates have decreased, and SIFMA based fixed payor swap valuations have declined even more. FSA ratings continue to remain a significant concern for SCPPA, as it remains to be seen how the acquisition by Assured Guaranty will affect the insurer's outlook. PFM will continue to monitor.

11. AIG Update

PFM provided the Committee with an update regarding potential restructuring on existing agreements guaranteed by AIG. AIG has been repeatedly downgraded by the rating agencies to the current levels of A3/A-, where ratings appear to have stabilized as a result of the Federal capital injections. All of SCPPA's investment contracts are provided by AIG Matched Funding Corporation (AIGMFC), which is guaranteed by the AIG parent company.

12. Gas Prepay Project

The Committee discussed potential restructuring of the Gas Prepay Project transaction. Goldman Sachs has presented an offer to unwind 35% of the transaction allowing SCPPA to realize upfront savings equal to approximately \$15.1 million present value savings, reduce risk, size and length of the remaining transaction, and reduce contracted natural gas that might allow gas to be committed to new prepay structures in the future. The unwind structure contemplates reducing the average MMBtu/Day from 12,200 to 8,700 MMBtu/Day for years 2010-2034, and zero for years 2035-2038. Goldman has purchased the related Bonds that would be retired and has made the offer to manage SCPPA's risks, balance sheet, and funding structure in light of the current market conditions and dislocations. The Committee requested Fulbright to review related tax issues regarding use of the money and use of green gas. SCPPA requested PFM to discuss with Goldman further cost concessions, separating the delivery point issue, and using green (bio) gas to replace the savings for unwinding a portion of the prepay transaction.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETINGS
WILL BE HELD MONDAY, AUGUST 3, AND MONDAY, AUGUST 31, 2009, AT 10:30 A.M.
AT THE SCPPA OFFICE.**