



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – July 7, 2008

DATE: July 8, 2008

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A meeting of the Finance Committee was held on July 7, 2008, 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*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

**Others present were:** Stephen Cole and Cecilia Dyba (*Fulbright & Jaworski*); Dan Hartman and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler (*SCPPA*).

**1. Ice Energy Presentation**

Ice Energy gave a presentation on ownership opportunities and potential financing in connection with a potential 100 MW Ice Power Plant (about 14,000 units). The project represents firm on-peak energy resource that can be scheduled or dispatched with 98% availability and has the potential for fuel switching to the off-peak energy market. With storage capacity, the units would be able to manage the scheduling mismatch of both wind and solar resources. The financing opportunities and deployment approaches include customer and municipal ownership, and project ownership through an offset Power Purchase Agreement. The Committee was asked to review the project with their respective utilities and report back at the next meeting for further discussion and possible next steps.

**2. Investment Report**

The Committee reviewed the Investment Report for April 2008, and agreed to forward the report to the Board for receipt and filing.

**3. Palo Verde Nuclear Generating Station Termination Funding Status Report**

LADWP provided the Committee with the 2007 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 99% 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.

#### **4. Palo Verde - 1996B and 1996C Series Refinancing**

PFM provided the Committee with an update of the refinancing in connection with the Ambac insured VRDO program for the Palo Verde Series 1996B and 1996C Series. The Palo Verde VRDOs continue to be refinanced on the most expeditious basis with the ongoing deterioration in the performance of Ambac insured VRDOs. JP Morgan and Dexia have agreed to provide a three-year LOC at 75 basis points each per annum, split equally as to principal amount of bonds to be secured and with the same terms, and have agreed to stay with the same Debt Service Reserve Account size, limiting the need for participant cash and preventing the need to issue taxable bonds. LOC-backed VRDOs continue to trade well in the current market, aside from other VRDO issues.

The Committee recommended the approval of PFM's fees in connection with the refinancing, and that the Board adopt a resolution, (i) authorizing the refunding of certain outstanding bonds, (ii) authorizing the execution and delivery of (a) a Subordinate Indenture of Trust authorizing the issuance of Southern California Public Power Revenue Bonds, 2008 Subordinate Series A and a Twenty-Third Supplemental Indenture of Trust with respect to the Palo Verde Project, (b) a Subordinate Indenture of Trust authorizing the issuance of Southern California Public Power Revenue Bonds, 2008 Subordinate Series B and a Twenty-Fourth Supplemental Indenture of Trust with respect to the Palo Verde Project, (c) a Bond Purchase Contract, (d) one or more Remarketing Agreements, and (e) Reimbursement Agreements, and (iii) execution and delivery of an Official Statement.

#### **5. Mead-Adelanto/Mead-Phoenix 2004 Series Refinancing**

PFM updated 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. The takeout of the 2004 Mead-Adelanto and Mead-Phoenix ARS continues to move forward, with closing currently contemplated in September.

#### **6. VRDO / ARS Update**

PFM provided the Committee with an update of VRDO and ARS market issues. Dramatic decline of MBIA and Ambac over the past several weeks have caused significant market dislocation. Aside from the strong structural features on the Magnolia 2007 Bonds and the Southern Transmission System 1991 Bonds, trading performance has been materially affected and have potential impacts on both series. PFM recommended that the Magnolia 2007 Bonds be monitored for an additional month and will come back to the Committee with indicative interest in LOC facilities. The Committee requested Fulbright to review the Southern Transmission System 1991 Bond documents with respect to the SCPPA having to pursue alternative credit enhancement with the possibility of Ambac falling below AA-.

#### **7. STS Upgrade**

The Committee reviewed the term sheet from Merrill Lynch in connection with the proposed interim financing facility for the Southern Transmission System Upgrade. The Committee requested PFM to review certain options and costs in connection with the Term Sheet, and recommended that the Working Group begin work on the necessary documents in regards to the Upgrade financing.

**8. Canyon Power Project – Interim Financing**

The Committee reviewed Anaheim's request to establish an interim financing facility for the purchase of, for example, turbines in connection with the Canyon Power Project. The Committee requested PFM to prepare a limited Request for Proposals to solicit pricing for short-term funding options with regard to the procurement of the turbines for the Canyon Power Project and full development of a SCPPA financing structure.

**9. Review of Responses for Renewable Energy Project Financing**

PFM provided a summary of the responses to the Request for Recommendations (RFR) for Renewable Energy Project Financing in connection with the Windy Point and Northwest Wind Partners, LLC Projects. The Committee recommended a short list for interviews in connection with the selection of the underwriter(s) for the proposed wind projects.

**10. Gas Prepayment Project No. 1 and No. 2 Update**

The Committee received an update on the Gas Prepayment Project No. 1 and No. 2. Gas prepay transactions are being completed in the current market in the \$600 - \$700 million range. The SCPPA Project 1 Gas Prepay has a potential of being downgraded by Moody's as a result of the recent downgrade of MBIA to A2. This has no impact on the gas flows, savings, nor requirement to fix, but SCPPA and the participants may want to consider options, including surety coverage SCPPA and PFM have put forward a number of arguments to avoid the downgrade. Moody's is scheduled to meet again during the week of July 7, and the outcome is expected to be determined at that time.

**11. Unsolicited Proposals**

PFM provided a summary of the unsolicited proposals received. One unsolicited proposal from Citi involved VRDO restructuring alternatives on the Magnolia 2007 Bonds. The Committee recommended no action be taken at this time.

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**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING  
WILL BE HELD MONDAY, AUGUST 4, 2008, AT 10:30 A.M.  
AT THE SCPPA OFFICE**