



TO: Board of Directors
FROM: Bill D. Carnahan
SUBJECT: Meeting of the SCPPA Finance Committee – August 3, 2009
DATE: August 6, 2009

A meeting of the Finance Committee was held on August 3, 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*); Peter Huynh (*LADWP Alternate*); 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 and Richard Helgeson (*SCPPA*).

1. Investment Reports

The Committee reviewed the Investment Reports for the month of June and the quarter ended June 30, 2009, and agreed to forward the reports to the Board for receipt and filing.

2. Renewable Energy Project Financing Update

Public Financial Management (PFM) provided an update on near-term renewable project financings:

- **Windy Point:** Windy Point/Windy Flats is a \$500 million, 262.2 MW (two phases), wind project located in Washington, with LADWP (242 MW 92.37%) and Glendale (20 MW 7.63%) as participants. The expected COD is early 2010. 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.
- **Milford I:** 200 MW wind project located in Utah; participants LADWP (185 MW 92.5%), Burbank (10 MW 5%), and Pasadena (5 MW 2.5%); \$400 million (buyout)/\$260 million (prepayment); 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 has been selected yet.

- **Leaning Juniper:** 90 MW wind project located in Oregon; participants LADWP (75 MW 83.3%), Glendale (10 MW 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.
- **Northwest Wind (Miller):** 150 MW wind project located in Washington: participants LADWP (112.5 MW 75%), Burbank (15 MW 10%), Glendale (22.5 MW 15%); cost TBD; expected COD end of 2010; expected financing structure is PTC tax equity with a prepayment; Morgan Stanley selected as underwriter.
- **Raser:** 77 MW geothermal project located in Utah; participants LADWP (41 MW 53.2%), Burbank (11 MW 14.3%), Glendale (11 MW 14.3%), Pasadena (14 MW 18.2%); cost TBD; expected COD end of 2010; expected financing structure will utilize PTC tax equity with a prepayment; Barclays selected as underwriter.

The Committee also discussed two other projects, Ice Energy and Smart Grid, and the potential timing and financing implications for the project participants.

3. **Linden Wind Energy Project**

PFM provided the Committee with an update in connection with the Linden Wind Energy Project. The Project has reached a business arrangement, and the approval process is underway. Project Participants are LADWP (90%) and Glendale (10%), with a Layoff Agreement providing Glendale the right to recapture all or a portion of its 10% interest after three years. The financing structure is a one-year note with long-term bond take-out financing. The approval process at LADWP and Glendale are expected to be completed on schedule. Participants will be billed during August for the initial payment of \$13,995,000 due in September and will be reimbursed from bond proceeds.

4. **Canyon Power Project Update**

PFM provided an update on the Canyon 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 selected Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated as co-senior managers and JPMorgan Securities Inc., E.J. 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 or November, SCPPA will begin the process of scheduling rating agency meetings for September to enable SCPPA to complete a financing in the November timeframe.

5. **Mead-Adelanto and Mead-Phoenix Standby Bond Purchase Agreement Renewals**

PFM provided the Committee with an update regarding discussions in connection with negotiation of renewals to the SBPA for the Mead-Adelanto and Mead-Phoenix Bonds. JPMorgan has provided a formal proposal for renewal of the Mead-Adelanto and Mead-Phoenix lines-of-credit, and JPMorgan has gotten comfortable giving SCPPA the ability to terminate the agreement(s) at any time without penalty if SCPPA chooses to pursue a fixed rate takeout of the debt. PFM has examined options for a

fixed rate conversion. While economics for a fixed rate conversion have improved substantially, the most economical option remains variable bonds due to the need to issue taxable bonds to pay the swap terminations. The Committee recommended the Board approve resolutions authorizing a one year extension at 122.5 bps and the execution and delivery of two First Amendments to Standby Bond Purchase Agreements for each Project with JPMorgan Chase Bank.

6. Magnolia Power Project Basis Swap

PFM provided an update 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 separate basis swap(s), assuming the swap(s) can be priced at favorable levels. PFM has solicited interest from several swap counterparties, including Barclays, Citibank, RBC, and Wells Fargo, as possible counterparties in serving SCPPA. The Committee has recommended swaps with two of the four possible counterparties at \$100 million each, subject to satisfactory fees and documentation for Board approval and target savings to exceed a minimum of 80% of three-month LIBOR. The Committee also recommended the Board approve PFM Asset Management's fee to act as Investment Advisor, to be paid by the counterparties. Based on a \$200 million notional swap, the expected annual benefit is \$1.34 million. The Committee recommended to the Board the adoption of a resolution authorizing the execution and delivery of the basis swap(s) and related fees.

7. Tieton Hydropower Project

PFM provided the Committee with an update for the Tieton Hydropower Project and potential asset purchase and bond financing. SCPPA is continuing negotiations with the Developer for a purchase of the assets this year. The latest cost estimate is \$50 million, with approximately \$8 million to be financed with taxable bonds.

8. 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 FSA insured STS 2000 and STS 2001 Series bond trading in July, but significant concerns remain with the STS 2000 bonds. SCPPA's outstanding variable rate issues continued to trade well in July, but the STS 1991 bonds continued to be remarketed despite further downgrades of Ambac by both Standard & Poor's and Moody's. LIBOR based fixed payor swaps mark-to-market values have increased slightly as taxable rates have come down. SIFMA based payor swap valuations have declined even more as evidenced by the Magnolia swaps. PFM will continue to monitor.

9. AIG Update

PFM provided the Committee with an update regarding potential restructuring on existing agreements guaranteed by AIG. As SCPPA is fully aware, the terms of the interest rate swap with AIG as part of the STS 1991 swap specify that if at any time there are bank bonds that SCPPA will have only one opportunity to again remarket those bonds before the swap reverts from a bond rate swap to a 60% of LIBOR swap. Ambac was downgraded last week to CC by Standard & Poor's and to Caa2 by Moody's. Due to the downgrades of Ambac, the remarketing of the STS 1991 bonds is likely to continue to become more strained and Citi is focusing the remarketing efforts on emphasizing the support of the Lloyd's Letter-of-Credit. The current swap valuation on the 1991 swap remains in the \$56 million range

which continues to make a fixed rate take-out of those bonds non-economic, but PFM is exploring further options to refund the existing bonds.

10. Gas Prepay Project No. 1

The Committee discussed potential restructuring for the Gas Prepay Project No 1. A conference call with the Gas Prepay Project No. 1 participants is planned for August 6th.

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