



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – August 4, 2008

DATE: August 5, 2008

A meeting of the Finance Committee was held on August 4, 2008, at the SCPPA office in Pasadena.

Committee members in attendance were: Chairman Bill Carnahan (*SCPPA*); Ed Zacherl (*Anaheim*), Bob Liu (*Burbank*); Jeannette Olko (*Colton*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

Others present were: Brian Seinturier (*Riverside*); Stephen Cole (*Fulbright & Jaworski*); Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler, Richard Helgeson, and David Walden (*SCPPA*).

1. Investment Reports

The Committee reviewed the Investment Reports for the month of May 2008 and June 2008, and the quarter ended June 30, 2008, and agreed to forward the reports to the Board for receipt and filing.

2. VRDO/ARS Market Update

Public Financial Management (PFM) provided the Committee with an update of VRDO and ARS market issues. The bond insurers continue to suffer from ratings downgrades and drops in perceived investor value. FSA and Guaranty were recently placed on negative watch by Moody's. Continued negative rating actions taken against insurers have caused significant and increased market dislocation. Short-term market investors continue to sell holdings of variable rate insured bonds. The STS 1991 bonds are currently in reasonable shape but should continue to be monitored for potential problems and refinancing opportunities. The Magnolia 2007 bonds face short-term challenges with the current KBC Bank amendment in place until April 13, 2009. SCPPA will also need to continue to monitor FSA insured variable rate bonds, such as the STS 2000 and STS 2001 series.

3. Palo Verde 1996 B and 1996C Series Refunding

PFM provided the Committee with an update of the refunding in connection with the Ambac-insured VRDO program for the Palo Verde Series 1996 B and 1996 C Series. The refinancing is proceeding on an expeditious basis given the continued deterioration in the performance of Ambac-insured VRDOs. JP Morgan and Dexia have agreed to provide 3-year LOC at 75 basis points per annum, which will be split equally with the same terms and similar documentation. They have also agreed to stay with the same Debt Service Reserve Account size, limiting the need for participant cash or taxable bonds. The SCPPA Board has approved the financing, and redemption notices have been distributed for

redemption of the 1996 bonds on September 3rd. Ratings are expected to be provided the week of August 18. LOC-backed VRDOs continue to trade well in the market, despite other insured VRDO issues. The current SIFMA is 2.24% and Dexia LOC-backed VRDOs are trading below 2.00%. The bonds are scheduled to price on August 27th and close on August 28th.

4. 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. The refinancing is proceeding behind the Palo Verde VRDO refunding and is well under way. SCPPA's strategy of obtaining AA- category ratings from Moody's and Fitch has effectively been achieved. Documents have not yet been provided to the rating agencies and are pending the receipt of the Standby Bond Purchase Agreement. The schedule contemplates distribution of the redemption notices for the 2004 Auction Rate Series on September 8th, Board approval for the financing September 18th, printing and mailing the Official Statement September 26th, pricing October 1st, and closing for the Variable Rate Refunding Bonds on October 2nd.

5. STS Upgrade

The Committee reviewed the term sheet provided by Merrill Lynch in connection with the proposed financing facility for the Southern Transmission System Upgrade. SCPPA is proceeding with a bridge loan facility through Merrill Lynch to provide the interim financing. The interim financing calls for \$110 million over the next 12-18 months, with the first draws contemplated December 1, 2008. The timing for achieving approvals and for referendum periods to expire is not likely to occur at best, prior to October 31. SCPPA is working to keep the project moving, as some of the biggest hurdles remaining are approval by IPP and negotiation of an agreement between Los Angeles and the participants regarding additional capacity transmission. PFM will prepare a schedule and follow-up conference call. The Committee recommended that the Working Group proceed regarding the preparation of the documents in connection with the STS Upgrade financing.

6. Canyon Power Project – Interim Financing

The Committee reviewed the responses to the Request for Proposal and recommend the selection of Citi as the underwriter, subject to Board approval, to issue notes for the purchase of turbines and other costs in connection with the Canyon Power Project. The interim financing will require approximately \$120 million over the next 12-18 months, most of which will occur prior to the final permits being received. The financing will be in the form of a Bond Anticipation Note (BAN), and will likely be sold in November as a number of approvals at both Anaheim and SCPPA will need to be completed. The Committee recommended that the Working Group start to prepare the necessary documents in connection with the interim financing.

7. Review of Responses for Renewable Energy Project Financing

PFM provided a summary of the proposals in connection with the responses and presentations provided by the underwriting firms interviewed to provide Renewable Energy Project Financing in regards to the Windy Point and Northwest Wind Partners, LLC Projects. The participants for these two wind projects are LADWP, Burbank and Glendale. The selection process was done on a competitive basis with particular consideration given to demonstrated experience with tax equity structures for renewable energy projects, experience with municipal prepayments, renewable energy financings, and structures for managing the risk of Production Tax Credit (PTC) renewals. The Committee recommended the selection of Citi for Windy Point and Lehman for Northwest Wind Partners, LLC, as

the lead underwriters for the proposed wind projects, subject to Board approval. The Committee recommended that the Working Group begin to prepare the necessary documents in connection with project financings. SCPPA is in the process of preparing a response to the LADWP General Manager's office inquiry about the process for the renewable wind project underwriters, and in particular the inclusion of MBE/WBE firms.

8. Briefing on LADWP Lawsuits with Financial Firms

The Committee received a briefing on two lawsuits filed by the Los Angeles Department of Water and Power against Wall Street financial firms, in connection with fraud and deceit and bid rigging in regarding the GICs and derivative products, and against bond insurers.

9. Tieton Hydro Power Purchase Update

The Committee received an update regarding the purchase of the interests in the Tieton Hydropower facility located in Washington through a Purchase and Sales Agreement. Burbank is proceeding with the planned purchase of the project, and at this time is the core participant with Glendale and LADWP as possible participants. Burbank will provide money upfront through available funds for the \$8 million down payment that can be used to offset the purchase price or offset to the Power Purchase Agreement if Burbank does not purchase the interests. Burbank will need to acquire the assets through a Burbank interim financing to provide for the purchase that would need to be in place by mid-December. SCPPA can then issue long-term financing to acquire the Tieton project from Burbank sometime in 2009. Other participants could bring their own money or participate through SCPPA.

10. Ice Energy Presentation Follow-Up

The Committee inquired about the level of Member interest in connection with a presentation that was given at the July meeting regarding ownership opportunities and potential financing in connection with the purchase of Ice Bear units. The Members were asked to discuss it among their respective utilities and report back at the September meeting.

11. Gas Prepayment Project Update

The Committee received an update on the Gas Prepayment Project No. 2. Gas prepay transactions are being completed in the current market, but the market is thin and there continues to be ongoing rating issues and downgrades among financial institutions that are causing existing deals to be downgraded. The Gas Prepayment Project No. 2 is currently with the LADWP CAO's office for approval and is expected to go to their City Council soon.

12. Unsolicited Proposals

PFM provided a summary of the unsolicited proposals received. One proposal was received from Morgan Stanley in connection with SCPPA's FSA exposure and consideration of diversifying its remarketing agents as it pursues restructuring options. The Committee recommended no action at this time.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, SEPTEMBER 8, 2008, AT 10:30 A.M.
AT THE SCPPA OFFICE**