



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – September 8, 2008

DATE: September 9, 2008

A meeting of the Finance Committee was held on September 8, 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: Brian Seinturier (*Riverside*); Stephen Cole (*Fulbright & Jaworski*); Dan Hartman and Will Frymann (*Public Financial Management*); Nina Sanchez (*LADWP*); and Craig Koehler, Richard Helgeson, and Steve Homer (*SCPPA*).

1. Investment Report

The Committee reviewed the Investment Report for the month of July 2008, 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 June 30, 2008. Listed below is the net Authority Cost for each of the following budgets:

- | | |
|---------------------------------------|---|
| • Hoover Upgrading Project: | Approximately \$20K (1.14%) over budget |
| • Magnolia Power Project: | Approximately \$348K (0.69%) under budget |
| • Mead-Adelanto Transmission Project: | Approximately \$685K (3.25%) over budget |
| • Mead-Phoenix Transmission Project: | Approximately \$521K (6.20%) under budget |
| • Natural Gas Project - Barnett: | Approximately \$50K (0.25%) over budget |
| • Natural Gas Project - Pinedale: | Approximately \$12.6M (51.84%) under budget |
| • Ormat Geothermal Project: | Approximately \$1.1M (19.96%) under budget |
| • Palo Verde Power Project: | Approximately \$955K (1.10%) over budget |
| • San Juan Unit 3 Power Project: | Approximately \$6.8M (7.12%) over budget. |

3. VRDO/ARS Market Update

Public Financial Management (PFM) provided the Committee with an update of VRDO and ARS market issues. No additional actions have been taken in regard to the bond insurers since the last meeting. Moody's continues to review both FSA and Assured Guaranty, and trading relationships from August have generally been maintained. Continued scrutiny of bond insurers continues to cause significant dislocation, which is having more limited effects on bonds which SCPPA is monitoring. Among these are the Magnolia 2007 bonds and the STS 1991 bonds that continue to trade at higher levels than expected, but the spreads are not a significant concern at this time. Citi has improved performance markedly and no action is merited at this time for either series. The STS 1991 bonds are currently in reasonable shape, but should be monitored for problems and refinancing opportunities. AIG has proposed a possible simultaneous termination of the STS 1991 swap and GIC, and the Committee has requested that PFM and Fulbright continue communication with AIG to pursue a proposal. The Magnolia 2007 bonds are currently in reasonable shape, but face short-term challenges with the KBC amendment to the Standby Bond Purchase Agreement, which amendment is set to expire April 13, 2009. PFM has begun to explore the path for handling the end of the amendment. SCPPA will continue to monitor FSA insured variable rate bonds, such as the STS 2000 and STS 2001 series VRDOs. These two series of bonds have recently begun to trade away from the favorable levels seen throughout 2008, but are now at SIFMA + 130. In addition, UBS has resigned as the remarketing agent for the STS 2000 and STS 2001 series VRDOs, effective September 27, 2008.

The Committee recommended the Board approve a proposal by Morgan Stanley to take over as the remarketing agent for the STS 2000 and the STS 2001 Series. Morgan Stanley has waived the initial placement fee, and will remarket the both series at a fee of 8 basis points (one basis point higher than the current rate).

4. Palo Verde 2008 Subordinate 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 Palo Verde 2008 refinancing was completed on August 28th, and the last of the 1996 B and 1996 C Palo Verde bonds were defeased on September 3rd. The 2008A and 2008B series were initially sold at 1.60% and 1.65% respectively, reducing the rate from 6.25%. The two series are now trading at 1.33%, and the change from the prior rates of 6.25% to the new rates represent savings in excess of \$4.5 million for the first year. The budget impact of the refinancing should be negligible for 2008-09 due to the lower borrowing costs that are balanced by a slightly higher 2009 principal payment.

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

PFM provided the Committee with an update on the VRDO refinancing of the Mead-Adelanto/Mead-Phoenix 2004 Series A bonds. The refinancing is proceeding according to schedule. The financing documents are substantially complete and ratings reviews are underway with both Moody's and Fitch. Moody's and Fitch continue to suggest that the project will achieve AA- category ratings with a smaller 3-month reserve fund that PFM has argued for. Ambac refused to consent to the proposed swap amendments to the Mead-Adelanto and Mead-Phoenix swaps which would permit SCPPA to transfer the swaps to the refunding bonds. UBS has provided a proposal to allow for a restructuring of the swaps which would allow for the cancellation of the Ambac swap insurance policies, at a cost component of 3.1 bps on each swap. This would raise SCPPA's swap rate to an uninsured basis of 3.921% (Mead-Adelanto) and 3.925% (Mead-Phoenix). The Committee recommended that PFM follow-up with UBS and Ambac in connection with the offer for the restructuring of the swaps.

The Committee recommended the approval of fees in connection with, and resolutions, authorizing the refunding of certain outstanding 2004 Series A Mead-Adelanto and Mead-Phoenix Project Revenue Bonds, and issuance of Mead-Adelanto and Mead-Phoenix Project Revenue Bonds, 2008 Series A, and 2008 Series B (Taxable) Bonds.

6. STS Upgrade

The Committee received an update regarding the Southern Transmission System Upgrade. SCPPA is proceeding with a bridge loan through Merrill Lynch to provide interim financing for the STS Upgrade project. The STS participants will need to take any necessary action in connection with the upgrade, and IPA will also need to take related approval actions in connection with the upgrade. The STS Upgrade Project will require \$110 million over the next 12-18 months, and the initial draws for the construction are anticipated on December 1, 2008.

7. Canyon Power Project Interim Financing

The Committee received an update in connection with Anaheim's interim financing, in the form of revenue notes, for the purchase of turbines and other costs in connection with the Canyon Power Project. SCPPA and Anaheim will need to complete and approve a Power Sales Agreement that outlines Anaheim's obligation to repay the revenue notes and will be operative for the long-term SCPPA financing. The approval process has been delayed by one month, pending resolution of some additional information for Anaheim's Public Utility Board's approval.

8. Windy Point Project Financing Update

PFM provided an update regarding the Windy Point Project financing. The Asset Purchase Agreement is being developed that will maintain the flexibility for a tax equity structure (in addition to a municipal ownership structure) and the Power Sales Agreements between SCPPA and the Participants (LADWP, Burbank, and Glendale) is also being developed. SCPPA will set up a joint among the financing participants, PFM, Fulbright, and Citi, to discuss the transaction.

9. Northwest Wind Partners, LLC, Project Financing Update

PFM provided an update regarding the Northwest Wind Partners, LLC, Project financing. Municipal ownership will be the primary structure, with the option to flip to a tax equity structure. The timing for the Northwest Wind Partners will follow the Windy Point transaction. The participants are LADWP, Burbank, and Glendale.

10. Tieton Hydroelectric Power Project Purchase Financing Update

Fulbright and SCPPA General Counsel reminded Burbank of the tax requirement that at least 95% of the output from the Tieton facility must be used in the Burbank service area and that Burbank must comply with any "stacking" requirements.

The Committee reviewed the draft Request for Proposals for Underwriting in connection with Burbank's and SCPPA's request to establish interim and long-term financing for the Tieton Hydroelectric Power Project. The Committee recommended that PFM forward the RFP to SCPPA's Investment Banking Team, with the addition of other firms (Bank of America, Lehman Brothers, Morgan Stanley, and E.J. De La Rosa & Co.).

The Committee recommended SCPPA's Investment Banking Team review to take place during the first quarter of 2009. It was deferred to allow for the completion of the majority of the financing activities currently underway.

11. Gas Prepayment Project No. 2 Update

The Committee received an update on the Gas Prepayment Project No. 2. The project is in the final stage of review with LADWP's CAO, and approvals are needed by LADWP's Board, Committee of the Council, and LA City Council. No prepayment transactions have been completed over the past month, but savings levels are nearing targets on a number of transactions.

12. Unsolicited Proposals

PFM provided a summary of the unsolicited proposals received. An unsolicited proposal from JPMorgan to transfer Bear Stearns Financial Products, Inc. swaps to JPMorgan Chase Bank, N.A. was received. The Committee recommended no action at this time.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, OCTOBER 6, 2008, AT 10:30 A.M.
AT THE SCPPA OFFICE**