



**TO:** Board of Directors  
**FROM:** Robert K. Rozanski  
**SUBJECT:** Meeting of the SCPPA Finance Committee – October 5, 2009  
**DATE:** October 5, 2009

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A meeting of the Finance Committee was held on October 5, 2009, at the SCPPA office in Pasadena.

**Committee members in attendance were:** Chairman Bill Carnahan (*SCPPA*); Ed Zacherl (*Anaheim*); Bob Liu (*Burbank*); Bill Fox (*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 and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); Peter Huynh (*LADWP*); Robert Rozanski, Steve Homer, and Richard Helgeson (*SCPPA*); and David Czamanske (*Interested Public*).

## **1. Investment Reports**

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

## **2. Project Budget Comparison Reports**

The Committee reviewed the Budget Comparison Reports for the nine-month period ended June 30, 2009, for Hoover Upgrading Project, and twelve-month period ended June 30, 2009, for all other SCPPA projects. Listed below is the net Authority cost for each of the following budgets:

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|---------------------------------------|--|
| • Hoover Upgrading Project:           | Approximately \$14.9K (0.8%) under budget  |
| • Magnolia Power Project:             | Approximately \$0.9M (1.7%) over budget    |
| • Mead-Adelanto Transmission Project: | Approximately \$4.1M (18.8%) under budget  |
| • Mead-Phoenix Transmission Project:  | Approximately \$0.4M (5.6%) under budget   |
| • MWD Small Hydro Project             | Approximately \$0.4M (19.4%) under budget  |
| • Natural Gas Project – Barnett:      | Approximately \$8.6M (36.35%) under budget |
| • Natural Gas Project – Pinedale:     | Approximately \$2.9M (12.4%) under budget  |
| • Ormat Geothermal Project:           | Approximately \$2.8M (30.0%) under budget  |
| • Palo Verde Power Project:           | Approximately \$19.5M (11.6%) under budget |
| • Pebble Springs Wind Project         | Approximately \$1.8M (19.5%) under budget  |
| • San Juan Unit 3 Power Project:      | Approximately \$4.0M (5.1%) over budget    |
| • Southern Transmission System:       | Approximately \$0.8M (0.9%) over budget    |
| • Tieton Hydro Project:               | Approximately \$17K (1.3%) under budget    |

### 3. Renewable Energy Project Financing Update

Public Financial Management (PFM) provided an update on near-term renewable project financings *(including financings for the Linden Windy Energy Project, Tieton Hydropower Project and Milford I Energy Project, which are discussed later in these minutes)*:

- **Windy Point/Windy Flats:** A 262.2MW, two-phased wind project located in Washington, with an expected commercial operation date in December 2009 for Phase 1 and the second quarter of 2010 for Phase 2. The participants include LADWP (242MWs or 92.37%) and Glendale (20MWs or 7.63%). The financing approach involves a Department of Energy (DOE) grant with a combined estimated \$500MM prepayment; each phase could be financed separately. JPMorgan has been selected as the lead underwriter.
- **Leaning Juniper:** A 90MW, two-phased wind project located in Oregon, with an expected COD in May 2010 for Phase 2a and March 2011 for Phase 2b. The participants include LADWP (81MWs or 90%) and Glendale (9MWs or 10%). The financing approach involves two years of construction installment payments estimated at \$224MM and \$306MM for Phases 2a and 2b, respectively, with a potential tax equity structure(s). Goldman Sachs has been selected as the lead underwriter.
- **Raser:** A three-phased, 77MW geothermal energy project located in Utah, with an expected COD in late 2010 for the initial phase. The participants include LADWP (41MWs or 53.2%), Burbank (11MWs or 14.3%), Glendale (11MWs or 14.3%), and Pasadena (14MWs or 18.2%). The financing approach involves a PTC or Investment Tax Credit equity placement with an estimated \$270MM prepayment. Barclays Capital has been selected as the lead underwriter.
- **Milford II:** A 100MW wind project located in Utah, with an expected COD in June 2010. The participants include LADWP (65MWs or 65%), Anaheim (25MWs or 25%), and Pasadena (10MWs or 10%). The financing approach involves a DOE grant with an estimated \$155MM prepayment. Barclays Capital has been selected as the lead underwriter.
- **Northwest Wind (Miller):** A 150MW wind project located in Washington, with an expected COD in late 2010. The participants include LADWP (112.5MWs or 75%), Burbank (15MWs or 10%), and Glendale (22.5MWs or 15%). The financing approach involves construction installment payments, and the project cost is pending determination. Morgan Stanley has been selected as the lead underwriter.

The Committee also discussed and received an update on the Ice Energy and Imperial Valley Geothermal Projects.

### 4. Linden Wind Energy Project Financing Update and PFM Fee Proposal

PFM provided the Committee with a financing update on the Linden Wind Energy Project, a 50MW wind energy project located in Washington, with an expected COD in June 2010. The participants include LADWP (45MWs or 90%) and Glendale (5MWs or 10%). Glendale is laying off its 10% share to LADWP pursuant to a Layoff Agreement that provides Glendale with a conditional right to recapture up to its 10% share within three years of commercial operation. The financing approach involves construction installment payments estimated at \$141MM. Morgan Stanley has been selected as the lead underwriter.

PFM reported that necessary approvals have been secured, and the planned financing will involve a one-year note with long-term bond take-out financing. Further, the rating agencies have assigned the highest short-term ratings on the notes, and the Preliminary Official Statement is ready to release pending SCPPA's issuance of a Notice to Proceed (NTP) to the developer. The NTP was expected to be given to the developer on September 15, however, the current schedule for the NTP has been

delayed until October 9<sup>th</sup>, by mutual agreement, to provide the developer with additional time to fulfill its remaining obligations.

Upon issuance of the NTP, the first installment payment in the amount of \$13,995,000 is due to the developer. Project participants were billed in August for such payment and will be reimbursed from note proceeds. A second installment payment is expected to be due soon after November 1<sup>st</sup> and is expected to be paid from note proceeds. Should the developer not meet its remaining NTP obligations in sufficient time for the second installment payment to be made from note proceeds, SCPPA may request that the developer agree to postpone such payment to avoid the need for additional cash contributions by project participants. However, if the developer does not agree to postpone such payment, it may be necessary to invoice project participants for the second installment payment.

PFM presented its proposed fee to the Committee for work performed in connection with the Linden Wind Energy Project, the scope of which included reviewing the Asset Purchase Agreement, working with project participants, and assisting in the negotiations of power sales agreements and resolving tax issues. The Committee convened into closed session to consider PFM's fee proposal. The fee was approved by the Committee and is in line with the not-to-exceed amount previously approved by the Board.

#### **5. Canyon Power Project Update and PFM Fee Proposal**

The Committee was briefed on the status of the Canyon Project CEC licensing process and related financing. The CEC license has been delayed, however, it was reported that the draft CEC staff report is favorable and recommends issuing the license, which could occur at the end of January 2010. As a result of the delay, SCPPA is proceeding with a new financing plan that involves issuing short-term notes (Notes) to refund \$104MM of outstanding notes that mature on December 2, 2009, and to fund a portion of the construction costs. The rating agency presentation process has been completed and the transaction is expected to be completed in November 2009.

Consistent with the original financing plan, the new Notes will be refinanced at maturity with a blend of long-term tax-exempt bonds and Build America Bonds. The maturity date of the Notes is expected to be less than nine months, and will be finalized close to the pricing date to avoid the need to refinance the Notes on a short-term basis. In the unlikely event that the maturity of the Notes exceeds nine months, SCPPA would be required to provide Material Events Disclosures. Out of an abundance of caution, the Committee agreed to forward a Material Events Disclosure Resolution to the Board for approval, which Resolution will not become effective unless the maturity of the Notes exceeds nine months.

PFM also presented its proposed fee to the Committee for work performed in connection with the Canyon Power Project. The Committee convened into closed session to consider PFM's fee proposal and it was approved.

#### **6. Tieton Hydropower Project**

PFM briefed the Committee on the status of the acquisition of the Tieton Hydropower Project and related financing. It was reported that the negotiations are ongoing, remaining due diligence items are being resolved, and the financing and participant approval processes have commenced.

Although delays have been experienced in the acquisition process, the November 30, 2009, deadline for completing the purchase has not changed. As a result, the current schedule does not provide sufficient time for LADWP to secure project approvals. In order to meet the acquisition deadline, the applicable SCPPA members, consisting of Burbank, Glendale and LADWP, have determined that the acquisition should be financed on an interim basis with a combination of short-term taxable and tax-exempt notes with Burbank and Glendale as equal participants. The notes would subsequently be refinanced with a combination of long-term taxable and tax-exempt bonds after LADWP approvals have been secured, which approvals are expected to be in the December 2009/January 2010 timeframe. Upon completion of the long-term financing, each of the three participants will have a one-third project share.

PFM also presented its proposed fee to the Committee for work performed in connection with the Tieton Hydropower Project, the scope of which included reviewing the Asset Purchase Agreement, working with project participants, assisting in the negotiations of power sales and acquisition contracts, resolving tax issues, and interim financing design. The Committee convened into closed session to consider PFM's fee proposal and it was approved.

The Committee agreed to forward a Resolution to the Board, approving the issuance of the Notes, the related legal documents, and a Preliminary Official Statement for the acquisition of the Project.

## **7. Milford 1 Wind Energy Project**

Milford I Wind Energy Project is a 200 megawatt (MW) wind project located in Utah. The participants include LADWP (185MWs or 92.5%), Burbank (10MWs or 5%), and Pasadena (5MWs or 2.5%). The financing approach involves a Production Tax Credit (PTC) equity placement with a prepayment and municipal-ownership buyout option. Barclays Capital has been selected as the lead underwriter.

PFM briefed the Committee on the project status. It was reported that SCPPA did not receive formal notification by September 15, 2009, as to whether or not the developer elected to exercise its option to either extend the period for securing a tax-equity partner or ask SCPPA to purchase the facility (i.e., instead of a prepayment). The developer did, however, state that it had secured a tax-equity partner, which is believed to be Credit Suisse, and that the tax-equity should be in place around the expected COD of November 15, 2009.

Further, the developer provided SCPPA with the required P99 wind report. Based on such report, the expected capacity factor for the project has been reduced from approximately 30% to 27%. As such, the estimated prepayment amount is reduced from approximately \$260MM to \$233MM, net of liquidated damages for developer project delays. The total cost of the prepayment, including anticipated operating reserves, is estimated to be in the range of \$250MM to \$275MM.

SCPPA is required to complete its prepayment 90 days after COD, which would be February 12, 2010, based on the expected COD of November 15, 2009. Although the potential exists for further COD delays, the transmission line has been energized and test energy has been produced. Accordingly, the prepayment financing process should be started in the near future to meet the anticipated February 12, 2010, prepayment funding deadline. In addition, the project budget will be submitted to the Board for approval at the October 15, 2009, meeting.

The Committee also discussed the potential for adding a co-senior manager and/or additional co-managers to the financing pool for the Milford Wind Energy Project; Barclays Capital has been retained as the lead underwriter. Further discussions will occur.

#### **8. Magnolia Power Project Basis Swaps**

PFM provided an update in connection with the implementation of two basis swaps associated with the Magnolia Power Project. The Board previously approved two basis swaps of \$100MM each with Barclays Capital and RBC, wherein SCPPA would receive at least 80% of 3-month LIBOR and would pay SIFMA; and use of project swap documents modeled after existing swap documents. The swap documents have been subjected to extensive reviews with the two counterparties.

The project participants are waiting for the basis swaps to reach a targeted economic level that would be reached at 85% of 3-month LIBOR. Current swap market indications are approximately 82% to 83% of 3-month LIBOR.

#### **8. Gas Prepay Project No. 1**

The Committee discussed the status of participant approvals of amendments to their respective gas supply agreements and related fees in connection with a restructuring of the Gas Prepay Project No. 1. PFM reported that rating agency approvals, although not required, have been secured.

In addition, PFM presented its proposed fee to the Committee for work performed in connection with the restructuring of the Gas Prepay Project No. 1. The Committee convened into closed session to consider PFM's fee proposal and it was approved. The Committee agreed to forward a Resolution to the Board for approval of the amendments to various legal documents in order to effect such restructuring.

#### **10. Development Agreement for the Imperial Valley Geothermal Project**

The Committee was briefed on the status of the Memorandum of Understanding (MOU) with respect to the Imperial Valley Geothermal Feasibility and Exploratory Work, wherein SCPPA is seeking to mitigate drilling risks. A final agreement has not been reached by the parties, but is expected in the coming weeks. Accordingly, the Committee agreed to forward a Resolution to the Board for approval of a draft MOU that includes a delegation of authority to SCPPA's Executive Director to negotiate and finalize such MOU.

#### **11. Palo Verde: Consideration of an Appeal for a Rebate Claim**

The Committee was briefed on a proposed determination by the Internal Revenue Service (IRS) to deny a rebate claim in the amount of \$47,892 related to the Palo Verde Project. The Committee agreed that it would be in SCPPA's best interest to appeal such determination, and to ask Fulbright & Jaworski to conduct the necessary tax research and file an appeal with the IRS, at a cost not to exceed \$5,000.

#### **12. Palo Verde 1997B Forward Securities Purchase Contract**

PFM reported that SCPPA sent a letter to JPMorgan requesting a clarification with respect to the float associated with the Palo Verde 1997B Forward Securities Purchase Contract. It was reported that a formal response letter is pending receipt.

### **13. Market and VRDO Update**

PFM provided a market and VRDO status update and reported some improvement in the performance of Dexia-backed bonds during the month of September. The STS 1991, 2000A, and 2001 Series bonds remain the most troubled, however, such bonds traded well during the last few weeks of September as investors were looking for higher yields. LIBOR and SIFMA interest rates have remained volatile, but current mark-to-market swap valuations are relatively the same as the prior month. PFM will continue to monitor the VRDOs and swap valuations.

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**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING  
WILL BE HELD MONDAY, NOVEMBER 2, 2009, AT 10:30 A.M.  
AT THE SCPPA OFFICE.**