



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – October 9, 2007

DATE: October 10, 2007

A meeting of the Finance Committee was held on October 9, 2007, at the SCPPA office in Pasadena.

Committee members in attendance were: Acting Chairman Bill Carnahan (*SCPPA*); Mark Mazak and Ed Zacherl (*Anaheim*); Bob Liu (*Burbank*); Larry Silva (*Glendale*); Mario Ignacio (*LADWP*); and Shari Thomas (*Pasadena*).

Others present were: Stephen Cole (*Fulbright & Jaworski*); Dan Hartman (*Public Financial Management*); Peter Huynh and Therese Savery (*LADWP/SCPPA*); and Craig Koehler and Richard Helgeson (*SCPPA*).

1. **Investment Report**

The Committee reviewed the Investment Report for August 2007, and agreed to forward the report to the Board for receipt and filing.

2. **Swap Termination Valuation Update**

Public Financial Management (PFM) provided the Committee with an update to the Quarterly Swap Termination Valuation as of September 28, 2007. The negative valuation on SCPPA's outstanding swaps was (\$76.1) million as of September 28, 2007. The valuation has decreased by \$18.9 million from the previous quarter, due to decreases in swap rates in the market. SCPPA's swaps are spread across five counterparties, with the AIG Swap (STS 1991) accounting for 25.8% of the outstanding notional amount and \$51.3 million of the total termination value if it were terminated.

3. **Bear Stearns Exposure Update**

PFM provided the Committee with an update of Bear Stearns in connection with their quarterly earnings release. SCPPA currently has two swaps with Bear Stearns. These swaps were executed with the Aaa/AAA subsidiary of Bear Stearns and therefore offer SCPPA additional protections. Of the three rating agencies, none has taken negative rating action for Bear Stearns and only Moody's has put Bear Stearns on a Negative Outlook watch. PFM is monitoring and is recommending no action at this time.

4. **Gas Prepayment Project #1 Pricing Update**

PFM provided an update relative to the pricing achievements in connection with the Gas Prepayment,

Project #1. A number of significant goals were reached for the participants as a result of favorable pricing. The total gross savings is over \$120 million, with present value savings over \$60 million. The discount is almost 91 cents per MMBtu, and represents the second highest discount achieved to date for any 30-year gas prepayment transaction. This is the first 30-year gas prepay deal for electric utility purchasers, and has operational flexibility to deal with both FAR and changes in delivery points. The bond pricing was very successful, with SCPPA benefiting both from the California trading advantage and reduction in credit spreads broadly across the market and for Goldman Sachs.

For Project #2, LADWP plans to take it to their Board for approval in November, 2007.

5. **Gas Reserves Takeout Financing**

PFM provided an update to the Gas Reserves Takeout Financing. The SCPPA Gas Reserves are divided into two projects which are currently being financed by the Merrill Lynch bridge loan. The current balance on the loan is \$73.5 million. As part of the long-term financing, SCPPA will be taking out the existing loan and providing funding for the drilling of additional wells for approximately five years. The financing will consist of taxable fixed rate debt with a final maturity in 2032, despite anticipated reserves exceeding 30 years. Material progress has been made on legal documents and disclosure, and the process to obtain bond insurance and surety bids will proceed. Pricing is contemplated in late November or early December, with closing in December, 2007.

6. **STS Upgrade**

Bill Carnahan provided the Committee with an update to the STS Upgrade. LADWP's Board has requested their staff to prepare a report to explain the justification for both the STS Upgrade and Green Path North.

7. **Unsolicited Proposals**

PFM provided a summary of the unsolicited proposals received, including the UBS proposal for fixing out the variable rate debt applicable to Palo Verde or Southern Transmission using shorter-duration swaps. Depending on where variable rates go, there are potential savings for fixing out the variable rate debt applicable to Palo Verde or Southern Transmission over 3 years. The Committee has requested PFM to follow-up with further detail and sensitivity analysis in connection with fixing out variable rate debt for STS.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, NOVEMBER 5, 2007, AT 10:30 A.M.
AT THE SCPPA OFFICE**