



TO: Board of Directors

FROM: Robert K. Rozanski

SUBJECT: Meeting of the SCPPA Finance Committee – November 2, 2009

DATE: November 10, 2009

A meeting of the Finance Committee was held on November 2, 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*); Bill Fox (*Glendale*); Mario Ignacio (*LADWP*); 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*); Steve Homer and Richard Helgeson (*SCPPA*).

1. Investment Reports

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

2. Canyon Power Project Financing Update

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.

Consistent with the original financing plan, the new Notes will be refinanced at maturity with a blend of long-term tax-exempt bonds and/or Build America Bonds. The maturity date of the Notes was decided as August 3, 2009 to avoid the need to refinance the Notes on a short-term basis.

Public Financial Management (PFM) provided an update on financing process. The Committee reviewed proposed fees from Citigroup and Morgan Stanley as the Senior Co-Managing underwriters for the transaction and the Committee agreed to recommend that the Board accept Morgan Stanley's and Citigroup's proposed fees.

3. Linden Wind Energy Project Financing Update

PFM provided the Committee with an update on the pricing of the Linden Wind Project Notes which were sold earlier in the week. The Notes, which received the highest achievable short-term ratings, were sold at a yield of 0.43% with a coupon of 2.00% and mature October 1, 2010. Notes were well received with several investors participating. Construction will begin and closing of Notes which will occur November 10th. Subsequent to closing, Installments Payments will be made periodically as milestones are made and construction should be complete by second quarter of next year. SCPPA will have ample time to plan for the long-term re-financing of the Notes which can be refunded as early as early July 2010, if desired.

4. Tieton Hydropower Project Financing Update

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 when the Notes are issued. The Committee discussed the timing for the participation of LADWP in the project as a key consideration for selection of a particular financing term. The Notes will be refinanced with a combination of long-term taxable and tax-exempt bonds at maturity which would ideally be after LADWP approvals have been secured. Upon completion of the long-term financing, it is expected that each of the three participants will have a one-third project share.

The Committee discussed considerations for the operation of the project and discussed the selection of a financing term and Note structure. The maturity date of the Notes was decided as August 16, 2009 to avoid the need to refinance the Notes on a short-term basis and to take advantage of low short-term rates. The Notes could be refinanced as early as May, 2010.

PFM provided an update on financing process and the rating process. The Committee reviewed proposed fees from Citigroup as the underwriter for the transaction, and the Committee agreed to recommend that the Board accept the Citigroup's proposed fee.

5. 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. the developer has 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 which would require SCPPA to have financing in place by February 12, 2010. The total cost of the prepayment, including anticipated operating reserves, is estimated to be in the range of \$250MM to \$275MM.

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.

6. 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 85% of 3-month LIBOR and would pay SIFMA.

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. The swap documents have been subjected to extensive reviews with the two counterparties and both swaps have been approved by the SCPPA Board.

7. Palo Verde 1997B, 1989A and 1987A Forward Securities Purchase Contract

The Committee Discussed a letter received from JPMorgan in relation to SCPPA's previous letter regarding the Palo Verde 1997B Forward Securities Purchase Contract. The Committee agreed to send a response letter to JPMorgan relating to the Contract and two other similar contracts.

8. 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 earlier in these minutes)*:

- **Windy Point/Windy Flats:** A 262.2MW, two-phased wind project located in Washington, with an expected commercial operation date in the first quarter of 2010 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.

9. 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 October. The STS 1991, 2000A, and 2001 Series bonds remain the most troubled; however, such bonds traded very well during October 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.

The Committee also discussed the completion of the Gas Prepay Project No 1 restructuring that resulted in accelerated savings for the project participants

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, DECEMBER 7, 2009, AT 10:30 A.M.
AT THE SCPPA OFFICE.**