



TO: Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – November 3, 2008

DATE: November 4, 2008

---

A meeting of the Finance Committee was held on November 3, 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*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

**Others present were:** Tim Hsu (*Glendale*); Brian Senteurier (*Riverside*); Stephen Cole, (*Fulbright & Jaworski*); Dan Hartman (*via teleconference*), Mike Berwanger and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler and Richard Helgeson (*SCPPA*).

## 1. Investment Reports

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

## 2. VRDO Market Update

Public Financial Management (PFM) provided the Committee with VRDO and market updates. Trading dislocation in early October was widespread and saw some improvement later in the month, but market hesitation persists. Despite declining rates across most programs, significant pressure remains for Dexia/FSA bonds and other troubled names. SCPPA continues to have bank bonds despite SCPPA remarketing agents' success in getting the bonds out of the banks.

SCPPA has five variable rate series that were executed prior to 2008, and remain under close monitoring. Two of these are the Southern Transmission System 2000 and 2001. The 2000 Series bonds continue to be tendered to the bank with the current bank bond balance being approximately \$64 million to the \$79 million outstanding bonds. The 2001 Series bonds also continue to be tendered to the bank with the current bank bond balance at approximately \$102 million to the \$125 million outstanding bonds. PFM has recommended a refinancing strategy for both the 2000 and 2001 Series to be completed in early 2009. The Magnolia 2007 bonds are VRDOs hedged by an interest rate swap, insured by MBIA with a line of credit from KBC which was recently amended to remove the automatic termination events. The KBC amendment terminates in April 2009 and SCPPA should consider

devising an alternate solution before that time. Bank of America has informally approached PFM with a proposal to take on some all or some of the credit. The Committee requested PFM to follow-up with Bank of America with additional information for the next meeting.

**3. Mead-Adelanto CMS Novation and Magnolia Novation**

PFM provided an update in connection with the recommendation of JPMorgan and PFM in pursuing a novation of an existing swap transactions held with Bear Stearns Financial Products (BSFP) and suspension of the Mead-Adelanto Constant Maturity Swap. As part of the novations which SCPPA is pursuing, SCPPA will maintain the credit terms of the existing swap agreements but will have JPMorgan as the counterparty. JPMorgan Chase Bank, N.A. currently has ratings of Aaa/AA/AA-. In 2007, SCPPA entered into a \$100 million Constant Maturity Swap with BSFP in connection with the Mead-Adelanto Project. Under the swap transaction, SCPPA pays 1-month LIBOR and receives the 10-year CMS swap rate less 41.4 basis points. The swap has been producing positive cash flow for SCPPA and now SCPPA has good market opportunity to suspend the swap for a gain. SCPPA can receive a significant termination payment for suspending only the first few years of this trade and still retain its long term CMS position. PFM has recommended that SCPPA suspend the swap for three years and the Finance Committee set a minimum level of termination value to be received at \$3 million.

**4. STS Upgrade Financing**

PFM provided an update in connection with the financing for the Southern Transmission System Upgrade. At the October Board Meeting, Morgan Stanley was appointed as the lead underwriter for the STS Upgrade financing. The STS Upgrade Project will require funding on or before December 18<sup>th</sup>. Financing is expected to take the form of a fixed rate transaction with a final maturity of July 1, 2027. The cost of the STS Upgrade is currently expected as approximately \$106.6 million. PFM recommends pursuing Moody's and S&P ratings. Interest would be capitalized through July 1, 2010. Because the STS debt is relatively short, PFM recommends wrapping the STS Upgrade debt around existing bonds versus levelized debt. The STS Upgrade Project has an expected in-service date by December 31, 2010. The Working Group is proceeding according to schedule and financing is scheduled to close on December 18<sup>th</sup>. The Committee is recommending the Board approve two resolutions in connection with the financing.

**5. STS 1996 B Refinancing**

PFM provided an update in connection with the refinancing for the Southern Transmission System 1996 B Series. At the October Board Meeting, JPMorgan was appointed as the lead underwriter for the STS 1996B refinancing. Financing is expected to be a fixed rate transaction with level debt service. The contemplated financing structure will also take into consideration the existing STS budget and will attempt to mitigate the short-term budgetary impact. Reserve fund options are also less favorable than for the STS Upgrade transaction due to the par-to-par restrictions. SCPPA is required to separate the pricing of the 1996B refinancing and the STS Upgrade financing transaction by more than 15 days. The refinancing transaction is expected to close in early January given the holidays and pricing requirements.

**6. Palo Verde 2008 B Refinancing**

PFM provided an update in connection with the refinancing for the Palo Verde 2008 B Series. At the October Board meeting Citi was appointed as the underwriter for a fixed rate refinancing of the existing variable rate Palo Verde 2008 B bonds. Due to the number of financings that SCPPA needs to complete before the end of the year, refinancing for the Palo Verde 2008 B bonds would occur in 2009. Current rates have improved and the bonds are being remarketed out of the bank. Documents are in progress and PFM and Citi continue to monitor the 2008 B Series.

**7. Canyon Power Project (Anaheim) – Interim Financing Update**

The Committee received an update in connection with the interim financing for the purchase of turbines and other costs in connection with the Canyon Power Project. Interim financing is proceeding as a Revenue Note transaction with Citi as the underwriter. Financing will not include capitalized interest or other reserves. Anaheim approved the Power Sales Agreement by Ordinance. The South Coast Air Quality Management Board is currently reviewing the project and Anaheim has revised its application to facilitate the approval process. Documents have been provided to the rating agencies and discussions are expected this week. The Committee is recommending the Board approve two resolutions in connection with the financing.

**8. Tieton Hydro Power Purchase Project Financing Update**

Burbank and PFM provided the Committee with an update regarding the financing in connection with the purchase of the Tieton Hydroelectric Power Project. The due diligence process is currently underway. The transaction pricing is contemplated for early December.

**9. Windy Point Project Financing Update**

Ongoing discussions are continuing with the Project developers. The 202 MW entitlement may increase and SCPPA may have an opportunity to take the full 339 MW allocation depending on the ability of other potential Windy Point Project participants to obtain financing. The Windy Point structure is contemplated to be an asset purchase with (municipal ownership), with the possibility to maintain the option for a tax equity structure. Financing is likely to occur in late 2009.

**10. Discussion of Equity Capital and Pending Wind Projects**

The Committee received an update regarding the availability of tax equity capital in connection with the Milford Corridor Phase I and Northwest Wind Partners LLC wind projects. First Wind (Milford I) is having difficulty finding tax equity investors. First Wind is seeking to convert the contractual arrangement to a PPA for the first year, with the ability to convert to a tax equity structure if the market reopens. If a tax equity investor cannot be obtained within another year, the deal structure will shift to an asset purchase (municipal ownership). Financing is likely to shift to late 2009 or early 2010. In connection with the Northwest Wind Project, deal negotiations are moving much slower. There is potential for an asset purchase on a 150 MW component of the wind farm. If available, financing will likely occur in 2010.

**11. Discussion Regarding Sale of Lehman to Barclays PLC**

The Committee discussed the recent acquisition of Lehman Brothers municipal bond business by Barclays PLC, as it relates to underwriting in connection with selected wind project financings. The Committee recommends that PFM proceed with an RFP to solicit proposals in connection with both the Milford Corridor Phase I and Northwest Wind Partners LLC wind projects, allowing full participation from SCPPA's underwriting pool that would include Barclays and MBE/WBE participation.

**12. Ice Energy Ownership Opportunity**

The Committee received an update in connection with the Board presentation of ownership opportunities and potential financing in connection with a 100 MW Ice Bear Power Project. Since this project falls within different areas, the Board has recommended the formation of an ad-hoc committee to consider the viability and potential participation in the project.

**13. Gas Prepayment Project No. 1 Agreement Amendments**

The Committee reviewed an amendment amending each Prepaid Natural Gas Sales Agreement relating to the SCPPA No.1 Prepaid Gas deal. Since no immediate action is required, the Committee requested Fulbright to provide more detailed information for the Project No. 1 participants.

---

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING  
WILL BE HELD MONDAY, DECEMBER 1, 2008, AT 10:30 A.M.  
AT THE SCPPA OFFICE**