



TO: SCPPA Board of Directors Revised (for attendance)

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – November 5, 2007

DATE: November 6, 2007

A meeting of the Finance Committee was held on November 5, 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*); Jeannette Olko (*Colton*); Larry Silva (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*), and Jerry Rogers (*Riverside*).

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

1. Investment Report

The Committee reviewed the Investment Reports for September 2007 and for the period ending September 30, and agreed to forward the reports to the Board for receipt and filing.

2. Gas Prepayment Project No. 1 Pricing Final

Public Financial Management (PFM) provided a final report in connection with the issuance of SCPPA's \$504,445,000 Gas Project Revenue Bonds, Project No. 1, for the prepayment of the 30-year supply of natural gas. The financing structure minimized the risk to SCPPA while maximizing the long-term benefit to the Participants' ratepayers.

A number of significant achievements can be noted: there was unanimous support from all participant City Councils, Boards/Commissions and the SCPPA Board for the gas prepayment transaction; a discount of \$.91 per MMBtu was achieved on the prepaid gas supply producing savings of approximately \$120 million over the term of the transaction - the third highest discount to date for a gas prepayment transaction; a fixed rate bond and LIBOR note structure was implemented which was well received by the rating agencies as evidenced in the Aa3/AA-/AA- ratings; the fixed rate bonds were priced at aggressive spreads to MMD's AAA GO index (+72 bps or less) where recent gas prepayment transactions priced at significantly wider spreads; SCPPA maximized the economic benefit by securing a supplier discount rate of approximately LIBOR +79 bps; and the reinvestment of funds deposited into the debt service account and working capital reserve fund were "locked in" at favorable rates that eliminate negative arbitrage and maximized the savings available to SCPPA on a monthly basis.

3. Gas Prepayment Project No. 2 Update

The Committee received an update on the Gas Prepayment Project No. 2. Legal documentation is largely complete. Changes reflect LA City Attorney comments as well as independent review by LA outside legal counsel regarding tax matters. Changes also reflect a single Participant transaction. Further changes will come at the direction of the LA City Attorney. A revised schedule has been distributed by Goldman Sachs, which is subject to a number of variables including LADWP approvals, completion of legal documents and the volatility of the prepay bond market. LADWP Board approval is planned for December 4, followed by SCPPA Board approval on December 20. If the schedule is met, pricing is contemplated in mid-January, with closing in late January 2008.

4. Gas Reserves Takeout Financing

PFM provided an update to the Gas Reserves takeout and “new money” financing. The SCPPA Gas Reserves are divided into two projects which are currently being financed by the Merrill Lynch bridge loan. The loan will be extended to March 1, 2008. The current balance on the loan is \$75.1 million. As part of the long-term financing, SCPPA anticipates taking out the existing loan and providing funding for the drilling of additional wells for five years. The financing is currently assumed to be done as taxable fixed rate debt with a final maturity in 2032, despite anticipated reserves output exceeding 30 years.

SCPPA's borrowing cost would be just below 6.0% and the total transaction would be approximately \$141 million. The difference between borrowing rates and reinvestment rates would result in negative arbitrage of approximately \$2.5 million on the project funds for the continued drilling, and is approximately equivalent to 11.8 bps of annual borrowing cost on the transaction. Decrease in rates have countered increased negative arbitrage for a net SCPPA debt service benefit of approximately \$4.5 million since the previous month. 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 mid-January, with closing at the end of January 2008.

5. STS Upgrade

Bill Carnahan provided the Committee with an update to the STS Upgrade. Further clarification is to be provided by LADWP at the SCPPA Strategic Planning meeting on November 13.

6. Vernon Transaction Regarding Palo Verde

The Committee received an update on the transaction between Natural Gas Partners and the City of Vernon in connection with the transaction relating to the Palo Verde Project and Hoover Upgrading Project generation assets, and interests in the Mead-Adelanto and Mead-Phoenix Transmission Project assets. SCPPA General Counsel and PFM reviewed the Vernon Agreement and have concluded that it is a financial swap transaction and pricing hedge to protect Vernon for future price increases for Palo Verde costs, and has no effect on Vernon's obligation to SCPPA under the Palo Verde billing. The Committee concluded that no further review is necessary.

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. The Committee recognized PFM for their analysis and UBS for submitting the proposal. The Committee recommended no further action regarding this proposal at this time.

8. Honorary Resolution

The Committee recognized Mark Mazak upon his retirement for his contributions and service to the Finance Committee, and the Magnolia Finance Committee since 2001.

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