



TO: Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – December 1, 2008

DATE: December 2, 2008

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A meeting of the Finance Committee was held on December 1, 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*); Dave Davis (*Glendale*); Mario Ignacio (*LADWP*); Shari Thomas (*Pasadena*); and Jerry Rogers (*Riverside*).

**Others present were:** Steve Lins (*Glendale via teleconference*); Greg Broeking (R.W. Beck, representing Imperial Irrigation District); Leilani Johnson Kowal (*LADWP*); Stephen Cole, (*Fulbright & Jaworski*); Dan Hartman, Mike Berwanger and Will Frymann (*Public Financial Management*); Therese Savery (*LADWP*); and Craig Koehler and Richard Helgeson (*SCPPA*).

**1. Investment Report**

The Committee reviewed the Investment Report for the month of October 2008, and agreed to forward the report to the Board for receipt and filing.

**2. SCPPA Unaudited Financial Statements**

The Committee reviewed the unaudited Quarterly Financial Statements for the period ended September 30, 2008, and agreed to forward the statements to the Board for review and filing.

**3. SCPPA Swap Amendment/Novation Update**

Per the recommendation of JPMorgan and Public Financial Management (PFM), SCPPA completed the novation of existing swap transactions held with Bear Stearns Financial Products and completed a suspension of the Constant Maturity Swap relating to the Mead-Adelanto Project. SCPPA achieved suspension economics in excess of original expectations and will receive \$4,123,000 for the three-year suspension.

**4. Canyon Power Project – Interim Financing Update**

The Committee received an update in connection with Anaheim's interim financing facility for the purchase of turbines and other costs in connection with the Canyon Power Project. The interim financing was scheduled to price on December 2. The Revenue Notes are expected to finance a project fund and to pay for issuance costs with a par amount of \$104 million. Since they are short duration and have strong credit ratings, SCPPA/APU is in a strong position. The total project cost is expected to be approximately \$320 million.

**5. Southern Transmission System Upgrade Financing**

PFM provided an update in connection with the financing for the Southern Transmission System Upgrade. The STS Upgrade financing is proceeding according to schedule, and the transaction is expected to price December 9. The financing is expected to close on December 18. Expectation is that interest cost would be capitalized through July 1, 2010. Financing will take the form of a fixed rate transaction with a final maturity of July 1, 2027, and the debt service will be wrapped around the existing STS project debt service. The Finance Committee recommended accepting Morgan Stanley's proposal for the takedown structure, and the liability split at 50% for Morgan Stanley and 50% split evenly for each of the five co-managers.

**6. Tieton Hydro Power Project Update**

The Committee received an update regarding the Tieton Hydroelectric Power Project. Burbank Water & Power has sent a letter to the seller indicating that the transaction will result in a PPA mode due to unresolved due diligence issues, transmission issues, permitting, and other outstanding issues. BWP will recover their \$8 million deposit in the form of energy over a period of approximately eight years.

**7. VRDO Update**

PFM provided a status report and potential restructuring on existing SCPPA variable rate debt. November presented continued trials for insurers and some SCPPA programs. Berkshire Hathaway is now the only straight AAA rated bond insurer and insurers in general have been seen to offer less economic benefit to issuers. Swap valuations particularly for LIBOR based fixed-payer swaps, have increased in value to counterparties as taxable rates have in some cases hit record lows. SCPPA has five VRDO series that were executed prior to 2008, and six that were executed during the current year. As some of the bank bond balances continue to remain outstanding, SCPPA will need to be cognizant of the term out provisions to begin organizing solutions in order to prevent the need to amend project budgets for accelerated debt service payments.

**8. Southern Transmission System 1991 Series**

PFM provided an update in connection with the possible refinancing for the Southern Transmission System 1991 Series. The STS 1991 bonds are VRDOs insured by AMBAC and backed by a Lloyds TSB letter-of-credit. They are hedged by an interest rate swap with AIG under which SCPPA pays a fixed rate of 6.38%. Due to the fact that AMBAC was recently downgraded below Aa3/AA-, SCPPA is considering replacing or wrapping AMBAC's obligation as long-term credit enhancer. Currently, the STS bonds are resetting at 1.25%, which is higher than the SIFMA index but around 65% of LIBOR. Currently, the impetus for change, on either side, may not be that great, given the current rates on the bonds.

**9. Southern Transmission System 1996 B Refinancing**

PFM provided an update in connection with the Southern Transmission System 1996 B Series. The STS 1996B refinancing transaction is proceeding according to schedule. JPMorgan is serving as the lead underwriter, and Bank of America, Citi, Morgan Stanley, Seibert Branford and E.J. De La Rosa have been appointed to serve as transaction co-managers. The financing will 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. SCPPA is required to separate the pricing of the 1996B refinancing transaction and the STS Upgrade financing transaction by more than 15 days. With the holidays and pricing requirements, the anticipation is that the refinancing transaction is likely to occur in early 2009.

**10. Southern Transmission System 2000 and 2001 Refinancing**

PFM provided an update in connection with the potential refinancing for the Southern Transmission System 2000 and 2001 Series. The STS 2000 and 2001 bonds are VRDOs hedged by interest rate swaps, insured by FSA with lines of credit from Dexia, and therefore merit consideration. The recent downgrade of FSA and the increased scrutiny of WestLB and Dexia have continued to put significant pressure on these two bond series. The trading performance on both series has also been poor. If the 2000 and 2001 Bonds can- not be remarketed at reasonable rates, then SCPPA should consider an interim structure. Since the swap terminations are currently unfavorable due to dislocated market rates, SCPPA would most likely look to note or rolling note structures should refinancings be necessary.

**11. Amendments to Variable Rate Indentures**

The Committee recommended amending the variable rate Indentures for Palo Verde, STS, Mead-Adelanto and Mead-Phoenix to allow the remarketing of bonds to a Project Participant. This would enable, for example, LADWP to purchase bonds in order to prevent the bonds from becoming bank bonds.

**12. Magnolia Power Project A Refunding Revenue Bonds 2007-1 Refinancing**

PFM provided an update in connection with the potential refinancing for the Magnolia Power Project A Revenue Bonds Refunding Series 2007-1. As a result of KBC agreeing to make its liquidity facility irrevocable in April for one year, this has allowed SCPPA to realize reasonably low resets and very modest Bank Bonds, currently at \$2.5 million. KBC has indicated a willingness to provide an LOC for a VRDO refunding deal for approximately \$75 million, and Bank of America indicated interest and capacity for an addition \$100-125 million. SCPPA's best options for the Magnolia 2007-1 Series are to either refinance or restructure with some form of note or refinance with a letter-of-credit.

**13. Prepay Gas Project No. 1 – AIG Downgrade**

PFM discussed the considerations and options relating to AIG as the commodity swap provider on the Prepaid Gas Project No. 1 transaction as a result of AIG's downgrade. SCPPA may replace the commodity swap counterparty once the commodity swap provider's rating drops below A/A2, which has already occurred. However, SCPPA is not required to do so at the current rating levels and could not find a replacement counterparty in the current environment. If the commodity swap provider's ratings fall below BBB/Baa2, the Project No. 1 transaction can be terminated, with no savings guarantee applicable to SCPPA. SCPPA is monitoring the situation and options carefully.

**14. Utah Wind Project (Milford Wind Project)**

The Committee recommended the Board approve amendments to the Power Purchase Agreement and the Power Sales Agreements to reflect conventional construction loan financing and a stipulation if the Milford I Project is not able to obtain tax equity by mid 2010, then the price would be reduced to \$1,900 per installed KW.

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**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING  
WILL BE HELD MONDAY, JANUARY 5, 2009, AT 10:30 A.M. AT THE SCPA OFFICE**