



TO: SCPPA Board of Directors

FROM: Bill D. Carnahan

SUBJECT: Meeting of the SCPPA Finance Committee – December 10, 2007

DATE: December 11, 2007

A meeting of the Finance Committee was held on December 10, 2007, at the SCPPA office in Pasadena.

Committee members in attendance were: Acting Chairman Bill Carnahan (*SCPPA*); Ed Zacherl (*Anaheim*); Evillia Waloejo (*Burbank*); Peggy Keigler (*Colton*); Larry Silva (*Glendale*); Mario Ignacio (*LADWP*); and Shari Thomas (*Pasadena*).

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

1. Investment Report

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

2. SCPPA Financial Statements

The Committee reviewed the unaudited Quarterly Financial Statements for the period ended September 30, 2007, and agreed to forward the statements to the Board for receipt and filing.

3. Project Budget Comparison Reports

The Committee reviewed the Budget Comparison Reports for the period ended September 30, 2007, for all projects. The following reflects the net Authority Cost for each of the budgets:

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|---------------------------------------|---|
| • Hoover Upgrading Project: | Approximately \$61.9K (2.57%) under budget |
| • Magnolia Power Project: | Approximately \$779K (6.17%) under budget |
| • Mead-Adelanto Transmission Project: | Approximately \$65K (1.24%) over budget |
| • Mead-Phoenix Transmission Project: | Approximately \$215K (10.24%) under budget |
| • Natural Gas Project - Barnett: | Approximately \$1.37M (36.960%) over budget |
| • Natural Gas Project: - Pinedale: | Approximately \$4.21M (56.62%) under budget |
| • Ormat Geothermal Project: | Approximately \$427K (39.35%) under budget |
| • Palo Verde Power Project: | Approximately \$3.09M (14.27%) under budget |
| • San Juan Unit 3 Power Project: | Approximately \$2.32M (9.85%) under budget |

- Southern Transmission System Project: Approximately \$1.08M (4.70%) over budget.

The Committee agreed to forward the reports to the Board for receipt and filing.

4. Gas Prepayment Project No. 2 Update

Project No. 2 continues to progress and is nearing approval by the LADWP Board. Document changes are being made to reflect input by the LA City Attorney and are expected to be sent to the LADWP Board with tentative approval slated for January 15 or 22, followed by SCPPA Board approval at the January 2008 or February 2008 meeting if the schedule slips.

5. Auction Rate Market Update

SCPPA currently has ten outstanding variable rate or auction rate bond issues which are spread across several projects. Seven of the ten issues are VRDOs and three of the ten are ARS. SCPPA's ARS series are the STS 2003, MP 2004, and MA 2004. All three are hedged by 65% of LIBOR swaps. To the extent which ARS trade at less favorable rates, there would be more basis differential between the variable rates paid by SCPPA and the 65% of LIBOR swap receipt. According to PFM's 2007 study of SCPPA's variable rates, ARS were performing better and resulting in lower borrowing costs for SCPPA.

There has been a marked change in the performance of ARS versus VRDOs in the current market, driven by the current subprime mortgage problems. This has caused substantial investor focus on liquidity and credit issues. Recent resets for ARS have been as much as 20-40 basis points above SIFMA rates in California and worse outside California. This trading differential has only occurred over a six week period, and it is not yet clear if it is a temporary result or a longer-term shift in how ARS trade relative to VRDOs. No other California issuers have switched from ARS to VRDOs. New programs are moving toward VRDOs and as a result liquidity costs are on the rise. PFM's recommendation is to monitor the situation and discuss again at the January meeting.

6. Gas Reserves Takeout Financing

The Gas Reserves financing is proceeding on schedule and is expected to price in mid January 2008. Documentation is nearing completion and the Rating Agency and Bond Insurer process has begun. Market conditions remain challenging but are currently manageable.

The Committee recommended that the Board (i) approve the fees associated with, (ii) adopt resolutions authorizing the legal documents required for Anaheim, Burbank and Colton in connection with the sale and issuance of the Natural Gas Project A, 2008 Revenue Bonds (taxable), and (iii) adopt a Resolution for the extension of the existing Draw Down Bond, which will be redeemed using proceeds of the new bonds.

7. Unsolicited Proposals

SCPPA received three unsolicited proposals since the November meeting. UBS submitted an update to their proposal to use shorter-duration swaps to fix-out existing Southern Transmission System or Palo Verde variable rate debt. Bear Stearns submitted a similar proposal for Cancelable Swaps. The Committee recommended no action at this time, but requested PFM to continue to monitor and update. A second proposal submitted by Bear Stearns was a modification to the \$100M Mead-Adelanto

Constant Maturity Swap to extend the effective date in exchange for receiving a fixed spread of up to 49.3 bps depending on the amended effective date. The Committee recommended no action, but requested PFM to provide further analysis for the next meeting.

**THE NEXT REGULARLY SCHEDULED FINANCE COMMITTEE MEETING
WILL BE HELD MONDAY, JANUARY 7, 2008, AT 10:30 A.M.
AT THE SCPPA OFFICE**