SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

Request for Recommendations

for

Magnolia Power Project A, Revenue Bonds

RFP Date: October 24, 2005

Response Deadline: November 9, 2005 by 5:00 p.m. PST

Request for Recommendations related to the Magnolia Power Project A, Revenue Bonds

The Southern California Public Power Authority ("SCPPA") has received numerous unsolicited proposals regarding the Magnolia Power Project A, Revenue Bonds ("Magnolia bonds"). The proposals received have been comprehensive, creative and have offered a number of alternatives as well as risk levels for SCPPA and the Magnolia participants to consider. Due to the high degree of interest in the Magnolia bonds and significant overlap and multiple alternatives offered in many of the proposals, it is SCPPA's intent to establish a formal process for the consideration of recommendations.

SCPPA reserves the right to reject all recommendations, to elect multiple firms to execute an accepted recommendation, to postpone the decision to act on any of the recommendations, to elect not to proceed at any time, and to change the selected underwriting team at any time, all without liability or cost to SCPPA.

Background

As you are aware, in 2003 SCPPA issued $299.975 million in Project A Bonds and $13.275 million in Project B Bonds to finance Magnolia. SCPPA may elect to enter the financial markets to refinance and/or extract additional value from the Magnolia bonds, including, when interest rate conditions provide opportunities, to refund project debt on an advance or current refunding basis. SCPPA has considered in the past and is willing to consider, any alternative approach in conjunction with the Magnolia bonds, including municipal forward and interest rate swap transactions and a blend of fixed and/or variable rate obligations in accordance with SCPPA's swap and financing guidelines.

Financing Guidelines and Potential Tax Considerations

In order to limit financing recommendations, SCPPA would like to establish certain guidelines to be utilized by respondents to the Request. Many of the questions included in this Request address these guidelines. However, in order to provide the best guidance possible, SCPPA would like you to consider the following as you develop and present your recommendations:

Transaction Size:
At this point, SCPPA is considering a transaction that would affect not more than $125 million of the Magnolia bonds. This may be either a pro rata strip of outstanding bonds or selected maturities. Respondents should indicate the affected bonds and provide reasons for their selection of the bonds.

Derivative Product Economics and Considerations:
SCPPA and its Participants have utilized several forms of derivative products in the past. SCPPA has always conducted a rigorous analysis of the benefits and risks of these products. Any recommendation that includes the use of a non-traditional (other than fixed-rate bonds) financing structure should provide a detailed discussion of how this structure would integrate with SCPPA's existing derivative portfolio. It should also

include a discussion of how the structure would impact the individual debt portfolios of the affected Participants.

Tax Law Considerations Related to Transaction Structure and Escrow Yields:
Given that that the Magnolia bonds are not currently callable, any advance refunding structure will likely include a yield-restricted escrow. Many derivative structures ("synthetic fixed rate" bonds) contemplate an advanced refunding utilizing "variable yield" refunding bonds for purposes of the federal arbitrage and arbitrage rebate rules. The variable yield may be estimated, but not known with certainty, at the outset of the financing. Respondents should provide a thorough discussion of their expectation for the determination, modification and adjustment of arbitrage and escrow yields, and any structural features that may be required to: (1) ensure that the escrow yield will not exceed the arbitrage yield, and (2) increase the likelihood that the escrow yield will attain the arbitrage yield, thereby minimizing negative arbitrage (if such is necessary to the optimization of the benefit from the proposed structure). Your recommendations should provide clear statements and explanations of any regulatory or statutory interpretations necessary to demonstrate to SCPPA bond counsel that your recommendations are consistent with the law.

Basis Risk and Reward, and the Escrow Yield:
SCPPA is familiar with the potential economic advantages of derivative transactions whose rates are tied to taxable indices such as LIBOR. For current refundings, new money transactions, or advance refundings with negative arbitrage, the lower expected financing costs of LIBOR-based swaps do not typically result in reduction of an escrow yield. However, for an advance refunding that does not have negative arbitrage, the lower expected financing cost of a LIBOR-based swap may be accompanied by a lower escrow yield and resultant larger bond size. This condition appears to a produce a less favorable risk/reward relationship for LIBOR-based swaps for an advance refunding without negative arbitrage, as compared to new money, current refundings or advance refundings with negative arbitrage. Therefore, if SCPPA and the Participants have limited ability to assume basis risk, it may be more advantageous for them to consider LIBOR-based swaps when there will not be an associated reduction in yields on invested assets. If your recommendations increase basis or other risks, you should include a discussion of how the lower expected financing costs might be offset by potential escrow or other yield reduction. Your recommendations should discuss the relative risk-reward relationships of these structures for advance refundings versus other non yield-restricted transactions. To the extent your recommendations include techniques designed to avoid or limit the potential arbitrage yield reduction impacts, please isolate and highlight the economic advantages of these features. Once again, your recommendations should provide expectations of how SCPPA's counsel would interpret these structures.

Form of Recommendations

- Each recommendation should be bound in an appropriate binder and should specifically address the following questions (below or on the next page).

- Joint recommendations will not be accepted.
- Please refrain from submitting general marketing materials that do not explicitly respond to the questions.
- Recommendations should not exceed 15 pages in length, including a one or two-page signed and dated cover letter. Numerical analyses should be bound in a separate binder.

Questions

A. Organization of Firm/Contacts

1. Provide the name, address (email and postal), telephone number and fax number of the principal contact from your firm.

2. List the other members of your team, including underwriting and marketing personnel. Briefly describe their proposed role in serving SCPPA and briefly describe their relevant experience. If interviewed, key members of the team should appear.

B. Recommendations

1. Please limit your response to one or two recommendations that, in your opinion, are the most appropriate for SCPPA to pursue. Recommendations should not merely include a list of potential restructuring ideas. Describe the structure of your recommendations, including exact steps and potential schedule. Identify the amount of the Magnolia bonds on which you would propose SCPPA execute your recommendations. Your recommendations should address the financial impact to each Magnolia participant as it relates to their existing and future debt structure. How would your recommendations be viewed by the rating agencies?

2. Outline and quantify the benefits of your recommendation(s). Include any market interest rate or other sensitivity analyses SCPPA should consider. If your recommendations contemplate the use of an outside sinking fund and/or an escrow restructuring as a yield adjustment mechanism for the escrow, provide analysis indicating under what circumstances SCPPA would be required to fund such a sinking fund or contribute to maintain the sufficiency of the escrow and how much money would be involved. Are there reasons why the projected savings would not be realized? Please comment on the likelihood of SCPPA realizing the projected savings.

3. Provide an analysis of the risks and considerations of your structure as compared to the current fixed rate Magnolia bonds outstanding and in comparison to other restructuring opportunities you may have considered in relation to Magnolia. How would you recommend that the participants mitigate

any risks introduced by your recommendations? Why are your recommendations the best choice for SCPPA?

4. Describe how you would recommend that SCPPA and its members approach the use of swaps on a direct debt and overall basis. Please comment on SCPPA's existing swap portfolio, including how your firm would recommend that SCPPA and its members evaluate existing and future tax risk. How should SCPPA evaluate your approach, if applicable, and any future transactions that may use swaps? Please comment on how you expect SCPPA to score in Standard & Poor's recently released Debt Derivative Profile criteria.

5. Describe how you would recommend that SCPPA and its members approach the use of variable rate debt on a direct debt and overall basis. Given the current interest rate environment, should SCPPA make any changes to its outstanding variable rate debt exposure?

6. Besides reducing project debt costs, what other considerations led you to determine that your recommendations are the best alternatives for SCPPA and the participants at the present time?

7. Do your recommendations potentially reduce or limit SCPPA's future operating or financing flexibility at Magnolia? If so, why is this recommended?

8. In order to implement your recommendations, what tax issues must be resolved and how do your recommendations solve those issues?

9. Would your recommendations require any amendment to the Magnolia Indenture of Trust for the Project A Bonds?

C. Compensation/Fees

1. Please discuss and outline the individual components of compensation your firm would receive under your recommendations including, but not limited to, activities related to underwriting, remarketing and/or any derivatives. Include your proposal for underwriters' spread for your recommendations, specifying management fee, average takedown, and a detailed breakdown of expenses.

2. If your recommendations include a swap, please comment on what spread to mid-market you believe is appropriate for your recommended structure. Please comment on your firm's ability and experience in competitively pricing swaps.

3. Please outline and quantify any other areas of compensation, if any, that your firm would realize in connection with your recommendations.

D. Conflicts/Disclosure

1. Indicate any conflicts or potentially conflicting situations your firm might have in executing your proposal.

2. Is your firm involved in any SEC or comparable investigation regarding sales methods, security dealings, underwritings or related practices? Please disclose the status of such matters. Please describe in detail any settlements made by your firm to the SEC or any other federal and/or state agency. Please describe in detail any investigations, settlements, or lawsuits (settled or pending) related to the Western Energy Crisis.

Evaluation Criteria

The recommendations will be evaluated according to, but not necessarily limited to, the following criteria:

- Ability of the recommendation to make the case as to why this particular opportunity compares favorably in relation to other opportunities available;
- Amount of and timing of savings generated;
- Likelihood of achieving projected savings;
- Complexity and structure;
- Comprehensive analysis of the risks associated with the proposed strategy, including execution, counterparty, tax, interest rate, and termination;
- Consideration of the recommendation and risk factors in relation to each Participant's overall debt portfolio;
- Potential constraints placed on future financing and operational flexibility;
- Compliance with SCPPA's existing swap and financing guidelines; and
- The successful execution of similar transactions within the public power community.

Terms and Conditions

- SCPPA reserves the right to reject any or all recommendations.
- SCPPA is under no obligation to execute a transaction as a result of this process. Potential respondents should be aware that SCPPA's evaluation of the Magnolia bonds is in the formative stages and there is a possibility that SCPPA will elect to delay any action on the recommendations regardless of market conditions.
- SCPPA reserves the right to request clarification of information submitted and to request additional information.

- Information in the recommendations will be deemed public.

All recommendations will remain firm for a period of sixty (60) days from the due date.

Submission Requirements

Three hard copies of your recommendation should be delivered on or before November 9, 2005, by 5:00 p.m. PST to:

Craig Koehler
SCPPA Finance and Accounting Manager
Southern California Public Power Authority
225 S. Lake Avenue, Suite 1250
Pasadena, California 91101

(626) 793-9364; Fax (626) 793-9461

Two additional hard copies of your response should be delivered to:

Kathryn Masterson
Senior Managing Consultant
Public Financial Management
50 California Street, Suite 2300
San Francisco, California 94111

(415) 982-5544; Fax (415) 982-4513

Your response should also be emailed to Craig Koehler at ckoehler@scppa.org; Mike Mace at macem@pfm.com and Kathryn Masterson at mastersonk@publicfm.com.

Late or non-responsive recommendations will be rejected.

No contact should be made with the SCPPA Board of Directors concerning this request for recommendations.