

Agenda Report

DATE: September 14, 1998

TO: ATTENTION DEREGULATION COMMITTEE
CITY COUNCIL

FROM: ACTING CITY MANAGER

SUBJECT: AUTHORIZATION TO ENTER INTO CONTRACTS WITH THE INTERMOUNTAIN POWER AGENCY FOR THE PREPAYMENT OF DEBT ASSOCIATED WITH PASADENA'S SHARE OF THE INTERMOUNTAIN POWER PROJECT

RECOMMENDATION

It is recommended that the City Council authorize the General Manager of the Water and Power Department to enter into contracts with the Intermountain Power Agency ("IPA") to facilitate the prepayment of the debt associated with Pasadena's share of the Intermountain Power Project ("IPP"). It is further recommended that the General Manager also be authorized to issue prepayment notices (see Attachment 3) in accordance with these agreements for actual budget surpluses owed to Pasadena for fiscal years 1999 through 2002, inclusive.

BACKGROUND

Pasadena is currently under contract with IPA to purchase six-percent (6%) of the generation output of IPP. These long-term power supply contracts obligate Pasadena to pay for its pro-rata share of all costs associated with IPA including debt service. The current debt service schedule for the IPA project is shown in Attachment 1.

As part of its financial plan to address deregulation the Water and Power Department planned on using IPA budget surpluses, which have accrued due to cost cutting and bond re-financing, to pre-pay part of Pasadena's future debt obligation. This was part of IPAs comprehensive cost and debt reduction plan, which started in FY 1996 and was previously presented to the Deregulation Committee and City Council. A summary of the IPA debt reduction plan is shown as Attachment 2.

The subject debt prepayment agreements are consistent with IPAs debt reduction plan and Pasadena's financial plan, but they provide an option for

individual project participants such as Pasadena to pre-pay more of their debt obligation than the current plan calls for, while retaining full credit for the monies prepaid. Pasadena would have the option, but not the obligation, to pre-pay its entire IPA debt obligation. All future prepayments, including those called for in the current IPA debt reduction plan, will be implemented under the proposed debt prepayment agreements.

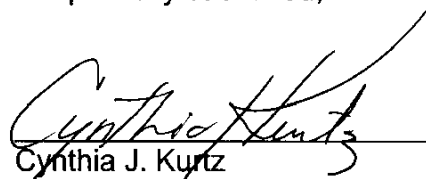
One important feature of the prepayment agreement is that IPA would be obligated to pay an equivalent debt service payment ("Equivalent Debt Service") to the parties who have prepaid project debt. The Equivalent Debt Service payment would be equal to the debt service IPA would have paid if the bonds were not prepaid under the agreement. Additionally, the Equivalent Debt Service would be considered part of the project cost paid by the parties taking power from the project. Therefore, if the Utah participants recalled any part of Pasadena's current 6% share, under the provisions of the Excess Power Agreement, then they would be obligated to pay the Equivalent Debt Service and Pasadena would receive a cash payment, or credit, from IPA for the portion recalled. Pasadena receives full credit for the monies prepaid in the form of lower power costs or cash payments from IPA. Other key terms and conditions are shown in Attachment 3.

Attachment 1 shows that budget surpluses are expected for fiscal years 1999 through 2002, inclusive. Pasadena's share of these surpluses is expected to be a total of \$19.8 million over the four-year period. In accordance with the IPA's debt reduction plan and Pasadena's deregulation financial plan, staff recommends that the actual budget surpluses owed to Pasadena for these years be applied to IPA debt reduction under the subject debt prepayment agreement. Any additional debt prepayment would be recommended separately and require an additional action of the City Council.

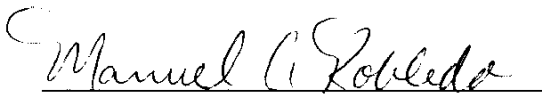
FISCAL IMPACT

The current Light and Power Fund Budget includes sufficient monies to fund the IPA Debt Reduction Plan and the recommended level of debt prepayment hereunder. The recommended prepayment agreements secure Pasadena's interest for the recommended level of prepayment and facilitate additional debt prepayment through a separate action of City Council. These agreements and the recommended prepayment are consistent with the Water and Power Department's 10-year financial plan.

Respectfully submitted,


Cynthia J. Kurtz
Acting City Manager

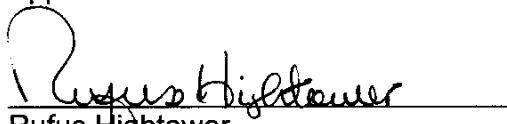
Prepared by:


Manuel A. Robledo
Business Unit Director, Power Supply

Reviewed by:


Jay Goldstone
Director of Finance

Approved:


Rufus Hightower
General Manager, Water and Power Department