

Faldyn, Rodney

From: Michael Anderson/HOU/AZURIX@AZURIX@ENRON on behalf of Michael Anderson/HOU/AZURIX@ENRON
Sent: Friday, September 28, 2001 7:32 PM
To: Faldyn, Rodney
Cc: Donahue, Jeff; Garrison, John L; Poche, Jeff; Walia, Amit; Hayslett, Rod; Bickett, Kenny
Subject: DCF analysis

The attached is my simplistic analysis on how much capital it takes to generate \$1bn in NPV.

The short answers are:

- A) only about \$1.5 billion, if you believe the original Azurix profiles contained in the IPO model
- B) about \$2 billion if you can replicate our Cancun concession and actual experience there
- C) about \$3 billion if you believe you can earn a spread of 3.5% to 4.5% over capital cost
- D) about \$12 billion if you invest in the US water sector and earn a 1% spread over capital cost
- E) about \$28 billion if you invest in the UK water sector and earn a 0.25% spread over capital cost
- F) all the capital in the universe (if you assume our experience in Buenos Aires)

All of these amounts are TOTAL capital amounts and could be leveraged by some amount of debt (50/50 seems reasonable?). Additionally, these amounts assume an immediate up-front investment, rather than investing in several deals over time. Investing over time would, obviously, require additional capital to achieve the same NPV.

The above scenarios (except for F) are contained in the attached spreadsheet. We can flesh out a more detailed model to support these numbers, but I believe this gives us the range of potential answers.



tuna v2.xls

Water Business Analysis

(Dollars in millions)

	Azurix Original Profile (a)	Azurix Large Profile (b)	Azurix Medium Profile (b)	Azurix Small Profile (b)	UK Water Profile (c)	US Water Profile (d)	Azurix Cancun Profile (e)
Capital Invested in Typical Project	1,000	1,000	200	50	3,000	500	75
Return on Asset	14.00%	11.00%	12.00%	13.00%	4.75%	8.50%	16.00%
Cost of Capital (WACC)	7.00%	7.50%	8.00%	8.50%	4.50%	7.50%	9.00%
Spread	7.00%	3.50%	4.00%	4.50%	0.25%	1.00%	7.00%
Annual Excess Return (post tax)	46	23	5	1	5	3	3
Total Excess Return (post tax)	650	303	65	17	108	43	38
Ratio of NPV to Capital Invested	65.0%	30.3%	32.5%	34.4%	3.6%	8.7%	50.6%

Calculations to Achieve Total NPV of:	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Number of Transactions over life of company	1.5	3.3	15.4	58.1	9.2	23.1	26.4
Required Capital Investment	1,538	3,297	3,077	2,906	27,692	11,538	1,978
Potential Debt/Equity Mix	55%	55%	50%	40%	55%	55%	40%
Required Equity Investment	692	1,484	1,538	1,744	12,462	5,192	1,187

- (a) Original profile is similar to the large concession profile in the Azurix IPO model
- (b) The large, medium and small profiles are typical water concession transactions similar to the Azurix IPO model, but conservatively scaled back
- (c) UK water profile is an estimate based upon the current UK market and allowed returns
- (d) US water profile is an estimate based upon typical regulated returns in the US market
- (e) Azurix Cancun profile is based upon Azurix's actual experience and allowed returns

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