

Senate Finance Committee

**EXHIBIT 32**

To: Rod Gray  
 From: David Odorizzi  
 Date: 28 January 1994  
 Re: Guatemala Buyout of Sunking

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As you know, I have recently met with our local partners in Guatemala to discuss with them the possibility of buying out their royalty interest in our project. I found that their attitude was generally receptive to such an idea, given that they realised that Enron is sensitive to various issues which could affect Sunking over the long term. I told them that Enron would be prepared to make an offer, subject to certain conditions, by the end of February. This memo is designed to gain approval for making such an offer.

As we discussed before, there are some good strategic reasons for attempting this transaction, aside from any financial gain that must accrue:

- 1 Tax liability issues have only just been raised with Sunking, these would be avoided under a buyout scenario.
- 2 At this time, Sunking's political influence is fairly low, and in practical terms Sunking seems reluctant to flex any political muscle they have left to help the project.
- 3 The relationship between Sunking and the former regime could prove embarrassing
- 4 Enron may have a foreign tax problem, that would be ameliorated under a buyout.
- 5 Sunking are nervous at the prospect of any renegotiations between the project and EEGSA which would have an adverse affect on gross revenues.

However, the main justification has to be in the buyout's financial attraction. I feel that a range of values has been identified that may be mutually agreeable to both parties, and could form the basis of an immediate negotiation.

In identifying this range, the following macro economic assumptions were used to calculate the economic impact of the transaction on Enron:

Revenue Stream:	6% of project revenues.
Projected and actual dispatch:	70% of project capacity.
Real escalation rate:	3% per annum.
Interest rate:	9%.
Tax:	Full deductibility of interest and amortization
Location:	Offshore, dollar denominated.

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Book Depreciation: 14 years  
 Enron participation 50%

Utilising these assumptions, the following table has been calculated assessing the economic impact for Enron:

Equity (%)	Buyout Valuation (\$mm)	Minimum post tax ROE (%)	Enron NPV @ 15% discount (\$'000)	Enron 1994 Net Income (\$'000)
100%	10.0	13	4,064	663
50%	10.0	25	4,709	516
20%	10.0	52	5,111	429
50%	15.0	13	2,849	327
20%	15.0	25	3,310	196

It can be seen from this that at a buyout valuation of \$10,000,000, high returns are gained with, dependent on the gearing, significant near term earnings. If a valuation of \$15,000,000 is used, adequate returns are realised, although it would not be possible to fund such an acquisition with 100% equity.

I feel that this represents a good opportunity for Enron to increase our investment in Guatemala at no additional risk.

I would propose that I submit a written bid to Sunking immediately, at a value of \$10 mm, conditional on Enron Board approval and acceptable financing (essential for anything above \$13mm). I also feel that a ceiling of \$15mm should be set to complete the negotiations, if required and given suitable financing. Obviously every endeavor will be used to avoid such additional expenditures.

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