VIII. PROJECT TAMMY I

Project Tammy I

Deal Basics

Business Purpose – Raise $500 million of minority interest equity for general Enron purposes. The structure also permitted the recognition of certain financial accounting benefits partially based on tax planning strategies.

Primary Entities – Enron Corp.; Enron Finance Partners, LLC.; Enron Intermediate Holdings LLC; Enron Finance Management LLC; Enron Capital Investment Corp.; Enron Asset Holdings, LLC; Smith Street Land Company; Enron Global Exploration & Production, Inc.; Boreas Holdings Corp.; Enron Caribbean Basin LLC.

Dates Closed – May through December 2000

Principal Assets – Current assets include EOGR shares (proceeds from monetization); EREC; EOGIL; East Coast Power (proceeds from monetization); Ecoelectrica; various intercompany obligations

Transaction Size – $2 billion in assets contributed and $1.9 billion of related debt; anticipated earnings of up to $400 million over the life of the structure

Net Income Impact – No *direct* book earnings have been recorded for this structure. However, Enron's use of the structure indirectly supported the Company's reported tax rate for the 2001 interim periods (approximately $200 million net income effect). Minority interest treatment characterization in the Enron financial statements.

Primary Tax Return Effect – The deconsolidation of EREC. Forgone interest expense deductions on $500 million of minority interest equity. Capital gains on asset dispositions are reported in the EFP partnership but would have been reported by Enron absent Tammy.

Current Status – In litigation/settlement discussions with Zephyrus over defaults in payment related to minority interest investment. Multiple groups are actively scrutinizing the project in connection with certain EAH asset sales. Issues are to be presented to the Creditor Committee in the near future.

Counterparties

Counterparty – Zephyrus Investments, LLC
Size of Investment – $500 million
Litigation Status – In litigation
Control Rights – Right to take over management of EFP
Indemnities – Various

Advisory History

Principal Advisors

- Akin, Gump – Tax counsel
- Vinson & Elkins – Corporate and tax counsel
- Deloitte & Touche – Tax structuring assistance
- Arthur Andersen – Accounting and financial statement issues

Primary Opinions

- Tax opinion on partnership formation, funding and operational issues – V&E
- SAS 50 letter by AA addressed to Enron Corp.

Confidentiality Agreement – No
Widely Marketed Deal – No
Financial Model and Deal Memo – Model created internally; V&E support memo
Current Counsel – None (V&E was counsel until 2-7-02)

Lackey, Shelly

From: Goodrow. Alicia
Sent: Wednesday, October 24, 2001 10:36 AM
To: Lackey, Shelly; 'eosterberg@velaw.com'; 'jblissard@velaw.com'
Subject: 84-53 Tammy leakage

Shelly:

Let's discuss - this was my intuitive sense after my Monday review of the model. I suspect your total liquidation example will bring this out more clearly.

ALG
-----Original Message-----
From: Klig, Steve (US - Washington D.C.) [mailto:sklig@deloitte.com]
Sent: Tuesday, October 23, 2001 7:57 PM
To: Goodrow, Alicia
Subject: FW: Tammy example

-----Original Message-----
From: 8773110241@skytel.com [mailto:8773110241@skytel.com]
Sent: Tuesday. October 23, 2001 7:56 PM
To: Sklig
Subject: Tammy example

Alicia:

You are correct in concluding that there is some leakage due to 84-53. It can generally be considered to be the fmv of the interest transferred to ECIC. Here are some examples.

Example 1:

Property gross fmv = 1 billion
Tax basis= 0
Debt assumed = 900 million
Interest transferred = 95%

Because of 84-53. an interest with a 95 million fmv is transferred w/ zero basis. When the built-in gain is triggered, 950 million is allocated to ECIC. Only 855 million of that gain is phantom income. The other 95 million brings the basis of the interest transferred up to fmv.

Example 2:

Same facts as example 1 except that property has tax basis of 500 million.

ECIC still takes no basis in interest transferred under 84-53.

When property is sold, 95% of 500 million built in gain (475 million) is allocated to ECIC. Again the first 95 millon of the built-in gain is gain necessary to get basis up to fmv.

THE MORAL OF THE STORY IS THAT THE HIGHER THE BASIS OF THE BUILT-IN GAIN PROPERTY TRANSFERRED TO THE PARTNERSHIP, THE SMALLER THE SHIFT IN BUILT-IN GAIN AS A PERCENTAGE OF TOTAL BUILT-IN GAIN.

STEVE