



The Azurix Transaction Process

*A Description of the Procedural,
Approval, and Transition Processes for
Financial Commitments Related to
Specific Transactions*

September 28, 2000

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SCOPE

These processes pertain to transactions that require approval from the Office of the CEO. The Azurix Transaction Process is designed to provide guidance for completing all transactions including Capital Transactions, Guarantees and EPC/Service Transactions. Expenditures that fall within a subsidiary's approved budgeted capital expenditures are not subject to these processes in the ordinary course of doing business, e.g., equipment purchases, operating expenses. All international transactions prohibited by U.S. law are subject to internal risk assessment only.

According to the Amended and Restated Azurix Corp. Transaction and Guarantee Approval Process, certain transactions **must** follow the steps in the Azurix Transaction Process.

This Process does not apply to the following, although the following may otherwise require approval of the Board of Directors or in accordance with policies adopted by the Board of Directors:

- Sales of water and wastewater services by regulated water and wastewater service providers
- Dispositions of other assets in the ordinary course of business
- Transactions involving Wessex to the extent described in Exhibit VI
- Engagement of professional advisers and consultants

The approval limit for a given transaction is determined by its commitment amount that is equivalent to its Transaction Value. The definitions for each type of transaction and the methodology for calculating Transaction Value are as set forth below:

"Transaction Value" is the aggregate (without duplication) of the following:

- Equity investment, cash committed for the duration of the transaction (including contingent payments), other than (in the case of a particular project or asset being acquired or commenced) amounts borrowed with recourse only to that project or those assets
- Amounts borrowed, other than amounts with recourse only to the particular project or assets
- The maximum exposure under guarantees of debt
- The aggregate maximum amount of probablistic liquidated damages payable
- The stated amount, if any, that would be owing under the contract if it were terminated due to breach or other unexcused termination, or on exercise of a termination right
- In the case of a sale or other disposition of assets, the aggregate sales price plus any obligations for which the Company and its Subsidiaries remain liable following the sale or disposition

"EPC/Service Contract" is a contract or other arrangement for the provision of engineering, procurement, design, construction, operating, maintenance or other services. The **"Cash Shortfall"** at any time under an EPC/Service Contract is the excess (if any) of the cash expenditures required to perform the EPC/Service Contract over the revenues received under it, in each case calculated for the period from commencement through the end of the period.

The following approval guidelines apply for all transactions over \$500,000:

APPROVAL LIMITS

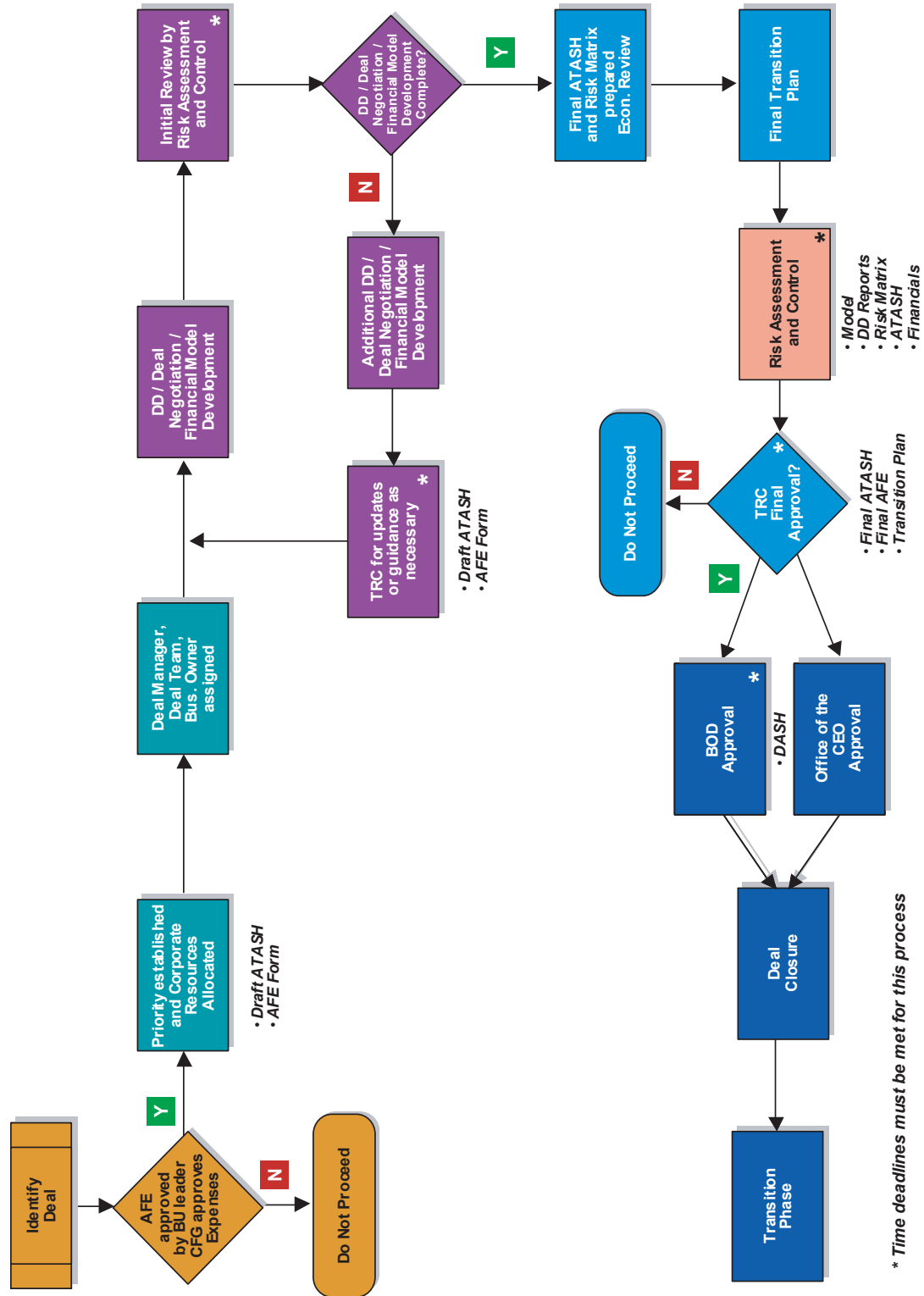
CAPITAL TRANSACTIONS (OTHER THAN EPC/SERVICE CONTRACTS)*	
<i>If the Transaction Value is . . .</i>	<i>The Approving Person is . . .</i>
> \$5,000,000	Azurix Board of Directors
≤ \$5,000,000	Azurix Office of the CEO, which has delegated authority for the following amounts to subsidiaries:
\$__ million for performance bond exposure	Lurgi Bamag
\$__ million	Azurix North America
\$__ million	Azurix Industrial Operations
\$__ million	Azurix Mexico
\$__ million	Azurix Brazil
\$__ million	Azurix Buenos Aires
\$__ million	UK Services (Wessex)
* Any transaction over \$25 million in total revenues with a 10% or more shareholder or its subsidiaries (i.e., Enron) must be reviewed by the Azurix Board of Directors or its Audit and Finance Committee.	
EPC/SERVICE CONTRACTS	
<i>If the Transaction Value is . . .</i>	<i>The Approving Person is . . .</i>
> \$5,000,000 OR Cash Shortfall > \$5,000,000	Azurix Board of Directors
≤ \$5,000,000 AND Cash Shortfall ≤ \$5,000,000	Azurix Office of the CEO, which has delegated authority for the following amounts to subsidiaries:
≥ \$5 million for performance bond exposure	Lurgi Bamag
≥ \$__ million and Cash Shortfall \$__ million	Azurix North America
≥ \$__ million and Cash Shortfall \$__ million	Azurix Industrial Operations
≥ \$__ million and Cash Shortfall \$__ million	Azurix Mexico
≥ \$__ million and Cash Shortfall \$__ million	Azurix Brazil
≥ \$__ million and Cash Shortfall \$__ million	Azurix Buenos Aires
≥ \$__ million and Cash Shortfall \$__ million	UK Services (Wessex)

RISK ASSESSMENT

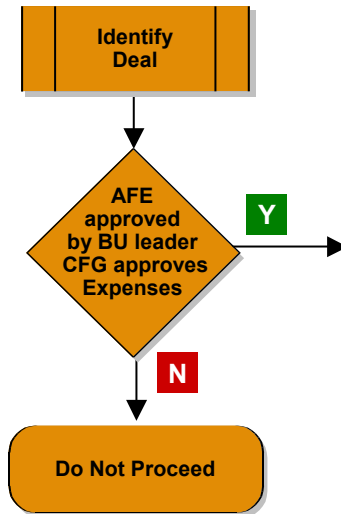
CAPITAL TRANSACTIONS (OTHER THAN EPC/SERVICE CONTRACTS)	
<i>If the Transaction Value is . . .</i>	<i>The Risk Assessment is conducted by . . .</i>
≥ \$5,000,000	Review by Enron Risk Assessment & Control (RAC)
≥ \$500,000	Internal risk assessment by Azurix analytics
EPC/SERVICE CONTRACTS	
<i>If the Transaction Value is . . .</i>	<i>The Approving Person is . . .</i>
≥ \$5,000,000 OR Cash Shortfall > \$2,500,000	Review by Enron Risk Assessment & Control (RAC)
≥ \$500,000	Internal risk assessment by Azurix analytics

AZURIX PROCESS

The following is a process flowchart of the Azurix Transaction Approval Process. Each step has been color-coded and classified into five sub-processes. Steps within each of the sub-processes are further defined in the following sections. The documentation for each stage of the required process is found below each section.



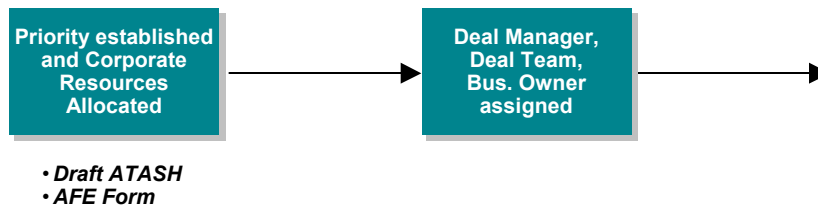
1. EXPENSES ASSOCIATED WITH TRANSACTIONS



Any transaction that requires third party expense requires an authorization for expenditure (AFE). The AFE form is a document that details by functional area (accounting, legal, engineering, etc.) the out-of-pocket costs associated with the transaction, including travel. See an example in Exhibit V.

Expenses for third-party service providers such as financial advisors, investment banks, engineering, legal, or accounting firms must be approved by the respective functional leader or designee (Exhibit II is a list of current functional leaders).

2. ACCESS TO FUNCTIONAL GROUPS



- Draft ATASH
- AFE Form

Functional Group is the name given to the group of people or person that provides transaction support for an area of expertise, such as engineering or legal. A list of the corporate functional groups and their current leader is attached as Exhibit II.

Action

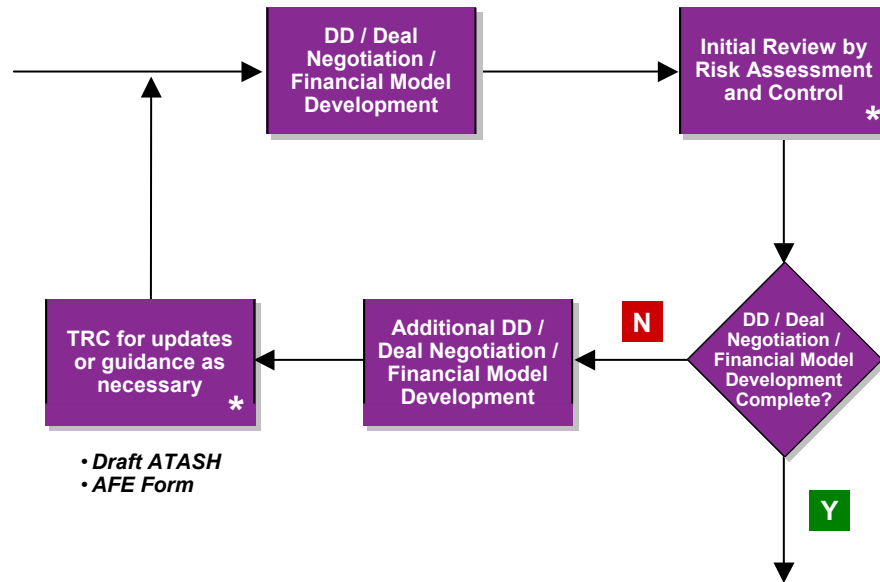
Deal Manager Assignment

Description

The TRC or Business Unit Leader (see Exhibit I for a list) will assign a Deal Manager to all corporate transactions.

The Deal Manager will sponsor the transaction through the transaction process. Assignment of the Deal Manager and any necessary functional group representative will be assigned once the Business Unit Leader has determined that the transaction is within the scope of these processes, and would need to go through TRC.

3. DAY-TO-DAY TRANSACTION MANAGEMENT



Action

Description

Due Diligence / Deal Negotiation / Financial Model Development

This process will be jointly managed by the Originator and the Deal Manager. Along with the Manager of Analytics, they will be responsible for the accuracy, integrity, and representational faithfulness of the financial model.

Risk Assessment and Control (RAC)

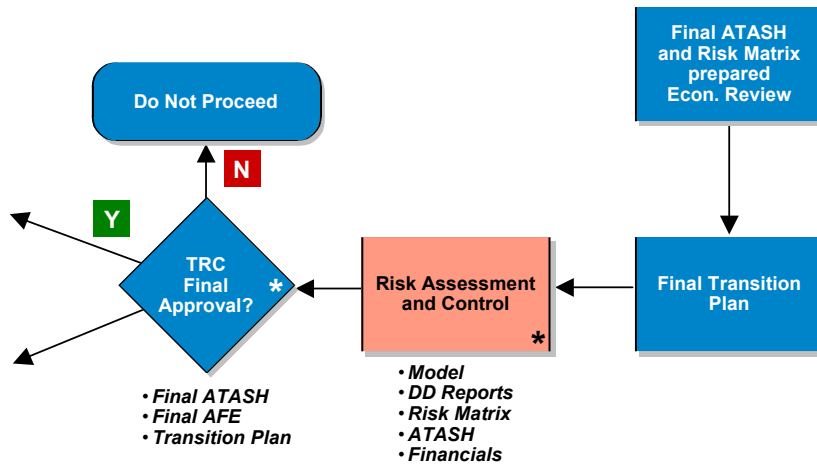
Initial assessment by Enron’s RAC department for deals that require review. **At least one week should be allocated for this process.**

TRC Updates or Guidance

Deal Teams may meet at any time during the process with the TRC for updates or guidance at either party’s discretion.

All meetings with the TRC require the submission of a Draft ATASH and a completed and updated AFE form **at least 2 business days in advance of the meeting.** Documents discussed at the meeting will be those previously submitted, not later or modified versions.

4. TRANSACTION APPROVAL



Action

Final Transaction Approval Sheet

Completion of Due Diligence and Financial Model

Risk Assessment and Control

TRC - Final Review

Board of Directors Approval

Description

The Originator and the Deal Manager are responsible for producing the ATASH, the Risk Matrix, and other required documentation, assisted by appropriate team members.

Completion of Due Diligence will be evidenced by the sign-off on the ATASH by the Business Unit Leader Originator, Deal Manager, and the Functional Groups.

The Manager of Analytics is responsible for the Enron Risk Assessment and Control (RAC) process, and will be supported in this effort by the Deal Team. Both groups must agree that a deal is ready to proceed before RAC is approached. Final RAC approval required for all applicable transactions. **At least one week should be allocated for this process.**

The Originator, Deal Manager, and Business Unit Leader prepare final documents **with all necessary signatures.**

The final approval meeting with the TRC requires the submission of the Final ATASH **with signatures** from all necessary functional groups, Final DASH from RAC, Final AFE, and Transition Plan **at least 2 business days in advance of the meeting.** Documents discussed at the meeting will be those previously submitted, not later or modified versions.

This is necessary for all transactions as described in the chart on page 2. The Deal Manager, Originator, and TRC agree on presentation requirements and timing.

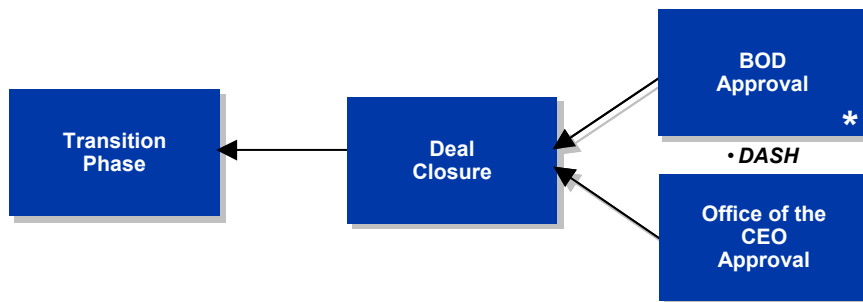
The Board of Directors meets five times per year on set dates. A special meeting of the Board, or its executive committee, may be called by the CEO; this typically requires at least **one week's** notice.

All meetings with the Board of Directors require the submission of documents to the corporate secretary **seven business days prior to the meeting**.

Deal Closure

As authorized by the TRC or the Board of Directors.

5. TRANSITION AND POST CLOSING FOLLOW-UP



*** Time deadlines must be met for this process**

Transition will be led by the Business Unit Leader and the Transition Team. The Originator and the Deal Manager will continue to be involved at the discretion of the Business Unit Leader. The transition process may not be appropriate for service or guarantee transactions, and the Deal Manager or Originator may request exemption from this requirement from the TRC.

Transition Team

When a deal is assigned a Deal Manager, the Business Unit Leader will assign a Transition Team. The Transition Team will begin to develop a plan for transition.

Final Transition Plan

Provided by the Business Unit Leader and the Transition Team. This will be a 100-day plan that will set out objectives to be met in the first 100 days.

Business Unit Leader Follow-Up

The objectives for the 100-Day Follow-Up meeting will be established based on the Transition Team's 100-day plan and the meeting date will be set at the TRC-Final Review meeting.

DEFINITIONS

Business Unit Leader — Leader of an entire business unit that is ultimately responsible for that business unit's operations and financial results. A list of current business leaders is included as Exhibit I.

Corporate Functional Group — Groups within the company as defined by specific areas of expertise, such as legal or finance. The functional group leaders (See Exhibit II for a current list), or their proxies, are responsible for the aspects of the transaction and the engagement of outside service providers falling with their specific disciplines.

Originator — Member of the business unit that is responsible for identifying and initially developing a transaction. The Originator works together with the Deal Manager to fully develop, negotiate and close transaction.

Deal Manager — Member of the Structuring and Risk analysis group that sponsors a transaction through the Azurix Transaction Process. The Deal Manager works closely with the Originator and is the main interface with the Deal Team.

Deal Team — Includes members of the corporate functional group and Deal Manager. The Deal Team is responsible for reviewing and ultimately approving the transaction as it relates to their specific disciplines.

EXHIBIT I — CURRENT BUSINESS UNIT LEADERS

Business Unit	Business Unit Leader	Approval Limit
Lurgi Bamag	Frank Stieler	\$__ million for performance bond exposure
Azurix North America	John Stokes	\$__ million
Azurix Industrial Operations	Casey Borowski	\$__ million
North American Municipal	Mike Wood	\$__ million
Azurix Mexico	John Garrison	\$__ million
Azurix Brazil	Flavio Godinho	\$__ million
Azurix Buenos Aires		\$__ million
UK Services (Wessex)	Colin Skellett	\$__ million Transaction Value

EXHIBIT II — CURRENT FUNCTIONAL GROUP LEADERS

Accounting	Kenny Bickett
Tax	David Williams
Finance	Michael Anderson
Human Resources	Arch Payne
Insurance	Bob Dillard
Analytics/Risk Assessment & Control	David Bowers
Engineering	Breff Cooling
Legal	John Ale

EXHIBIT III — TRANSACTION REVIEW COMMITTEE

Normal Meeting Time:	11:00 a.m. every Monday as required
Chairperson:	Michael Anderson
TRC Secretary:	Marsha Suggs
Committee Members:	John Garrison Colin Skellett
Requirements (as necessary):	ATASH or Draft ATASH AFE DASH Transition Plan

EXHIBIT IV — TRANSACTION APPROVAL SHEET

Date:	(today's date)
Transaction Name:	(entity name and code name)
Request:	(for AFE dollars; for final approval; general update to TRC)
Transaction Type:	(acquisition of an existing business; O&M contract; monetization)
Deal Description:	(who is the seller, what is the estimated purchase price and enterprise value; stock or asset purchase; will we have control (legal/accounting/ tax); what is the time frame; geographic location and a map if appropriate; number of personnel assumed) (brief description of the business/transaction/deal)
Risks Involved:	(the value is predicated on the occurrence or absence of what events, abilities, or circumstances)

DEAL / BUSINESS DESCRIPTION

Value Proposition:	(how does this entity create value for its customers; the value proposition to the target's customers)
Value to Buyer:	(how does creating value for its customers create value for a buyer; the value proposition for us a buyer)
Requirements of Buyer:	(what skills are required for the Value to Buyer to be realized) (what skills provide a competitive advantage to the buyer)
Source of Savings:	(for O&M contracts - where will savings come from)
Marketplace:	(what is the existing market for this activity or what is the catalyst for this deal and why hasn't it happened before)
Competitive & Comparative Advantages:	(what will enable us to make long-term above-market returns; when will these advantages cease)
Competition:	(who are they; what is their competitive position/advantage)
Regulatory Environment:	(who are the regulatory bodies and what are the potential issues)
Environmental:	(who are the regulatory bodies and what are the potential issues)
Political Environment:	(what are the political risks associated with this transaction)

- Strategic Rationale: (what are the reasons for doing this deal other than direct value)
- Capital Employed: (what is the value of all productive assets and net working capital)
- Capital at Risk: (what investment does Azurix have to make; what debt would be recourse to Azurix)
- Exit Strategy: (what is the exit strategy)
- Timetable: (expected transaction milestones (letter of intent; signing; financial close))
- Location: (in which geographic locations does the company operate and conduct business)

VALUATION

PROJECT NAME	Sources			Uses																		
		% of Capital	Debt Cost																			
New debt																						
AZX equity																						
Total	-	0%																				

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Growth										
Operating Costs										
% of Revenue										
EBITDA										
% of Revenue										
Depr. & Amort										
EBIT										
% of Revenue										
Interest										
(Gain)/ Loss on F/X Change										
Monetary Position										
Withholding Tax on Interest										
Tax on Interest Earned from Loan to Dutch BV										
Other										
EBT										
Tax										
Net Income before profit sharing										
Net Income after 5% profit sharing	-	-	-	-	-	-	-	-	-	-
Incr. Int. Charge @10% Pre-tax										
Net Income to Azurix										
EPS Acc/Dil	-	-	-	-	-	-	-	-	-	-

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Free Cash Flow											
EBIT											
-Tax on EBIT											
-Construction											
+Depreciation											
+/-Working Capital											
FCF	-	-	-	-	-	-	-	-	-	-	-

Enterprise Value	
NPV Calculation	
WACC	Unlevered FCF
Unlevered IRR:	

Return to Equity		
WACC	Ke	NPV
Levered IRR:		

Capital Cost Summary	
WACC	0.00%
Debt Ratio	0%
Ke Levered	0.00%
Ke Unlevered	0.00%
Country Risk	0%
Ke Unlevered + Country	0.00%
Ke Levered + Country Risk	0.00%

SIGNATORIES

Name	Title	Initials	Date
<i>Deal Team</i>			
	Business Owner	_____	_____
	Origination	_____	_____
	Deal Manager	_____	_____
	Engineering / Operations	_____	_____
	Tax	_____	_____
	Accounting	_____	_____
	Regulatory	_____	_____
	Legal	_____	_____
	Analysis	_____	_____
	Finance	_____	_____
	Human Resources	_____	_____
	Public Relations (for information only)	_____	_____
<i>Approving Person or Committee</i>			
John Ale	General Counsel	_____	_____
Colin Skellett	Vice Chairman, Operations	_____	_____
John Garrison	President and CEO	_____	_____
Michael Anderson	CFO	_____	_____

EXHIBIT V — AZURIX AFE REQUEST

Azurix AFE Request

AFE#: _____
 Project Name: _____
 City, State, Country: _____
 Project Start Date: _____
 Project Type: (select one below)

- Corporate Activity/Other
- Development (DV):
 - BOO
 - BOOT
 - BOT
 - MOO
 - MOM
 - DBO
 - OM
- IT:
 - IT Infrastructure
 - E-Commerce
- M&A

- Sector/Classification:
- Industrial-North America
 - Industrial-Other
 - Municipal-North America
 - Municipal-Other
 - Muni-Resource
 - E-Commerce
 - E-Commerce-North America
 - Corporate Activity/Other
 - IT
 - Transition

Expenditure Types	Total Approved AFE To Date	Expenditures/Accruals To Date	Available Balance To Date	Proposed AFE Increase	Total Proposed Revised Budget To Date
Accounting Due Diligence	\$	\$		\$	\$
Development Engineering-Affiliates					
Development Engineering-External					
Environmental/H&S					
Financial Advisors					
Legal Fees					
Public Relations - External					
Prof Consultants & Contractors (not included above)					
Travel (for all Azurix staff)					
Travel Meals & Entertainment (for all Azurix staff)					
Mech/Elec/Instrumentation - IT					
Permits, Licenses & Fees - IT					
Telecom Expense - IT					
Total	\$	\$	\$	\$	\$

AFE Approval:

Originator: _____ / _____ / _____
Name Signature Date

Deal Manager: _____ / _____ / _____
Name Signature Date

Business Unit Leader: _____ / _____ / _____
Name Signature Date

Accounting Approval: _____ / _____ / _____
Name Signature Date

TRC Approval: _____ / _____ / _____
(if necessary) Name Signature Date

Approved this request

AFE Expiration Date _____

***This form must be submitted with an adequate project description so the proper accounting treatment may be determined.

EXHIBIT VI — AMENDED AND RESTATED AZURIX CORP. TRANSACTION AND GUARANTEE APPROVAL PROCESS (ADOPTED ON MAY 1, 2000)

- 1. Subject Transactions.** This Transaction and Guarantee Approval Transaction governs any transaction or related series of transactions to which the Company or any Subsidiary (as that term and other capitalized terms are defined in Attachment 1 [The scope paragraph of “The Azurix Transaction Process”]) is a party if the transaction has one or more of the following features and has a Transaction Value of \$500,000 or more:
 - any commitment by the Company or any Subsidiary (a) to acquire capital assets from or to sell capital assets to someone other than a Predominantly Owned Subsidiary or (b) to make capital improvements
 - an arrangement by which the Company or any Subsidiary lends money to or borrows money from someone other than a Predominantly Owned Subsidiary an arrangement by the Company or any Subsidiary to operate the assets or the business of, or otherwise provide services to, someone other than a Predominantly Owned Subsidiary

This Process does not apply to the following, although the following may otherwise require approval of the Board of Directors or in accordance with policies adopted by the Board of Directors:

- sales of water and wastewater services by regulated water and wastewater service providers
- transactions involving Wessex to the extent described in paragraph 9 below
- dispositions of other assets in the ordinary course of business
- engagement of professional advisers and consultants

Any transaction or related series of transactions subject to this Process is called a "Subject Transaction." Guarantees by the Company of the obligations of any other person, including a Subsidiary (each a "Guarantee"), are governed by the provisions of paragraph 7 below.

- 2. Initial Evaluation.** Each Subject Transaction shall be evaluated by appropriate functions within the Company or the applicable Subsidiary or business unit, which must include in all cases at least Finance, Tax, Legal, Accounting, Commercial and, where applicable, Engineering.
- 3. Risk Assessment and Control.** As part of the approval process, each Subject Transaction must be reviewed by risk assessment and control personnel at the Company or one of its Subsidiaries before presentation to the Approving Person (as identified in paragraph 4 below). Each Subject Transaction with a Transaction Value of \$5,000,000 or more must be submitted to the Risk Assessment and Control Group at Enron Corp.
- 4. Presentation/Transaction Approval Sheet.** The commercial officer of the Company or its Subsidiary coordinating the project shall submit to the Approving Person an Azurix Transaction Approval Sheet in the form attached as Attachment 2 [Exhibit IV to “The Azurix Transaction Process”], which may be modified to accommodate particular business lines. The Azurix Transaction Approval Sheet must be signed by the individuals required and, if required by paragraph 3 above, have attached to it the analysis of the Risk Assessment and Control Group at Enron Corp. Before any Subject Transaction requiring approval of the Board of Directors is presented to the Board of Directors, that Subject Transaction must be approved and recommended by the Office of the CEO.

5. **Limit.** The grant of authority to the Office of the CEO is limited to Subject Transactions occurring on or after May 1, 2000, having Transaction Values in the aggregate not to exceed \$50,000,000. The Board of Directors may add to this amount at any time.
6. **Partially Owned Subsidiaries.** In approving Subject Transactions for Subsidiaries, each Approving Person shall take into account duties (if any) owed to other equity owners (if any) in the Subsidiary.
7. **Guarantees.** Guarantees by the Company may be approved by the Approving Person identified on Attachment 1.
8. **Delegation and Procedures.** The Approving Person may delegate some or all of that person's authority under this Process and establish procedures for any such approval, but that person remains ultimately responsible for the approval. It is anticipated that the Office of the CEO will delegate its authority up to specified levels or for specified kinds of transactions to the boards of directors or chief officers of Subsidiaries and business units, and that the CFO may delegate authority up to specified levels to other persons in the Finance group.
9. **Wessex.** The Board of Directors and the management of the Company will oversee transactions principally in or to support Wessex's regulated water and wastewater services business through the ability to designate the members of Wessex's board of directors and through oversight of budgets. Thus, for example, a transaction to implement to fund capital programs to support Wessex's regulated business is not subject to this Process, although any guarantee of Wessex's debt would be subject to the provisions of paragraph 7 above. Transactions principally outside Wessex's regulated water and wastewater service business are subject to this Process.
10. **Authorization.** If a Subject Transaction or a Guarantee by the Company is approved in accordance with the foregoing procedures, then the officers and directors of the Company shall be authorized to enter into, and to cause the Company and the appropriate Subsidiaries to enter into, the Subject Transaction and/or Guarantee, and to cause the Company and each Subsidiary that otherwise must approve the action of each of that entity's subsidiaries to approve that entity's entry into the Subject Transaction, all subject to such terms and conditions consistent with the Azurix Transaction Approval Sheet as approved as the those directors and officers may deem necessary or appropriate.
11. **Definitions.** As used in this Transaction and Guarantee Approval Process, the following terms have the following meanings:

<i>Approving Person</i>	person or group identified on Exhibit I as the Approving Person for the Subject Transaction or Guarantee
<i>Board of Directors</i>	Board of Directors of the Company or its Executive Committee
<i>CFO</i>	Chief Financial Officer of the Company or, if there is none, its Managing Director, Finance, and any delegee of the CFO's authority in accordance with paragraph 8 above
<i>Company</i>	Azurix Corp.
<i>Office of the CEO</i>	any individual named to the Office of the CEO acting on behalf of the Office of the CEO, and any delegee of this authority in accordance with paragraph 8 above

<i>Predominantly Owned Subsidiary</i>	a Subsidiary in which the Company directly or indirectly owns an equity interest of 75% or more
<i>Subsidiary</i>	any person or entity in which the Company directly or indirectly owns an equity interest of more than 50% or for which the Company has the practical ability to direct its operations or affairs
<i>Wessex</i>	Wessex Water Ltd and its subsidiaries