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BERNARD SANDERS, VERMONT,
 INDEPENDENT

January 11, 2002

The Honorable Paul H. O'Neill
 Secretary of the Treasury
 15th St. & Pennsylvania Ave., NW
 Washington, DC 20220

The Honorable Donald L. Evans
 Secretary of Commerce
 14th St. & Constitution Ave., NW
 Washington, DC 20230

Dear Secretary O'Neill and Secretary Evans:

I am writing to request information about your communications with Enron Chairman Kenneth L. Lay and possibly other Enron officials or representatives prior to the company's bankruptcy filing. The purpose of the request is to determine why the Administration apparently did nothing to mitigate the harm of the Enron bankruptcy to thousands of its employees and shareholders. I am also interested in knowing why it has taken so long to learn that two Cabinet Secretaries had early warning of Enron's impending bankruptcy.

News accounts of January 11, 2002, indicate that Secretary O'Neill received calls from Mr. Lay on October 28 and November 8.¹ In one or both of these calls, Mr. Lay reportedly informed Secretary O'Neill that he was concerned that Enron might not be able to meet its financial obligations and that the results could be similar to those that occurred when Long-Term Capital Management went bankrupt. Mr. Lay reportedly also had a conversation on October 29 with Secretary Evans. In this conversation, Mr. Lay apparently stated "that he was having problems with his bond rating and he was worried about its impact on the energy sector," and

¹Enron Asked for Help from Cabinet Officials, Washington Post (Jan. 11, 2002); Enron Contacted 2 Cabinet Officers before Collapsing, N.Y. Times (Jan. 11, 2002).

The Honorable Paul H. O'Neill
The Honorable Donald L. Evans
January 11, 2002
Page 2

that "he would welcome any support the Secretary thinks appropriate."² In addition, Enron President Lawrence "Greg" Whalley reportedly telephoned the Treasury Undersecretary for domestic finance, Peter Fisher, six or eight times in late October and early November.³

White House Press Secretary Ari Fleischer stated that as a result of your conversations with Mr. Lay, Secretary O'Neill asked Undersecretary Fisher to explore whether the "financial condition of Enron could have similar implications as Long Term Capital."⁴ According to Mr. Fleischer, you decided to do nothing.⁵ Mr. Fleischer stated:

[T]he government...took a look at this from a substantive matter, from when Mr. Lay made those phone calls, and decided the appropriate step was not to intervene or take any action....This was done based on judgment of the Cabinet Secretaries and the merits, and they decided properly and wisely so, in the President's opinion, that the government should not have intervened in any way after Mr. Lay made the phone call to Secretary Evans.⁶

On December 2, Enron filed for bankruptcy. Approximately 4,000 Enron employees have been laid off, and an additional 3,500 have been placed on leave.⁷ Many Enron employees have lost virtually their entire retirement accounts, which were heavily tied up in Enron stock. Numerous other investors, including many retirement plans around the country, have lost millions of dollars.

Mr. Lay's discussions with the two of you took place squarely within a lock-down period, when an estimated 12,000 participants in Enron's 401(k) plan were prevented from accessing

²*Enron's Lay Sought Cabinet Officials' Help*, Wall Street Journal (Jan. 11, 2002); *Enron Chairman Warned Bush Officials on Collapse*, N.Y. Times (Jan. 10, 2002).

³*Enron Asked Treasury for Credit Aid*, Associated Press (Jan. 11, 2002).

⁴White House Press Briefing (Jan. 10, 2002).

⁵*Id.*

⁶*Id.*

⁷*Labor Opens ERISA Investigation of Enron Assistance to Dislocated Workers*, U.S. News and World Report (Dec. 5, 2001).

The Honorable Paul H. O'Neill
The Honorable Donald L. Evans
January 11, 2002
Page 3

their retirement accounts and selling their plummeting Enron stock.⁸ If Mr. Fleischer's representations are accurate, it would appear that no one in the Bush Administration acted on the knowledge of Enron's rapidly declining financial condition to help employees whose retirement plan collectively lost an estimated \$1 billion.⁹ The life savings of many Enron employees simply evaporated during this period. Moreover, based on the scant information that this Administration has provided to date, it appears that no one bothered even to ask whether any remedies, administrative or legislative, were available to help the Enron employees frozen out of their retirement accounts.

In fact, some senior Administration officials have publicly expressed surprising indifference to the fate of Enron employees and shareholders. Secretary O'Neill stated this morning that "while Enron may be important, . . . in the world that I live in, with hundreds of other things going on, this is just another piece of business."¹⁰ The President's chief economic advisor, Larry Lindsey, called the Enron debacle a "tribute to American capitalism."¹¹

In addition, accounts of your early conversations with Mr. Lay raise concerns about whether advance notice of Enron's desperate financial condition was taken into account as the Administration formulated positions on important matters of public policy. For example, throughout the month of November, you continued to advocate for retroactive repeal of the alternative minimum tax.¹² This legislation would have had dramatic implications for Enron, as it would have given the company a government-funded infusion of \$254 million.¹³

Given the magnitude of the financial harm caused by Enron's collapse, and the close ties

⁸*Fair Shares? Why Company Stock is a Burden for Many*, Wall Street Journal (Nov. 27, 2001).

⁹*See Enron Employees Enraged Over Losses*, Business Insurance (Dec. 10, 2001).

¹⁰Transcript of Good Morning America (Jan. 11, 2002).

¹¹*Interview with Lawrence Lindsey*, Fox News Sunday Roundtable (Jan. 6, 2002).

¹²*See Deal Breaker*, New Republic (Nov. 29, 2001); *U.S. Panel Says that Recession Officially Began in March*, Business Day (Nov. 28, 2001); *Economic Aid Stalled Amid Recession*, Newsday (Nov. 27, 2001); U.S. Department of the Treasury, *O'Neill Urges Senate to Act Quickly on a Bipartisan Economic Stimulus Bill* (Nov. 8, 2001) (press release).

¹³Citizens for Tax Justice, *House GOP "Stimulus" Bill Offers 16 Large, Low-Tax Corporations \$7.4 Billion in Instant Tax Rebates* (Oct. 16, 2001, updated Oct. 26, 2001).

The Honorable Paul H. O'Neill
The Honorable Donald L. Evans
January 11, 2002
Page 4

between the company and the Bush Administration, the public deserves to know what Administration officials knew and when they knew it about the situation of Enron and its employees. Therefore, I request that the two of you individually respond to the following questions:

- (1) Please provide details regarding your conversations with Mr. Lay of October 28, October 29, and November 8. Please provide any written or electronic materials held by your Department that relate to this question.
- (2) Please provide details regarding Undersecretary Fisher's conversations with Mr. Whalley in October and November. Please provide any written or electronic materials held by your Department that relate to this question.
- (3) Did you, any other person in your Department, or to your knowledge any other official in the Administration have any other communications with Mr. Lay or any other Enron officials or representatives in 2001, beyond those referred to in questions 1 and 2? If so, please provide names, dates, form of communication, and information exchanged or matters discussed.
- (4) Upon receiving the information regarding Enron's financial situation in October, did you convey information about Enron's financial condition to any person, apart from Undersecretary Fisher? If so, please provide the names, dates, form of communication, and the information exchanged, including copies of any written or electronic materials.
- (5) Did you, any other person in your Department, or to your knowledge any other official in the Administration convey this information to any person within the Vice President's office or any of the advisors to the President? If so, please provide the names, dates, form of communication, and the information exchanged, including copies of any written or electronic materials.
- (6) Please provide details about Undersecretary Fisher's review. For example, over what time period did Undersecretary Fisher explore the financial implications of a potential Enron bankruptcy? What was the scope of the exploration? Did the Department of the Treasury or the Department of Commerce examine the impact of Enron's potential bankruptcy on the employees of the corporation? On the shareholders of the corporation? On other creditors of the corporation? What were your respective departments' conclusions regarding the impacts of an Enron bankruptcy on each of these groups? On the energy sector? On the financial sector? On the economy at large? Please provide any written or electronic materials held by your respective departments that relate to any of these questions.

The Honorable Paul H. O'Neill
The Honorable Donald L. Evans
January 11, 2002
Page 5

- (7) How did Undersecretary Fisher conduct this investigation? Did he or his staff communicate with any Enron officials or representatives? If so, please indicate names, dates, form of communications, and information exchanged. Did he or his staff communicate with Enron's auditors or any financial backers? Did he or his staff communicate with any financial experts outside of the Commerce or Treasury Departments? Did he or his staff communicate with any others within the Administration? Please provide any written or electronic materials held by your respective departments that relate to any of these questions.
- (8) At the time that you decided to take no action, had you considered the potential impacts of an Enron bankruptcy on its employees? Did you make any attempt to obtain information about the impact of such a bankruptcy on the employees?
- (9) The Bush Administration continued to advocate for retroactive repeal of the corporate alternative minimum tax throughout the month of November, when repeal could have had a significant impact on Enron's financial situation. Did any Enron official or representative ask you, any other person in your Department, or to your knowledge any other official in the Administration, to support this legislation? Were you aware that Enron favored adoption of this legislation?
- (10) Why did it take so long for the public to learn about your contacts with Enron prior to its bankruptcy filing?

I want to make clear that I believe it is inappropriate to make any ethical allegations against you or any other Administration official at this time. I think it is essential, however, that these questions be answered so that there is a clear public accounting of this matter. We all owe that to the thousands of families that are facing financial ruin from the Enron bankruptcy, and I hope that it will be possible for you to provide the answers I'm seeking by January 18, 2002.

Sincerely,



Henry A. Waxman
Ranking Minority Member

FAX COVER**COMMITTEE ON GOVERNMENT REFORM****DEMOCRATIC STAFF OFFICE****HON. HENRY A. WAXMAN**

RANKING MINORITY MEMBER

B350A RAYBURN HOUSE BUILDING

PHONE (202) 225-5051

FAX (202) 225-4784, 8185

DATE: January 11, 2002TO: Secretary Paul H. O'NeillFAX: (202) 622 - 0073FROM: Rep. Henry A. Waxman

SUBJECT: _____

NO. OF PAGES: 6
(INCLUDING COVER SHEET)

COMMENT:

IF THERE IS A PROBLEM WITH THIS
TRANSMITTAL, PLEASE CALL OFFICE A.S.A.P.

Harvey, Reavie

From: Jude Wanniski [jwanniski@polyconomics.com]
Sent: Sunday, January 13, 2002 12:35 PM
To: Tim.Adams@do.treas.gov
Cc: reavie.harvey@do.treas.gov
Subject: enron

Sensational piece in the NYT magazine... topped off by a terrific appearance on Sunday. Tell O'Neill my only concern is the corporate tax-rebate element in the stimulus bill... which had megabucks for Enron. If it came from the White House folks, ie Lindsey, it will be a problem. I assume if it had passed last year, Enron could have collateralized it and stayed alive.

Here is a note I sent to Pat Buchanan on his Meet the Press appearance with Nader. Please show it to the Secretary. The only point in his interview that I questioned was the report that 72% of the people think the economy will improve this year. It won't, but the American people are reflecting what they are being told by the administration and Lindsey's "textbook" economics. Deflation grinds away and Greenspan remains in denial.

>Date: Sun, 13 Jan 2002 12:12:06 -0500

>To: Pat Buchanan

>From: Jude Wanniski <jwanniski@polyconomics.com>

>Subject: nader is right

>

>Dear Pat.... A good show with Nader on Meet the Press. But....

>

>You would have gotten a lot more votes in 2000 if you had Nader's position on how to keep America a "western nation." Change our foreign policy and export growth instead of the IMF/World Bank poison!! "Foreigners" would rather stay home than come here to make a living. There is no single thing we could do right now to make that happen than a restoration of the dollar/gold link. When the dollar was as good as gold, the rest of the world could link to it and grow around a stable unit of account. Under Bretton Woods, there were no "IMF loans" to desperately poor third-world nations. The IMF role was to monitor the BW system and provide short-term help to countries trying to avoid devaluation from the \$35 central gold link. Private banks arranged the third world loans and did a good business when they got paid back. After 1971, with the floating dollar, growth stopped in the third world and the banks would up with bad loans. The IMF was then given the job of "collecting," which meant getting the hard money out of the US taxpayers and "giving" it to the bankrupt country, which of course never saw the money. It went to the banks to clear up the bad loans. It was a corrupt system from the start and has become totally corrupt by now. You know all this, but you still approach the problem with rhetoric that you should know by now does not fly with the American people. Put up big fences to keep them out. On this, Nader is right, although I have not heard him express himself this way in his campaigns. He hasn't taken on the IMF, has he?

>

>Jude

>

>PS When are you going to start jumping on the monetary deflation? A recognition of it is the path to a gold standard, which solves the problem that you and Nader and I all worry about, for our different reasons.

>

>

McInerney, Roberta

From: Carleton, Norman
Sent: Thursday, November 29, 2001 6:09 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses bankruptcy netting issues)

November 29, 2001

IN THE MONEY: Enron's Derivatives Could Test Courts

By CAROL S. REMOND and PHYLLIS PLITCH

A Dow Jones Newswires Column

NEW YORK -- Prepare for the largest test in bankruptcy history of safe harbors designed to protect the liquidity of the nations' financial system.

Enron Corp.'s (ENE) much-anticipated bankruptcy filing, if it indeed comes, is certain to be precedent setting. First, in terms of sheer magnitude, we're talking about \$62 billion in assets. But also because it's likely to involve hundreds, if not thousands, of counterparties intertwined with **Enron** in various financial and energy derivative transactions.

Unlike other creditors whose claims will be stayed under U.S. bankruptcy laws, those counterparties will vie to unwind their trades, may they be "power forwards" or credit derivative contracts, in order to find more worthy hedging partners.

Built in the bankruptcy code are exemptions for securities or commodities contracts. These safe harbors were developed over the years as a sort of security blanket for the vital hedging functions that these transactions provide.

"These special rules are designed to avoid a domino effect," said a bankruptcy lawyer, who like many contacted for this column, declined to be identified given the likelihood that he'll end up representing one or many parties involved in **Enron's** expected Chapter 11 filing.

Counterparties claiming redress through these exemptions should be able to net out their various derivative contracts with **Enron**, attempting to use whatever collateral was pledged under those transactions to quantify how much money they owe to or are owed by **Enron**. All of that is normally done on the side, without prior bankruptcy court approval.

The problem is that **Enron** will likely question attempts to unwind those trades and take issue with the manner in which its counterparties netted their exposure to the company, observers say.

Given the large number of parties involved and the magnitude of **Enron's** recent losses, the treatment of derivative contracts could be further complicated by the market's lack of understanding of just how much value is left in **Enron's** assets. That's an issue that will permeate the proceedings with all of **Enron's** stunned creditors. On top of its derivative exposure, **Enron** is on the hook for roughly \$13 billion in debt.

As part of its energy trading operations, **Enron** was a party to billions of dollars of derivative contracts designed

to enable the company and its trading partners to hedge, among other things, against rapidly fluctuating energy prices and foreign exchange volatility - stabilizing otherwise uncertain markets. By its own account, as of December 2000, **Enron** was involved in roughly \$20 billion of derivative contracts on which it owed its counterparties. More recent numbers aren't available.

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although **Enron** has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue **Enron** all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. **Enron** shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, **Enron** is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although **Enron** and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that **Enron's** fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that **Enron's** business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of **Enron's** derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by **Enron** on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of **Enron** took a nose dive after Dynegy rescinded its merger offer, with trading levels

indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to **Enron**.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

McInerney, Roberta

From: Carleton, Norman
Sent: Thursday, November 29, 2001 6:13 PM
To: Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Cetina, Jill; Eichner, Matthew; Hammer, Viva; Lori Sanatamorenna (E-mail); Novey, Michael; Pietrangeli, Fred; Sharer, James; Whaley, Jean; Wiedman, Mark
Subject: DJ: IN THE MONEY-2:Collateral Key To Counterparties Recovery

November 29, 2001

IN THE MONEY-2:Collateral Key To Counterparties Recovery

Dow Jones Newswires

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-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

McInerney, Roberta

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To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: Enron's Financial Woes Ripple Out Across Asia

November 30, 2001

Major Business News

Enron's Financial Woes Ripple Out Across Asia

By JASON BOOTH, HENNY SENDER and RICHARD B. SCHMITT

Staff Reporters of THE WALL STREET JOURNAL

The sudden deep financial troubles of U.S. energy giant **Enron Corp.** sent ripples of concern across Asia, damaging investments in Japan and potentially undermining businesses in South Korea and Australia.

The uncertainty for Asia is likely just beginning. If **Enron** files for protection under Chapter 11 of the federal Bankruptcy Code in the U.S., as many investors and financial experts now expect, it is likely to be one of the messiest, most complex bankruptcy cases ever, lawyers say. That is because of the multifaceted nature of Enron's once highflying operations, which combined a global energy business with a massive financial-trading operation involving tens of billions of dollars in complex contracts. A filing by **Enron**, with about \$13 billion in debt, would rank among the largest bankruptcy filings ever. **Enron** has about 800 trading partners or creditors.

The scale of the **Enron** collapse is huge, experts say. "There is nothing to compare it to," said Edward Tillinghast, a bankruptcy specialist with Coudert Brothers in New York. "The business was so large. There were so many different kinds of operating entities under the **Enron** umbrella."

On Wednesday, as the last-ditch merger with Dynegy Inc. unraveled, the company's credit was downgraded to "junk" status by rating agency Standard & Poor's Corp. The stock market, signaling that a bankruptcy filing is expected, hammered **Enron** stock, which was halted for a time on Wednesday, and knocked lower some of its financial backers' shares. **Enron** shares closed at 4 p.m. in New York Stock Exchange composite trading at 61 cents, down \$3.50, or 85%. Thursday morning in New York, **Enron** was trading down 33%, or 20 cents, to 41 cents. On Wednesday, **Enron** bonds also fell sharply, dropping to 50 cents on the dollar from around 55 cents, reflecting concerns over

how much creditors might receive if the company does seek bankruptcy-court protection.

Enron spokeswoman Karen Denne said the company is exploring its options and wouldn't comment on whether it has retained bankruptcy counsel.

The fallout in Asia was felt immediately on Thursday. The biggest news was in Sydney, where **Enron** Australia said it was suspending operations pending further developments regarding its U.S. parent. "We are now waiting for clarification about Enron's situation globally and will advise the local market once we have received that advice," legal counsel Rob McGrory said.

The announcement followed a warning by Standard & Poor's about counterparty exposure in the Australian electricity market, citing the overnight downgrade of **Enron**. "The recent developments with **Enron** serve as a further example of the credit risks faced by energy market participants as they seek to manage their market risks in Australia's volatile power market," said Laurie Conheady, an associate director at Standard & Poor's.

Similarly, Enron's presence in South Korea appears to be nearing an end. According to officials at SK Corp., **Enron** plans to sell its 50% stake in joint venture energy distribution firm SK-Enron Co. SK-Enron was formed in 1999, and controls about 25% of South Korea's natural-gas market, according to the firm's Web site.

Analysts said that **Enron** had offered to sell its stake to SK Corp., yet the Korean partner said it has no plans to buy the shares. "We already hold 50% ... we don't need the rest," said a company spokesman, Daniel Youn.

Enron was also considered a potential buyer of power generation assets from South Korean government-controlled Korea Electric Power Corp. Kepco is looking to sell assets as part of a wider privatization drive.

Pressure elsewhere in the region was felt primarily in the financial markets. In Tokyo, the value of money management funds Nikko Asset Management Co., UFJ Partners Asset Management Co., Japan Investment Trust Management Co. and Sumisei Global Investment Trust Management Co., fell due to their exposure to **Enron** debt, which amounted to about 40 billion yen (\$324.9 million). **Enron** news also sparked volatility in the copper and U.S. dollar market, according to traders.

Other financial backers of **Enron** were negatively effected as well. J.P. Morgan Chase and Citigroup, which have invested hundreds of millions of dollars in hopes of keeping the Enron-Dynegy deal alive, saw their stocks fall on Wednesday trading in the U.S. On Thursday morning Citigroup shares posted slight gains, rising 19 cents to \$47.99, while J.P. Morgan Chase shares were flat at \$37.50. J.P. Morgan Chase said in a statement it has about \$500 million of unsecured exposure to **Enron** entities, including loans, letters of credit and derivatives. It said it also has secured exposures, including \$400 million in loans secured by **Enron** pipelines.

Besides banks and bondholders, dozens of companies, municipalities and utilities in the U.S. that had signed multiyear power contracts with **Enron** may be left in the lurch. Over the years, the likes of retailer J.C. Penney Co., and shopping-mall company Simon Property Group signed on with **Enron**, as it undercut local utilities in newly deregulated markets.

— *Rebecca Smith and Robin Sidel contributed to this article.*

Write to Jason Booth at jason.booth@awsj.com <<mailto:jason.booth@awsj.com>>, Henny Sender at henny.sender@wsj.com <<mailto:henny.sender@wsj.com>> and Richard B. Schmitt at

rick.schmitt@wsj.com <<mailto:rick.schmitt@wsj.com>>.

McInerney, Roberta

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:10 AM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: DEC 13 ABI Website -- More on Enron and Bankruptcy

Enron Update

House Panel Vows Comprehensive Enron Investigation

House Financial Services Committee members yesterday plunged into what they pledged would be a comprehensive investigation into the collapse of Enron Corp., a task made more difficult by Enron Corp. CEO Kenneth Lay's failure to appear before the panel as a witness, *CongressDaily* reported. Lay sent the committee a letter on Tuesday, explaining that he would be unable to attend the hearing because he was scheduled to participate in bankruptcy proceedings. Financial Services Capital Markets Subcommittee Chairman Richard Baker (R-La.) said the committee would continue its investigation in "late January, possibly early February." And, he added, "Our task is to establish the facts, change the rules where needed and assist the SEC in pursuit of those who have violated the law."

Several lawmakers on both sides of the aisle also used Enron's demise as an opportunity to renew their calls for the passage of a financial "netting" bill, provisions of which are included in the bankruptcy reform bill. Financial Services Committee Chairman Michael Oxley (R-Ohio) and ranking member John LaFalce (D-N.Y.) agreed that Enron's collapse underscores the urgent need for passage of provisions designed to strengthen and update current statutory protections for netting financial market contracts if a party defaults. Netting refers to the practice where the amounts due between financial institutions in the event of a default are quickly calculated as one net amount, helping reduce risk. The netting language is one of the few consensus items included in comprehensive bankruptcy reform legislation that "is destined to go down to defeat," LaFalce asserted. "[Netting] is not a new issue," he fumed. "We need to extract [those] provisions and simply pass them independently."

Auditor Hints of 'Illegal Acts' at Enron

Enron Corp.'s outside auditor said yesterday "illegal acts" may have been committed at the energy-trading company before it sought bankruptcy protection last week, *The Washington Post* reported. The chief executive of Arthur Andersen, the accounting firm that approved years of financial statements that overstated Enron's profits and understated its debts, also said Andersen made "an error in judgment" that accounted for \$103 million in overstated profits.

While Joseph F. Berardino testified yesterday on Capitol Hill, giving Andersen's first substantive explanation of why it certified Enron's reports, top Enron officers detailed a reorganization strategy for creditors at a meeting in New York. And former Enron chief financial officer Andrew Fastow, after failing to honor a Securities and Exchange Commission subpoena, surfaced at a news conference to dispel speculation that he had fled the country. In addition to Congress and the SEC, the Justice and Labor departments are investigating Enron's collapse. More congressional hearings are expected next month. To read the entire story, point your browser to <http://www.washingtonpost.com/wp-dyn/articles/A34904-2001Dec12.html>.

Enron Seeks \$6 Billion From Asset Sales

Bankrupt Enron Corp. yesterday announced that it may sell its key energy trading unit and plans to raise up to \$6 billion by selling other assets, Reuters reported. Chief Financial Officer Jeff McMahon said that Enron plans to sell its troubled Azurix Corp. water unit, businesses in emerging markets and wind energy assets. It plans to retain its exploration and production unit, wholesale and retail services and regulated businesses. McMahon said Enron has about \$13 billion in unsecured bank debt and an additional \$2 billion in secured bank debt. Enron plans to raise between \$4 billion to \$6 billion with the noncore asset sale.

Dynegy Suit to Gain Enron Pipeline Moved to Federal Court

Dynegy Inc.'s lawsuit to secure ownership of an Enron Corp. pipeline company has been transferred to the Federal District Court in Houston, Dow Jones reported. The state District Court of Harris County, Texas, where Dynegy originally filed the suit, transferred the case on Tuesday. Enron asked that the suit be moved to federal court to determine whether it should be heard by the federal bankruptcy court in New York, as Enron's lawyers have argued, or in state court, as Dynegy prefers. Dynegy plans to seek to move the case back to state court.

Dynegy filed suit against two Enron subsidiaries on Dec. 3 in the state court seeking control of the Enron Northern Natural Gas Co. Dynegy based its claim to Northern Natural on an option it secured from Enron in exchange for a \$1.5 billion cash infusion. The option allowed Dynegy to acquire complete control of Northern Natural in the event Dynegy's offer to acquire Enron fell through. Dynegy terminated its acquisition offer last month and told Enron it was exercising its option to buy Northern Natural. Enron is contesting Dynegy's claim and has sued its one-time suitor for \$10 billion for wrongfully terminating its acquisition offer.

Enron Objection Deadline Extended to Dec. 18

Enron announced that it has moved the date of its next bankruptcy hearing, originally scheduled for tomorrow, to Dec. 20. Enron representatives weren't immediately available to provide the reason for the rescheduling. Enron said the hearing is designed to give adequate assurance to utility companies providing services to Enron and its debtor subsidiaries. In connection with the rescheduled hearing, Enron has extended the objection deadline to Dec. 18.

McInerney, Roberta

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Subject: Enron -- ABI Website Dec. 12

Enron Update

U.S. Congress to Hold First Hearing on Enron Bankruptcy Today

The first congressional hearing into the collapse of Enron Corp. gets underway today with testimony from auditors of the former energy trading giant but not the top executive of the embattled Houston-based company, Reuters reported. Enron chief executive Kenneth Lay declined an invitation to testify before the House Financial Services Committee. "We're disappointed," panel chairman and Rep. Michael Oxley (R-Ohio) said. "But this is [just] the first in a series of hearings and investigations that the committee will be conducting."

Arthur Andersen CEO Joseph Berardino will face questions about when Enron's auditors first realized there were problems with Enron's accounts. SEC Chairman Harvey Pitt, who has promised a thorough but quick probe of Enron, also declined an invitation to appear at today's hearing. Instead, SEC Chief Accountant Robert Herdman will testify. Also set to testify at the hearing is Richard Trumka, secretary-treasurer of the AFL-CIO. Oxley has said any further Financial Services committee hearings on Enron after Wednesday will not occur until 2002.

Congress Demands Records, Briefing From Enron

A congressional committee yesterday demanded that Enron Corp. hand over financial records and meet with committee staff within 10 days, according to Reuters. The House Energy and Commerce Committee called on Enron to turn over documents relevant to the committee's investigation into the company's collapse, said committee Chairman Rep. Billy Tauzin (R-La.) and Rep. James Greenwood (R-Pa). In letters sent this week to Enron Chairman Kenneth Lay, and Andrew Fastow, the company's former chief financial officer, Tauzin and Greenwood also requested staff interviews with both current and former senior Enron employees as well as members of Enron's audit and compliance committee by Dec. 21.

In their letters, Tauzin and Greenwood requested that a mountain of documents be turned over to the committee by Dec. 17. The request listed 43 separate aspects of the Enron case in which the committee has interest, including: earnings restatement decisions, financial ties among Enron officers and outside partnerships they were involved with, minutes from board and audit committee meetings from 1997 to present and correspondence between Enron auditor Arthur Andersen and the company.

J.P. Morgan Sues Enron for \$2.1 Billion

J.P. Morgan Chase & Co., one of Enron Corp.'s biggest creditors, yesterday sued the troubled energy trader for more than \$2.1 billion, Reuters reported. The New York-based bank claimed in a suit filed in the U.S. Bankruptcy Court in New York on behalf of itself and related parties that it has rights to Enron assets such as accounts receivable, commercial paper, cash, and other property, which allegedly are not protected in Enron's bankruptcy proceedings.

Enron holds the assets in dispute only as a servicer for the alleged owners, under two accounts

receivables deals, the suit claims. The assets are not property of Enron because they were sold before Enron's Dec. 2 bankruptcy filing. J.P. Morgan acted as an agent in two credit facilities whose proceeds helped fund two accounts receivables transactions between Enron and Sequoia Financial Assets, a special purpose, bankruptcy-related entity, the suit said. Sequoia allegedly bought the receivables from Enron and reinvested the money collected on the bills in short-term paper issued by Enron and its Enron North America unit.

Dynegy Files Motion to Dismiss Or Transfer Enron Case

Dynegy Inc. filed a motion on Monday asking the federal bankruptcy court in the Southern District of New York to dismiss Enron's \$10 billion breach-of-contract lawsuit against Dynegy, or, to transfer the case to Houston, Dow Jones reported. Enron's claims against its former merger partner "in no way relate to federal bankruptcy law or the administration of these chapter 11 cases," according to the filing.

Dynegy asked the New York bankruptcy court to abstain from hearing Enron's suit against Dynegy, which allegedly involves state rather than federal breach-of-contract claims. Alternatively, the case should take place in Texas - where Enron and most of its units are based - instead of New York, where the "only link to the dispute is ... hung upon the gossamer thread of the location of (Enron's) subsidiary Enron Metals and Commodity Inc."

McInerney, Roberta

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Subject: Enron -- Dec. 11 ABI Website

Enron Bankruptcy Update

Enron Japan, Affiliates Seek Bankruptcy Protection

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An Enron Corp. hearing has been rescheduled for Dec. 20 from Dec. 14, Doe Jones reported. The hearing, the second since the energy-trading company filed for chapter 11 bankruptcy protection on Dec. 2, will pertain to Enron's request to continue paying utility companies for electric bills. **Judge Arthur Gonzalez**, who is presiding over Enron's case will also hear an interim request at this time to retain Blackstone Group as financial adviser in Enron's restructuring.

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Nearly 600 Enron Corp. employees deemed critical to running its prized energy trading business received more than \$100 million in bonuses last month as the company faced a merger and then bankruptcy, according to the Associated Press. About half of those bonuses, given to 75 traders in early November when Enron was planning to merge with smaller rival Dynegy Inc., may have to be repaid because the merger collapsed, said **Todd Zywicki**, a law professor at **George Mason University**.

Enron spokesman Mark Palmer said the \$50 million given to traders before the merger crumbled "was done in discussions with Dynegy to protect and preserve the value of the trading organization through what we thought was going to be a fairly long merger process." Dynegy spokeswoman Debbie Fiorito said that Dynegy didn't approve or endorse those bonuses. Enron distributed an additional \$55 million to 500 employees two days before filing for bankruptcy as an incentive for them to remain with the company while Enron works to emerge from chapter 11.

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Sent: Tuesday, December 18, 2001 10:46 AM
To: Wiedman, Mark; Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidi Lynne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: ABI Website (12/17): Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

House Judiciary Chairman James Sensenbrenner (R-Wis.) is standing firm in his desire to move so-called netting language as part of a comprehensive bankruptcy reform bill, a spokesman said, CongressDaily reported. On Thursday, Sensenbrenner met with House Financial Services Chairman Michael Oxley (R-Ohio) and Federal Reserve Chairman Alan Greenspan to discuss the possibility of passing netting legislation this year separate from the beleaguered bankruptcy bill. Federal financial regulators and Financial Services Committee lawmakers have renewed their calls for that action, in light of the recent collapse of Enron. The netting provisions are designed to enable quick resolution to complex financial contracts in the event a party in the deal went bankrupt. However, the netting provisions are one of the few consensus areas in the underlying bankruptcy bill, which is currently in conference, and proponents are not apt to separate them out. "There was agreement between everyone that the netting provisions [are] very important," a Sensenbrenner aide said. "He's trying to get the bankruptcy bill moving, and that's where we are right now."

McInerney, Roberta

From: Carleton, Norman
Sent: Friday, December 21, 2001 10:37 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorenna (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: DJ: US Congress Fails To Pass Contract Netting Bill

December 21, 2001

US Congress Fails To Pass Contract Netting Bill

Dow Jones Newswires

(This article was originally published Thursday.)

WASHINGTON -- Despite an eleventh-hour appeal from Federal Reserve Chairman Alan Greenspan and pressure from Wall Street, lawmakers again failed to enact legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency.

The once-obscure financial issue gained new prominence and urgency on Capitol Hill as lawmakers struggled to understand the high-finance finagling that led to the recent Chapter 11 bankruptcy filing of energy giant Enron Corp. (ENE).

The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by **netting** all the losses and gains of individual contracts into one deal.

"Enron underscores the importance of it," said Peggy Peterson, spokeswoman for the House Financial Services Committee. "The other factor is the recessionary economic climate - the **netting** provisions would lower market risk."

Greenspan recently met with committee Chairman Michael Oxley, R-Ohio, and House Judiciary Chairman James Sensenbrenner, R-Wis., after Oxley held a bruising hearing on financial improprieties leading to Enron's demise.

Pressure to pass the measure was already building since the Sept. 11 terrorist attacks shut down U.S. financial markets and destroyed the Manhattan offices of many Wall Street brokerage houses.

"Congress should not fail to enact **netting** legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk."

But Sensenbrenner rebuffed requests from Greenspan, Oxley and House leaders to pass the legislation apart from the larger bankruptcy bill it was attached.

Complicated, off-balance sheet transactions were Enron's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income by \$569 million over four years.

Creditors are now lining up to collect on the approximately \$40 billion in debt owed by Enron.

Of that, roughly \$22 billion is on the balance sheet in the form of bank debt, commodity-transaction financing, bonds and other public securities. The remainder is made up of roughly \$7 billion in bonds and bank debt linked to other assets in special partnerships, as well as an additional \$10.7 billion in "project finance," a term that typically refers to money lent to build power plants or oil refineries.

-By Dawn Kopecki, Dow Jones Newswires; 202-862-6637; Dawn.Kopecki@dowjones.com

McInerney, Roberta

From: Paulus, Michael
Sent: Thursday, March 15, 2001 6:02 PM
To: McInerney, Roberta; Constantine, Eleri
Subject: FW: Enron Meeting Request

Please see below. Any thoughts?

-----Original Message-----

From: Ellis, Dina
Sent: Thursday, March 15, 2001 5:59 PM
To: Fisher, Peter; Paulus, Michael; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

[(b)(5)]

-----Original Message-----

From: Fisher, Peter
Sent: Thursday, March 15, 2001 5:31 PM
To: Paulus, Michael; Ellis, Dina; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

I also see no reason to object.

-----Original Message-----

From: Paulus, Michael
Sent: Thursday, March 15, 2001 5:27 PM
To: Ellis, Dina; Fisher, Peter; Carleton, Norman
Cc: Gross, Jared
Subject: Enron Meeting Request

Jeff Skilling, President and CEO of Enron has requested a meeting with the Secretary for April 5 to discuss the West Coast energy crisis. I see no reason to object. Thoughts?

McInerney, Roberta

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:02 AM
To: Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Eichner, Matthew; Hammer, Viva; Lori Sanatamarena (E-mail); Novey, Michael; Pietrangeli, Fred; Whaley, Jean; Wiedman, Mark
Subject: Enron and Bankruptcy Bill -- ABI Website

ENRON UPDATE

Greenspan, Oxley Meet; Netting Bill Gains Support Following Enron Debacle

Federal Reserve Chairman Alan Greenspan met yesterday with key House lawmakers to discuss this year's prospects for passing legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency, Dow Jones reported. The once-obscure financial issue has gained new prominence and urgency on Capitol Hill as federal investigators sift through the mess left behind by Enron's chapter 11 bankruptcy filing. The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by netting all the losses and gains of individual contracts into one deal.

House Financial Services Chairman Michael Oxley (R-Ohio) invited Greenspan to meet with House Judiciary Chairman James Sensenbrenner (R-Wis.) after Oxley held a bruising hearing on Wednesday on financial improprieties leading to Enron's demise. Complicated, off-balance sheet transactions were the company's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income over four years by \$569 million. Creditors are now lining up to collect on about \$40 billion in debt owed by Enron.

"Congress should not fail to enact netting legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk." Lawmakers are now questioning whether the legislation, which is also attached to a broader bankruptcy bill in both chambers, could be applied to Enron's bankruptcy case if the bill passes this year. Federal securities officials said it was unclear whether they could apply new contract netting laws retroactively. Oxley hopes to get the bill passed by next week, before Congress finishes its work for 2001.

House Probe Seeks Andersen's Records On Enron Audits

The House Energy and Commerce Committee yesterday asked Arthur Andersen to provide records relating to its audits of Enron Corp., Dow Jones reported. At the same time, the committee sent a letter to former Enron Chief Executive Jeffrey Skilling, requesting an interview with committee investigators within the next two weeks. The committee also formally sought interviews with David Duncan, Andersen's partner in charge of the company's Enron account, and Andersen employees involved in the company's audits. The requests came after Joseph Berardino, Andersen's chief executive, told the House Financial Services Committee on Wednesday that the auditing and consulting firm didn't receive critical information from its client concerning the special-purpose entities that brought about Enron's

financial downfall.

Enron Seeks Supplier to Take Over California University System Powers Contract

Enron Corp is looking for another electricity supplier to complete its contract with California's two public university systems, a spokeswoman for California State University said yesterday, reported Dow Jones. Enron Energy Services Inc.'s current contract with California State and the University of California Systems expires on March 31, 2004, said spokeswoman Clara Potes-Fellow. The Enron subsidiary filed for chapter 11 bankruptcy protection Dec. 2.

Enron Contract Hearing Moved To Dec. 18

A bankruptcy court hearing regarding embattled Enron Corp.'s motion to negotiate, end or sell certain contracts has been postponed to next Tuesday, Dec. 18, Dow Jones reported. The meeting was originally scheduled for today. Earlier this week, Enron filed a motion with the court asking to be allowed to terminate with other parties certain contracts with safe-harbor provisions. The company doesn't want to ask for court approval every time it seeks to end an agreement.

In its filing, Enron had asked for authority to end some of these safe-harbor contracts and negotiate payments for each termination. Creditors, including Cinergy Corp.'s Cinergy Services Inc. and Wiser Oil Co., have filed objections. The motions and objections will be addressed at Tuesday's bankruptcy court hearing.

Sutton, Gary

From: Carleton, Norman
Sent: Friday, December 21, 2001 10:37 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
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Subject: Enron -- ABI Website Dec. 12

Enron Update

U.S. Congress to Hold First Hearing on Enron Bankruptcy Today

The first congressional hearing into the collapse of Enron Corp. gets underway today with testimony from auditors of the former energy trading giant but not the top executive of the embattled Houston-based company, Reuters reported. Enron chief executive Kenneth Lay declined an invitation to testify before the House Financial Services Committee. "We're disappointed," panel chairman and Rep. Michael Oxley (R-Ohio) said. "But this is [just] the first in a series of hearings and investigations that the committee will be conducting."

Arthur Andersen CEO Joseph Berardino will face questions about when Enron's auditors first realized there were problems with Enron's accounts. SEC Chairman Harvey Pitt, who has promised a thorough but quick probe of Enron, also declined an invitation to appear at today's hearing. Instead, SEC Chief Accountant Robert Herdman will testify. Also set to testify at the hearing is Richard Trumka, secretary-treasurer of the AFL-CIO. Oxley has said any further Financial Services committee hearings on Enron after Wednesday will not occur until 2002.

Congress Demands Records, Briefing From Enron

A congressional committee yesterday demanded that Enron Corp. hand over financial records and meet with committee staff within 10 days, according to Reuters. The House Energy and Commerce Committee called on Enron to turn over documents relevant to the committee's investigation into the company's collapse, said committee Chairman Rep. Billy Tauzin (R-La.) and Rep. James Greenwood (R-Pa). In letters sent this week to Enron Chairman Kenneth Lay, and Andrew Fastow, the company's former chief financial officer, Tauzin and Greenwood also requested staff interviews with both current and former senior Enron employees as well as members of Enron's audit and compliance committee by Dec. 21.

In their letters, Tauzin and Greenwood requested that a mountain of documents be turned over to the committee by Dec. 17. The request listed 43 separate aspects of the Enron case in which the committee has interest, including: earnings restatement decisions, financial ties among Enron officers and outside partnerships they were involved with, minutes from board and audit committee meetings from 1997 to present and correspondence between Enron auditor Arthur Andersen and the company.

J.P. Morgan Sues Enron for \$2.1 Billion

J.P. Morgan Chase & Co., one of Enron Corp.'s biggest creditors, yesterday sued the troubled energy trader for more than \$2.1 billion, Reuters reported. The New York-based bank claimed in a suit filed in the U.S. Bankruptcy Court in New York on behalf of itself and related parties that it has rights to Enron assets such as accounts receivable, commercial paper, cash, and other property, which allegedly are not protected in Enron's bankruptcy proceedings.

Enron holds the assets in dispute only as a servicer for the alleged owners, under two accounts

receivables deals, the suit claims. The assets are not property of Enron because they were sold before Enron's Dec. 2 bankruptcy filing. J.P. Morgan acted as an agent in two credit facilities whose proceeds helped fund two accounts receivables transactions between Enron and Sequoia Financial Assets, a special purpose, bankruptcy-related entity, the suit said. Sequoia allegedly bought the receivables from Enron and reinvested the money collected on the bills in short-term paper issued by Enron and its Enron North America unit.

Dynegy Files Motion to Dismiss Or Transfer Enron Case

Dynegy Inc. filed a motion on Monday asking the federal bankruptcy court in the Southern District of New York to dismiss Enron's \$10 billion breach-of-contract lawsuit against Dynegy, or, to transfer the case to Houston, Dow Jones reported. Enron's claims against its former merger partner "in no way relate to federal bankruptcy law or the administration of these chapter 11 cases," according to the filing.

Dynegy asked the New York bankruptcy court to abstain from hearing Enron's suit against Dynegy, which allegedly involves state rather than federal breach-of-contract claims. Alternatively, the case should take place in Texas - where Enron and most of its units are based - instead of New York, where the "only link to the dispute is ... hung upon the gossamer thread of the location of (Enron's) subsidiary Enron Metals and Commodity Inc."

Sutton, Gary

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:02 AM
To: Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Eichner, Matthew; Hammer, Viva; Lori Sanatamarena (E-mail); Novey, Michael; Pietrangeli, Fred; Whaley, Jean; Wiedman, Mark
Subject: Enron and Bankruptcy Bill -- ABI Website

ENRON UPDATE

Greenspan, Oxley Meet; Netting Bill Gains Support Following Enron Debacle

Federal Reserve Chairman Alan Greenspan met yesterday with key House lawmakers to discuss this year's prospects for passing legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency, Dow Jones reported. The once-obscure financial issue has gained new prominence and urgency on Capitol Hill as federal investigators sift through the mess left behind by Enron's chapter 11 bankruptcy filing. The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by netting all the losses and gains of individual contracts into one deal.

House Financial Services Chairman Michael Oxley (R-Ohio) invited Greenspan to meet with House Judiciary Chairman James Sensenbrenner (R-Wis.) after Oxley held a bruising hearing on Wednesday on financial improprieties leading to Enron's demise. Complicated, off-balance sheet transactions were the company's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income over four years by \$569 million. Creditors are now lining up to collect on about \$40 billion in debt owed by Enron.

"Congress should not fail to enact netting legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk." Lawmakers are now questioning whether the legislation, which is also attached to a broader bankruptcy bill in both chambers, could be applied to Enron's bankruptcy case if the bill passes this year. Federal securities officials said it was unclear whether they could apply new contract netting laws retroactively. Oxley hopes to get the bill passed by next week, before Congress finishes its work for 2001.

House Probe Seeks Andersen's Records On Enron Audits

The House Energy and Commerce Committee yesterday asked Arthur Andersen to provide records relating to its audits of Enron Corp., Dow Jones reported. At the same time, the committee sent a letter to former Enron Chief Executive Jeffrey Skilling, requesting an interview with committee investigators within the next two weeks. The committee also formally sought interviews with David Duncan, Andersen's partner in charge of the company's Enron account, and Andersen employees involved in the company's audits. The requests came after Joseph Berardino, Andersen's chief executive, told the House Financial Services Committee on Wednesday that the auditing and consulting firm didn't receive critical information from its client concerning the special-purpose entities that brought about Enron's

financial downfall.

Enron Seeks Supplier to Take Over California University System Powers Contract

Enron Corp is looking for another electricity supplier to complete its contract with California's two public university systems, a spokeswoman for California State University said yesterday, reported Dow Jones. Enron Energy Services Inc.'s current contract with California State and the University of California Systems expires on March 31, 2004, said spokeswoman Clara Potes-Fellow. The Enron subsidiary filed for chapter 11 bankruptcy protection Dec. 2.

Enron Contract Hearing Moved To Dec. 18

A bankruptcy court hearing regarding embattled Enron Corp.'s motion to negotiate, end or sell certain contracts has been postponed to next Tuesday, Dec. 18, Dow Jones reported. The meeting was originally scheduled for today. Earlier this week, Enron filed a motion with the court asking to be allowed to terminate with other parties certain contracts with safe-harbor provisions. The company doesn't want to ask for court approval every time it seeks to end an agreement.

In its filing, Enron had asked for authority to end some of these safe-harbor contracts and negotiate payments for each termination. Creditors, including Cinergy Corp.'s Cinergy Services Inc. and Wiser Oil Co., have filed objections. The motions and objections will be addressed at Tuesday's bankruptcy court hearing.

Sutton, Gary

From: Carleton, Norman
Sent: Thursday, December 06, 2001 4:15 PM
To: Roseboro, Brian; Bitsberger, Timothy; Wiedman, Mark; Gross, Jared; Gabilondo, Jose; Sutton, Gary; Nickoloff, Peter; Schultheiss, Heidilynne; Novey, Michael; Hammer, Viva; Eichner, Matthew
Subject: CAPITAL VIEWS: New SEC Chairman Gets A 'Dingell-Gram' (Enron mentioned at end)

December 6, 2001

CAPITAL VIEWS: New SEC Chairman Gets A 'Dingell-Gram'

By JOHN CONNOR

A Dow Jones Newswires Column

WASHINGTON -- Perhaps inevitably, Harvey Pitt, the new chairman of the Securities and Exchange Commission, has Rep. John Dingell, D-Mich., on his case.

Dingell, the ranking minority member and former chairman of the House Energy and Commerce Committee, has been spreading apprehension if not outright terror through the nooks and crannies of the federal bureaucracy for decades with what have come to be known as Dingell-grams. Now he has fired one off to Chairman Pitt.

"On October 22, 2001, in your first speech as chairman of the Securities and Exchange Commission, you observed to an audience of accountants that the SEC 'has not, of late, always been a kinder and gentler place for accountants,'" Dingell wrote in a Dec. 5 letter to Pitt.

The missive (maybe missile is a better word) was released by the Congressman Thursday.

"After noting your representation of the AICPA (American Institute of Certified Public Accountants) and each of the Big Five Accounting firms for the past two decades, you lamented that 'somewhere along the way, accountants became afraid to talk to the SEC, and the SEC appeared to be unwilling to listen to the profession,' and you vowed that 'those days are ended,'" Dingell recounted, laying the groundwork for what came next.

"I am deeply troubled by the tone and tenor of your remarks," the Congressman said. "Your choice of words sends the wrong message to auditors, to the SEC staff, and to the investing public. Your message appears to be that the rules will not be implemented as vigorously as they should be. I trust this is not what you meant to convey and that you will correct any misunderstanding at the earliest possible time. This is critical, given the plummeting confidence of investors in the integrity of financial reporting at this time.

"You may choose to repudiate the legacy of your predecessor, Arthur Levitt," Dingell continued. "But make no mistake about it: his tenure, and that of his team on these issues - former Chief Accountant Lynn Turner and former Director of Enforcement Richard Walker - represent a high mark at the SEC in fighting financial fraud, and the standard against which you will be measured."

We'll await Pitt's full response, which no doubt will come in due course.

Having dispensed with the pleasantries or lack thereof, the Congressman served up a number of questions that he asked Pitt to consider in the course of the SEC's investigation into the Enron matter.

Dingell's first question reads as follows: "Enron Corp. set up a complex web of off-balance sheet special purpose entities. What was the underlying business purpose and substance of each of these entities and of Enron's transactions with them? Enron's current report on Form 8-K dated November 8, 2001, still does not

provide an explanation to investors, years after some of these entities were formed. How did the Securities and Exchange Commission fail to require adequate disclosures over those years?"

His second question (there are 15 in all) referenced FASB statement No. 57, "Related Party Disclosures," and wondered in part: "How did Enron avoid making these disclosures and how did Arthur Andersen fail to require adequate disclosures?"

And so on. Dingell's last question was: "Who profited from Enron's complex business structure? Where did all the money go?"

Sutton, Gary

From: Carleton, Norman
Sent: Thursday, November 29, 2001 6:19 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorenna (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, HeidiLynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: Enron's Financial Woes Ripple Out Across Asia

November 30, 2001

Major Business News

Enron's Financial Woes Ripple Out Across Asia

By **JASON BOOTH, HENNY SENDER and RICHARD B. SCHMITT**

Staff Reporters of THE WALL STREET JOURNAL

The sudden deep financial troubles of U.S. energy giant **Enron** Corp. sent ripples of concern across Asia, damaging investments in Japan and potentially undermining businesses in South Korea and Australia.

The uncertainty for Asia is likely just beginning. If **Enron** files for protection under Chapter 11 of the federal Bankruptcy Code in the U.S., as many investors and financial experts now expect, it is likely to be one of the messiest, most complex bankruptcy cases ever, lawyers say. That is because of the multifaceted nature of Enron's once highflying operations, which combined a global energy business with a massive financial-trading operation involving tens of billions of dollars in complex contracts. A filing by **Enron**, with about \$13 billion in debt, would rank among the largest bankruptcy filings ever. **Enron** has about 800 trading partners or creditors.

The scale of the **Enron** collapse is huge, experts say. "There is nothing to compare it to," said Edward Tillinghast, a bankruptcy specialist with Coudert Brothers in New York. "The business was so large. There were so many different kinds of operating entities under the **Enron** umbrella."

On Wednesday, as the last-ditch merger with Dynegy Inc. unraveled, the company's credit was downgraded to "junk" status by rating agency Standard & Poor's Corp. The stock market, signaling that a bankruptcy filing is expected, hammered **Enron** stock, which was halted for a time on Wednesday, and knocked lower some of its financial backers' shares. **Enron** shares closed at 4 p.m. in New York Stock Exchange composite trading at 61 cents, down \$3.50, or 85%. Thursday morning in New York, **Enron** was trading down 33%, or 20 cents, to 41 cents. On Wednesday, **Enron** bonds also fell sharply, dropping to 50 cents on the dollar from around 55 cents, reflecting concerns over

how much creditors might receive if the company does seek bankruptcy-court protection.

Enron spokeswoman Karen Denne said the company is exploring its options and wouldn't comment on whether it has retained bankruptcy counsel.

The fallout in Asia was felt immediately on Thursday. The biggest news was in Sydney, where **Enron** Australia said it was suspending operations pending further developments regarding its U.S. parent. "We are now waiting for clarification about Enron's situation globally and will advise the local market once we have received that advice," legal counsel Rob McGrory said.

The announcement followed a warning by Standard & Poor's about counterparty exposure in the Australian electricity market, citing the overnight downgrade of **Enron**. "The recent developments with **Enron** serve as a further example of the credit risks faced by energy market participants as they seek to manage their market risks in Australia's volatile power market," said Laurie Conheady, an associate director at Standard & Poor's.

Similarly, **Enron's** presence in South Korea appears to be nearing an end. According to officials at SK Corp., **Enron** plans to sell its 50% stake in joint venture energy distribution firm SK-Enron Co. SK-Enron was formed in 1999, and controls about 25% of South Korea's natural-gas market, according to the firm's Web site.

Analysts said that **Enron** had offered to sell its stake to SK Corp., yet the Korean partner said it has no plans to buy the shares. "We already hold 50% ... we don't need the rest," said a company spokesman, Daniel Youn.

Enron was also considered a potential buyer of power generation assets from South Korean government-controlled Korea Electric Power Corp. Kepeco is looking to sell assets as part of a wider privatization drive.

Pressure elsewhere in the region was felt primarily in the financial markets. In Tokyo, the value of money management funds Nikko Asset Management Co., UFJ Partners Asset Management Co., Japan Investment Trust Management Co. and Sumisei Global Investment Trust Management Co., fell due to their exposure to **Enron** debt, which amounted to about 40 billion yen (\$324.9 million). **Enron** news also sparked volatility in the copper and U.S. dollar market, according to traders.

Other financial backers of **Enron** were negatively effected as well. J.P. Morgan Chase and Citigroup, which have invested hundreds of millions of dollars in hopes of keeping the Enron-Dynegy deal alive, saw their stocks fall on Wednesday trading in the U.S. On Thursday morning Citigroup shares posted slight gains, rising 19 cents to \$47.99, while J.P. Morgan Chase shares were flat at \$37.50. J.P. Morgan Chase said in a statement it has about \$500 million of unsecured exposure to **Enron** entities, including loans, letters of credit and derivatives. It said it also has secured exposures, including \$400 million in loans secured by **Enron** pipelines.

Besides banks and bondholders, dozens of companies, municipalities and utilities in the U.S. that had signed multiyear power contracts with **Enron** may be left in the lurch. Over the years, the likes of retailer J.C. Penney Co., and shopping-mall company Simon Property Group signed on with **Enron**, as it undercut local utilities in newly deregulated markets.

-- Rebecca Smith and Robin Sidel contributed to this article.

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Sutton, Gary

From: Carleton, Norman
Sent: Thursday, November 29, 2001 6:13 PM
To: Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Cetina, Jill; Eichner, Matthew; Hammer, Viva; Lori Sanatamarena (E-mail); Novey, Michael; Pietrangeli, Fred; Sharer, James; Whaley, Jean; Wiedman, Mark
Subject: DJ: IN THE MONEY-2:Collateral Key To Counterparties Recovery

November 29, 2001

IN THE MONEY-2:Collateral Key To Counterparties Recovery

Dow Jones Newswires

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although **Enron** has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue **Enron** all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. **Enron** shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, **Enron** is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although **Enron** and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EET agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by **Enron** on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of **Enron** took a nose dive after Dynegy rescinded its merger offer, with trading levels indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to **Enron**.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

Sutton, Gary

From: Carleton, Norman
Sent: Thursday, November 29, 2001 6:09 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidi; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses bankruptcy netting issues)

November 29, 2001

IN THE MONEY: Enron's Derivatives Could Test Courts

By CAROL S. REMOND and PHYLLIS PLITCH

A Dow Jones Newswires Column

NEW YORK -- Prepare for the largest test in bankruptcy history of safe harbors designed to protect the liquidity of the nations' financial system.

Enron Corp.'s (ENE) much-anticipated bankruptcy filing, if it indeed comes, is certain to be precedent setting. First, in terms of sheer magnitude, we're talking about \$62 billion in assets. But also because it's likely to involve hundreds, if not thousands, of counterparties intertwined with **Enron** in various financial and energy derivative transactions.

Unlike other creditors whose claims will be stayed under U.S. bankruptcy laws, those counterparties will vie to unwind their trades, may they be "power forwards" or credit derivative contracts, in order to find more worthy hedging partners.

Built in the bankruptcy code are exemptions for securities or commodities contracts. These safe harbors were developed over the years as a sort of security blanket for the vital hedging functions that these transactions provide.

"These special rules are designed to avoid a domino effect," said a bankruptcy lawyer, who like many contacted for this column, declined to be identified given the likelihood that he'll end up representing one or many parties involved in Enron's expected Chapter 11 filing.

Counterparties claiming redress through these exemptions should be able to net out their various derivative contracts with **Enron**, attempting to use whatever collateral was pledged under those transactions to quantify how much money they owe to or are owed by **Enron**. All of that is normally done on the side, without prior bankruptcy court approval.

The problem is that **Enron** will likely question attempts to unwind those trades and take issue with the manner in which its counterparties netted their exposure to the company, observers say.

Given the large number of parties involved and the magnitude of Enron's recent losses, the treatment of derivative contracts could be further complicated by the market's lack of understanding of just how much value is left in Enron's assets. That's an issue that will permeate the proceedings with all of Enron's stunned creditors. On top of its derivative exposure, **Enron** is on the hook for roughly \$13 billion in debt.

As part of its energy trading operations, **Enron** was a party to billions of dollars of derivative contracts designed

to enable the company and its trading partners to hedge, among other things, against rapidly fluctuating energy prices and foreign exchange volatility - stabilizing otherwise uncertain markets. By its own account, as of December 2000, **Enron** was involved in roughly \$20 billion of derivative contracts on which it owed its counterparties. More recent numbers aren't available.

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although **Enron** has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

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Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although **Enron** and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EEl agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

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indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to **Enron**.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

Bieger, Peter

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 10:46 AM
To: Wiedman, Mark; Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: ABI Website (12/17): Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

House Judiciary Chairman James Sensenbrenner (R-Wis.) is standing firm in his desire to move so-called netting language as part of a comprehensive bankruptcy reform bill, a spokesman said, CongressDaily reported. On Thursday, Sensenbrenner met with House Financial Services Chairman Michael Oxley (R-Ohio) and Federal Reserve Chairman Alan Greenspan to discuss the possibility of passing netting legislation this year separate from the beleaguered bankruptcy bill. Federal financial regulators and Financial Services Committee lawmakers have renewed their calls for that action, in light of the recent collapse of Enron. The netting provisions are designed to enable quick resolution to complex financial contracts in the event a party in the deal went bankrupt. However, the netting provisions are one of the few consensus areas in the underlying bankruptcy bill, which is currently in conference, and proponents are not apt to separate them out. "There was agreement between everyone that the netting provisions [are] very important," a Sensenbrenner aide said. "He's trying to get the bankruptcy bill moving, and that's where we are right now."

Bieger, Peter

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:15 AM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: Enron -- Dec. 11 ABI Website

Enron Bankruptcy Update

Enron Japan, Affiliates Seek Bankruptcy Protection

Enron Japan Corp., a wholly-owned subsidiary of failed U.S. energy giant Enron Corp. announced that it and its three Japanese affiliates filed for bankruptcy yesterday, Dow Jones reported. The move follows Enron's Dec. 2 chapter 11 bankruptcy filing in New York. "Enron Japan Corp., Enron Japan Marketing Corp., Enron Japan Funding Corp. and E Power Corp. filed for bankruptcy...in accordance with the Japanese bankruptcy law," Enron Japan said.

Enron Court Hearing Pushed Back to Dec. 20

An Enron Corp. hearing has been rescheduled for Dec. 20 from Dec. 14, Doe Jones reported. The hearing, the second since the energy-trading company filed for chapter 11 bankruptcy protection on Dec. 2, will pertain to Enron's request to continue paying utility companies for electric bills. **Judge Arthur Gonzalez**, who is presiding over Enron's case will also hear an interim request at this time to retain Blackstone Group as financial adviser in Enron's restructuring.

600 Enron Employees Got Bonuses

Nearly 600 Enron Corp. employees deemed critical to running its prized energy trading business received more than \$100 million in bonuses last month as the company faced a merger and then bankruptcy, according to the Associated Press. About half of those bonuses, given to 75 traders in early November when Enron was planning to merge with smaller rival Dynegy Inc., may have to be repaid because the merger collapsed, said **Todd Zywicki**, a law professor at **George Mason University**.

Enron spokesman Mark Palmer said the \$50 million given to traders before the merger crumbled "was done in discussions with Dynegy to protect and preserve the value of the trading organization through what we thought was going to be a fairly long merger process." Dynegy spokeswoman Debbie Fiorito said that Dynegy didn't approve or endorse those bonuses. Enron distributed an additional \$55 million to 500 employees two days before filing for bankruptcy as an incentive for them to remain with the company while Enron works to emerge from chapter 11.

Bieger, Peter

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:13 AM
To: Bair, Sheila; Berardi, Steve; Blitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidi Lynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: Enron -- ABI Website Dec. 12

Enron Update

U.S. Congress to Hold First Hearing on Enron Bankruptcy Today

The first congressional hearing into the collapse of Enron Corp. gets underway today with testimony from auditors of the former energy trading giant but not the top executive of the embattled Houston-based company, Reuters reported. Enron chief executive Kenneth Lay declined an invitation to testify before the House Financial Services Committee. "We're disappointed," panel chairman and Rep. Michael Oxley (R-Ohio) said. "But this is [just] the first in a series of hearings and investigations that the committee will be conducting."

Arthur Andersen CEO Joseph Berardino will face questions about when Enron's auditors first realized there were problems with Enron's accounts. SEC Chairman Harvey Pitt, who has promised a thorough but quick probe of Enron, also declined an invitation to appear at today's hearing. Instead, SEC Chief Accountant Robert Herdman will testify. Also set to testify at the hearing is Richard Trumka, secretary-treasurer of the AFL-CIO. Oxley has said any further Financial Services committee hearings on Enron after Wednesday will not occur until 2002.

Congress Demands Records, Briefing From Enron

A congressional committee yesterday demanded that Enron Corp. hand over financial records and meet with committee staff within 10 days, according to Reuters. The House Energy and Commerce Committee called on Enron to turn over documents relevant to the committee's investigation into the company's collapse, said committee Chairman Rep. Billy Tauzin (R-La.) and Rep. James Greenwood (R-Pa). In letters sent this week to Enron Chairman Kenneth Lay, and Andrew Fastow, the company's former chief financial officer, Tauzin and Greenwood also requested staff interviews with both current and former senior Enron employees as well as members of Enron's audit and compliance committee by Dec. 21.

In their letters, Tauzin and Greenwood requested that a mountain of documents be turned over to the committee by Dec. 17. The request listed 43 separate aspects of the Enron case in which the committee has interest, including: earnings restatement decisions, financial ties among Enron officers and outside partnerships they were involved with, minutes from board and audit committee meetings from 1997 to present and correspondence between Enron auditor Arthur Andersen and the company.

J.P. Morgan Sues Enron for \$2.1 Billion

J.P. Morgan Chase & Co., one of Enron Corp.'s biggest creditors, yesterday sued the troubled energy trader for more than \$2.1 billion, Reuters reported. The New York-based bank claimed in a suit filed in the U.S. Bankruptcy Court in New York on behalf of itself and related parties that it has rights to Enron assets such as accounts receivable, commercial paper, cash, and other property, which allegedly are not protected in Enron's bankruptcy proceedings.

Enron holds the assets in dispute only as a servicer for the alleged owners, under two accounts

receivables deals, the suit claims. The assets are not property of Enron because they were sold before Enron's Dec. 2 bankruptcy filing. J.P. Morgan acted as an agent in two credit facilities whose proceeds helped fund two accounts receivables transactions between Enron and Sequoia Financial Assets, a special purpose, bankruptcy-related entity, the suit said. Sequoia allegedly bought the receivables from Enron and reinvested the money collected on the bills in short-term paper issued by Enron and its Enron North America unit.

Dynegy Files Motion to Dismiss Or Transfer Enron Case

Dynegy Inc. filed a motion on Monday asking the federal bankruptcy court in the Southern District of New York to dismiss Enron's \$10 billion breach-of-contract lawsuit against Dynegy, or, to transfer the case to Houston, Dow Jones reported. Enron's claims against its former merger partner "in no way relate to federal bankruptcy law or the administration of these chapter 11 cases," according to the filing.

Dynegy asked the New York bankruptcy court to abstain from hearing Enron's suit against Dynegy, which allegedly involves state rather than federal breach-of-contract claims. Alternatively, the case should take place in Texas - where Enron and most of its units are based - instead of New York, where the "only link to the dispute is ... hung upon the gossamer thread of the location of (Enron's) subsidiary Enron Metals and Commodity Inc."

Bieger, Peter

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:10 AM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: DEC 13 ABI Website -- More on Enron and Bankruptcy

Enron Update

House Panel Vows Comprehensive Enron Investigation

House Financial Services Committee members yesterday plunged into what they pledged would be a comprehensive investigation into the collapse of Enron Corp., a task made more difficult by Enron Corp. CEO Kenneth Lay's failure to appear before the panel as a witness, *CongressDaily* reported. Lay sent the committee a letter on Tuesday, explaining that he would be unable to attend the hearing because he was scheduled to participate in bankruptcy proceedings. Financial Services Capital Markets Subcommittee Chairman Richard Baker (R-La.) said the committee would continue its investigation in "late January, possibly early February." And, he added, "Our task is to establish the facts, change the rules where needed and assist the SEC in pursuit of those who have violated the law."

Several lawmakers on both sides of the aisle also used Enron's demise as an opportunity to renew their calls for the passage of a financial "netting" bill, provisions of which are included in the bankruptcy reform bill. Financial Services Committee Chairman Michael Oxley (R-Ohio) and ranking member John LaFalce (D-N.Y.) agreed that Enron's collapse underscores the urgent need for passage of provisions designed to strengthen and update current statutory protections for netting financial market contracts if a party defaults. Netting refers to the practice where the amounts due between financial institutions in the event of a default are quickly calculated as one net amount, helping reduce risk. The netting language is one of the few consensus items included in comprehensive bankruptcy reform legislation that "is destined to go down to defeat," LaFalce asserted. "[Netting] is not a new issue," he fumed. "We need to extract [those] provisions and simply pass them independently."

Auditor Hints of 'Illegal Acts' at Enron

Enron Corp.'s outside auditor said yesterday "illegal acts" may have been committed at the energy-trading company before it sought bankruptcy protection last week, *The Washington Post* reported. The chief executive of Arthur Andersen, the accounting firm that approved years of financial statements that overstated Enron's profits and understated its debts, also said Andersen made "an error in judgment" that accounted for \$103 million in overstated profits.

While Joseph F. Berardino testified yesterday on Capitol Hill, giving Andersen's first substantive explanation of why it certified Enron's reports, top Enron officers detailed a reorganization strategy for creditors at a meeting in New York. And former Enron chief financial officer Andrew Fastow, after failing to honor a Securities and Exchange Commission subpoena, surfaced at a news conference to dispel speculation that he had fled the country. In addition to Congress and the SEC, the Justice and Labor departments are investigating Enron's collapse. More congressional hearings are expected next month. To read the entire story, point your browser to <http://www.washingtonpost.com/wp-dyn/articles/A34904-2001Dec12.html>.

Enron Seeks \$6 Billion From Asset Sales

Bankrupt Enron Corp. yesterday announced that it may sell its key energy trading unit and plans to raise up to \$6 billion by selling other assets, Reuters reported. Chief Financial Officer Jeff McMahon said that Enron plans to sell its troubled Azurix Corp. water unit, businesses in emerging markets and wind energy assets. It plans to retain its exploration and production unit, wholesale and retail services and regulated businesses. McMahon said Enron has about \$13 billion in unsecured bank debt and an additional \$2 billion in secured bank debt. Enron plans to raise between \$4 billion to \$6 billion with the noncore asset sale.

Dynegy Suit to Gain Enron Pipeline Moved to Federal Court

Dynegy Inc.'s lawsuit to secure ownership of an Enron Corp. pipeline company has been transferred to the Federal District Court in Houston, Dow Jones reported. The state District Court of Harris County, Texas, where Dynegy originally filed the suit, transferred the case on Tuesday. Enron asked that the suit be moved to federal court to determine whether it should be heard by the federal bankruptcy court in New York, as Enron's lawyers have argued, or in state court, as Dynegy prefers. Dynegy plans to seek to move the case back to state court.

Dynegy filed suit against two Enron subsidiaries on Dec. 3 in the state court seeking control of the Enron Northern Natural Gas Co. Dynegy based its claim to Northern Natural on an option it secured from Enron in exchange for a \$1.5 billion cash infusion. The option allowed Dynegy to acquire complete control of Northern Natural in the event Dynegy's offer to acquire Enron fell through. Dynegy terminated its acquisition offer last month and told Enron it was exercising its option to buy Northern Natural. Enron is contesting Dynegy's claim and has sued its one-time suitor for \$10 billion for wrongfully terminating its acquisition offer.

Enron Objection Deadline Extended to Dec. 18

Enron announced that it has moved the date of its next bankruptcy hearing, originally scheduled for tomorrow, to Dec. 20. Enron representatives weren't immediately available to provide the reason for the rescheduling. Enron said the hearing is designed to give adequate assurance to utility companies providing services to Enron and its debtor subsidiaries. In connection with the rescheduled hearing, Enron has extended the objection deadline to Dec. 18.

Bieger, Peter

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:02 AM
To: Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabillondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian; Berardi, Steve; Eichner, Matthew; Hammer, Viva; Lori Sanatamorenna (E-mail); Novey, Michael; Pietrangeli, Fred; Whaley, Jean; Wiedman, Mark
Subject: Enron and Bankruptcy Bill -- ABI Website

ENRON UPDATE

Greenspan, Oxley Meet; Netting Bill Gains Support Following Enron Debacle

Federal Reserve Chairman Alan Greenspan met yesterday with key House lawmakers to discuss this year's prospects for passing legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency, Dow Jones reported. The once-obscure financial issue has gained new prominence and urgency on Capitol Hill as federal investigators sift through the mess left behind by Enron's chapter 11 bankruptcy filing. The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by netting all the losses and gains of individual contracts into one deal.

House Financial Services Chairman Michael Oxley (R-Ohio) invited Greenspan to meet with House Judiciary Chairman James Sensenbrenner (R-Wis.) after Oxley held a bruising hearing on Wednesday on financial improprieties leading to Enron's demise. Complicated, off-balance sheet transactions were the company's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income over four years by \$569 million. Creditors are now lining up to collect on about \$40 billion in debt owed by Enron.

"Congress should not fail to enact netting legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk." Lawmakers are now questioning whether the legislation, which is also attached to a broader bankruptcy bill in both chambers, could be applied to Enron's bankruptcy case if the bill passes this year. Federal securities officials said it was unclear whether they could apply new contract netting laws retroactively. Oxley hopes to get the bill passed by next week, before Congress finishes its work for 2001.

House Probe Seeks Andersen's Records On Enron Audits

The House Energy and Commerce Committee yesterday asked Arthur Andersen to provide records relating to its audits of Enron Corp., Dow Jones reported. At the same time, the committee sent a letter to former Enron Chief Executive Jeffrey Skilling, requesting an interview with committee investigators within the next two weeks. The committee also formally sought interviews with David Duncan, Andersen's partner in charge of the company's Enron account, and Andersen employees involved in the company's audits. The requests came after Joseph Berardino, Andersen's chief executive, told the House Financial Services Committee on Wednesday that the auditing and consulting firm didn't receive critical information from its client concerning the special-purpose entities that brought about Enron's

financial downfall.

Enron Seeks Supplier to Take Over California University System Powers Contract

Enron Corp is looking for another electricity supplier to complete its contract with California's two public university systems, a spokeswoman for California State University said yesterday, reported Dow Jones. Enron Energy Services Inc.'s current contract with California State and the University of California Systems expires on March 31, 2004, said spokeswoman Clara Potes-Fellow. The Enron subsidiary filed for chapter 11 bankruptcy protection Dec. 2.

Enron Contract Hearing Moved To Dec. 18

A bankruptcy court hearing regarding embattled Enron Corp.'s motion to negotiate, end or sell certain contracts has been postponed to next Tuesday, Dec. 18, Dow Jones reported. The meeting was originally scheduled for today. Earlier this week, Enron filed a motion with the court asking to be allowed to terminate with other parties certain contracts with safe-harbor provisions. The company doesn't want to ask for court approval every time it seeks to end an agreement.

In its filing, Enron had asked for authority to end some of these safe-harbor contracts and negotiate payments for each termination. Creditors, including Cinergy Corp.'s Cinergy Services Inc. and Wiser Oil Co., have filed objections. The motions and objections will be addressed at Tuesday's bankruptcy court hearing.

Bieger, Peter

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Sent: Thursday, November 29, 2001 6:19 PM
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Subject: Enron's Financial Woes Ripple Out Across Asia

November 30, 2001

Major Business News

Enron's Financial Woes Ripple Out Across Asia

By **JASON BOOTH, HENNY SENDER and RICHARD B. SCHMITT**

Staff Reporters of THE WALL STREET JOURNAL

The sudden deep financial troubles of U.S. energy giant **Enron Corp.** sent ripples of concern across Asia, damaging investments in Japan and potentially undermining businesses in South Korea and Australia.

The uncertainty for Asia is likely just beginning. If **Enron** files for protection under Chapter 11 of the federal Bankruptcy Code in the U.S., as many investors and financial experts now expect, it is likely to be one of the messiest, most complex bankruptcy cases ever, lawyers say. That is because of the multifaceted nature of Enron's once highflying operations, which combined a global energy business with a massive financial-trading operation involving tens of billions of dollars in complex contracts. A filing by **Enron**, with about \$13 billion in debt, would rank among the largest bankruptcy filings ever. **Enron** has about 800 trading partners or creditors.

The scale of the **Enron** collapse is huge, experts say. "There is nothing to compare it to," said Edward Tillinghast, a bankruptcy specialist with Coudert Brothers in New York. "The business was so large. There were so many different kinds of operating entities under the **Enron** umbrella."

On Wednesday, as the last-ditch merger with Dynegy Inc. unraveled, the company's credit was downgraded to "junk" status by rating agency Standard & Poor's Corp. The stock market, signaling that a bankruptcy filing is expected, hammered **Enron** stock, which was halted for a time on Wednesday, and knocked lower some of its financial backers' shares. **Enron** shares closed at 4 p.m. in New York Stock Exchange composite trading at 61 cents, down \$3.50, or 85%. Thursday morning in New York, **Enron** was trading down 33%, or 20 cents, to 41 cents. On Wednesday, **Enron** bonds also fell sharply, dropping to 50 cents on the dollar from around 55 cents, reflecting concerns over

how much creditors might receive if the company does seek bankruptcy-court protection.

Enron spokeswoman Karen Denne said the company is exploring its options and wouldn't comment on whether it has retained bankruptcy counsel.

The fallout in Asia was felt immediately on Thursday. The biggest news was in Sydney, where **Enron** Australia said it was suspending operations pending further developments regarding its U.S. parent. "We are now waiting for clarification about Enron's situation globally and will advise the local market once we have received that advice," legal counsel Rob McGrory said.

The announcement followed a warning by Standard & Poor's about counterparty exposure in the Australian electricity market, citing the overnight downgrade of **Enron**. "The recent developments with **Enron** serve as a further example of the credit risks faced by energy market participants as they seek to manage their market risks in Australia's volatile power market," said Laurie Conheady, an associate director at Standard & Poor's.

Similarly, Enron's presence in South Korea appears to be nearing an end. According to officials at SK Corp., **Enron** plans to sell its 50% stake in joint venture energy distribution firm SK-Enron Co. SK-Enron was formed in 1999, and controls about 25% of South Korea's natural-gas market, according to the firm's Web site.

Analysts said that **Enron** had offered to sell its stake to SK Corp., yet the Korean partner said it has no plans to buy the shares. "We already hold 50% ... we don't need the rest," said a company spokesman, Daniel Youn.

Enron was also considered a potential buyer of power generation assets from South Korean government-controlled Korea Electric Power Corp. Kepco is looking to sell assets as part of a wider privatization drive.

Pressure elsewhere in the region was felt primarily in the financial markets. In Tokyo, the value of money management funds Nikko Asset Management Co., UFJ Partners Asset Management Co., Japan Investment Trust Management Co. and Sumisei Global Investment Trust Management Co., fell due to their exposure to **Enron** debt, which amounted to about 40 billion yen (\$324.9 million). **Enron** news also sparked volatility in the copper and U.S. dollar market, according to traders.

Other financial backers of **Enron** were negatively effected as well. J.P. Morgan Chase and Citigroup, which have invested hundreds of millions of dollars in hopes of keeping the Enron-Dynegy deal alive, saw their stocks fall on Wednesday trading in the U.S. On Thursday morning Citigroup shares posted slight gains, rising 19 cents to \$47.99, while J.P. Morgan Chase shares were flat at \$37.50. J.P. Morgan Chase said in a statement it has about \$500 million of unsecured exposure to **Enron** entities, including loans, letters of credit and derivatives. It said it also has secured exposures, including \$400 million in loans secured by **Enron** pipelines.

Besides banks and bondholders, dozens of companies, municipalities and utilities in the U.S. that had signed multiyear power contracts with **Enron** may be left in the lurch. Over the years, the likes of retailer J.C. Penney Co., and shopping-mall company Simon Property Group signed on with **Enron**, as it undercut local utilities in newly deregulated markets.

-- *Rebecca Smith and Robin Sidel contributed to this article.*

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Subject: DJ: IN THE MONEY-2:Collateral Key To Counterparties Recovery

November 29, 2001

IN THE MONEY-2:Collateral Key To Counterparties Recovery

Dow Jones Newswires

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although **Enron** has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue **Enron** all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. **Enron** shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, **Enron** is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although **Enron** and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by **Enron** on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of **Enron** took a nose dive after Dynegy rescinded its merger offer, with trading levels indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to **Enron**.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

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Subject: A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses bankruptcy netting issues)

November 29, 2001

IN THE MONEY: Enron's Derivatives Could Test Courts

By **CAROL S. REMOND** and **PHYLLIS PLITCH**

A Dow Jones Newswires Column

NEW YORK -- Prepare for the largest test in bankruptcy history of safe harbors designed to protect the liquidity of the nations' financial system.

Enron Corp.'s (ENE) much-anticipated bankruptcy filing, if it indeed comes, is certain to be precedent setting. First, in terms of sheer magnitude, we're talking about \$62 billion in assets. But also because it's likely to involve hundreds, if not thousands, of counterparties intertwined with **Enron** in various financial and energy derivative transactions.

Unlike other creditors whose claims will be stayed under U.S. bankruptcy laws, those counterparties will vie to unwind their trades, may they be "power forwards" or credit derivative contracts, in order to find more worthy hedging partners.

Built in the bankruptcy code are exemptions for securities or commodities contracts. These safe harbors were developed over the years as a sort of security blanket for the vital hedging functions that these transactions provide.

"These special rules are designed to avoid a domino effect," said a bankruptcy lawyer, who like many contacted for this column, declined to be identified given the likelihood that he'll end up representing one or many parties involved in **Enron's** expected Chapter 11 filing.

Counterparties claiming redress through these exemptions should be able to net out their various derivative contracts with **Enron**, attempting to use whatever collateral was pledged under those transactions to quantify how much money they owe to or are owed by **Enron**. All of that is normally done on the side, without prior bankruptcy court approval.

The problem is that **Enron** will likely question attempts to unwind those trades and take issue with the manner in which its counterparties netted their exposure to the company, observers say.

Given the large number of parties involved and the magnitude of **Enron's** recent losses, the treatment of derivative contracts could be further complicated by the market's lack of understanding of just how much value is left in **Enron's** assets. That's an issue that will permeate the proceedings with all of **Enron's** stunned creditors. On top of its derivative exposure, **Enron** is on the hook for roughly \$13 billion in debt.

As part of its energy trading operations, **Enron** was a party to billions of dollars of derivative contracts designed

to enable the company and its trading partners to hedge, among other things, against rapidly fluctuating energy prices and foreign exchange volatility - stabilizing otherwise uncertain markets. By its own account, as of December 2000, **Enron** was involved in roughly \$20 billion of derivative contracts on which it owed its counterparties. More recent numbers aren't available.

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

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Ellett, Martha

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Subject: ABI Website (12/17): Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

House Judiciary Chairman James Sensenbrenner (R-Wis.) is standing firm in his desire to move so-called netting language as part of a comprehensive bankruptcy reform bill, a spokesman said, CongressDaily reported. On Thursday, Sensenbrenner met with House Financial Services Chairman Michael Oxley (R-Ohio) and Federal Reserve Chairman Alan Greenspan to discuss the possibility of passing netting legislation this year separate from the beleaguered bankruptcy bill. Federal financial regulators and Financial Services Committee lawmakers have renewed their calls for that action, in light of the recent collapse of Enron. The netting provisions are designed to enable quick resolution to complex financial contracts in the event a party in the deal went bankrupt. However, the netting provisions are one of the few consensus areas in the underlying bankruptcy bill, which is currently in conference, and proponents are not apt to separate them out. "There was agreement between everyone that the netting provisions [are] very important," a Sensenbrenner aide said. "He's trying to get the bankruptcy bill moving, and that's where we are right now."

Ellett, Martha

From: Carleton, Norman
Sent: Friday, January 04, 2002 5:30 PM
To: Roseboro, Brian; Bair, Sheila; Gross, Jared; Wiedman, Mark; Bitsberger, Timothy; Smith, Amy
Cc: Schultheiss, Heidilynne; Nickoloff, Peter; Ellett, Martha; Gabilondo, Jose; Sutton, Gary
Subject: FW: Draft Memo on Enron/CFMA Articles

Attached is a memo that details our first attempt to clarify what the press has been saying in regards to Enron and the Commodity Futures Modernization Act.

I talked to the Ken Raisler, a New York lawyer, about this. He told me that Enron did not directly lobby the administration about the CFMA but was part of an energy coalition, which Mr. Raisler represented, that did lobby on this issue. The exempt commodity/electronic trading facility provision in the CFMA did not directly benefit Enron since EnronOnline was not structured as a trading facility as defined in the CFMA. Therefore, the major beneficiaries of these provisions are Enron's competitors, such as the InterContinental Exchange and TradeSpark, which are structured as electronic trading facilities. Enron did get the legal certainty it wanted that the CFTC cannot regulate EnronOnline. [(b)(5)]

Ken also told me that he had talked to then Assistant Secretary Lee Sachs about the exempt commodity issue. According to Ken, Lee told him that the Treasury would not oppose the CFMA because of the exempt commodity issue but encouraged the industry to reach a compromise with the CFTC. In the end, Wall Street firms, energy firms, and the futures industry, as well as the PWG (including the CFTC) all supported passage of the CFMA.

-----Original Message-----

From: Schultheiss, Heidilynne
Sent: Friday, January 04, 2002 5:10 PM
To: Carleton, Norman
Subject: Draft Memo on Enron/CFMA Articles

Attached is the draft memo on the Enron articles that asserted that the CFTC and PWG objected to the energy exclusion provisions of the CFMA. The three news articles are downloaded as the latter pages.



enroncfma.doc

DRAFT
January 4, 2002

TO: Norman Carleton
Director
Office of Federal Finance Policy Analysis

FROM: Heidilynne Schultheiss
Financial Economist
Office of Federal Finance Policy Analysis

SUBJECT: Dow Jones Newswires and Washington Post Articles on Enron and the
Commodity Futures Modernization Act of 2000

BACKGROUND

[(b)(5)]

0020000000491

[(b)(5)]

ISSUE AND DISCUSSION

[(b)(5)]

[(b)(5)]

CONCLUSION

[(b)(5)]

[(b)(5)]

Campaign Gifts, Lobbying Built Enron's Power In Washington

By Dan Morgan and Juliet Eilperin
Washington Post Staff Writers
Tuesday, December 25, 2001; Page A01

During the administration of the first President George Bush, a new party fundraiser named Kenneth L. Lay was invited to spend the night at the White House. The sleepover was an early coup for the chairman of Enron Corp. and a harbinger of things to come.

Over the following decade, Lay and Enron poured millions of dollars into U.S. politics, cultivating unequal access and using the entree to lobby Congress, the White House and regulatory agencies for action that was critical to the energy company's spectacular growth. Now, with Enron's sudden bankruptcy, public attention has turned not only to the financial practices that brought the company down, but to what its far-flung political operations say about the country's campaign finance system.

Some Democrats in Congress are spoiling for an opportunity to use Lay and Enron to embarrass the Republican Party, which received most of the company's largess over the years. They want to look into such things as Enron's relationship with Phil Gramm (R-Tex.), ranking minority member on the Senate Banking Committee and chairman of the committee at a time when his wife, Wendy L. Gramm, was serving on Enron's board. Last year, Gramm's committee approved legislation that included a key provision exempting parts of Enron's massive energy trading operation from federal oversight.

"I think the Enron story is going to turn out to be an enormous political story," said Rep. Henry A. Waxman (D-Calif.), ranking minority member on the House Energy and Commerce Committee.

The ties of Lay to the White House and GOP leaders, he added, were so multilayered that Republicans are likely to be reluctant to pursue them. But he made clear that he intends to do so and expects the Democratic-controlled Senate to follow suit.

Enron also cultivated relationships with Democrats, however. Lay played golf in Vail, Colo., with President Bill Clinton, and Enron gave hundreds of thousands of dollars to Democratic campaign committees and Democrats in the House and Senate, including Sen. Charles E. Schumer (N.Y.) and Rep. Martin Frost (Tex.), the ranking minority member on the House Rules Committee.

A Routine Cost for Some

Advocates of campaign finance reform say the Enron case vividly illustrates the ties between politics and big money, though it's unclear that the company's political operations were radically different from others for whom political contributions have become a routine cost of doing business.

"There are aspects of [the Enron case] that remind us of the savings and loan scandal, in the sense that a powerful institution used big money to buy influence and protect itself while ordinary citizens ended up losing their life savings," said Fred Wertheimer, president of Democracy 21, a Washington interest group, referring to a banking controversy in the 1980s. Enron's ties to Republicans and the present Bush administration were especially close. Lay raised large sums for George W. Bush's campaign.

Enron, Lay and its employees have contributed \$572,350 to him over his career, far more than any other company, according to the Center for Public Integrity in Washington.

Several top administration officials have been Enron advisers or stockholders. Enron, Lay and other senior executives contributed \$1.7 million in soft-money donations to politicians in the 2000 election cycle, two-thirds of it to Republicans, according to the Center for Responsive Politics.

Republicans clearly are sensitive to the potential political dangers. The National Republican Senatorial Committee recently returned a \$100,000 check collected from Enron in November, after deciding that "it was appropriate to give it back," spokesman Dan Allen said. The Republican Governors Association last week returned an Enron donation of \$60,000. What was unique about Enron, competitors and allies agree, was a brash and sometimes counterproductive political style.

Stories of Enron's hardball style are legion. In October 1999, for example, Jeffrey K. Skilling, then Enron's president, expressed his displeasure at Rep. Joe Barton's position on a deregulation bill pending in the energy subcommittee Barton chairs.

The meeting grew "heated and awful," said one person who was present, until Barton (R-Tex.), a usually mild-mannered man who keeps a Bible on his desk, exploded. "Jeffrey Skilling, I may not have your millions of dollars, but I am not an idiot," one witness recalled Barton saying. The meeting ended without Enron getting the changes it wanted. "Skilling did not get Washington," the source added.

"In their lobbying, they acted like the 800-pound gorilla they were," said Christopher Homer, a Washington lawyer who briefly directed Enron's government relations in 1997. Lay and Skilling declined interview requests, but Enron officials say they have no regrets about their use of money. "It got us name recognition," company spokesman Mark Palmer said. "Given the aggregation of our foes, we had to make sure that people knew what our argument was."

Jump-Starting Deregulation

Almost from its start in 1985 as a gas pipeline company, Enron needed help in Washington, and it got it in a series of actions by Congress and the Federal Energy Regulatory Commission (FERC) that undermined the traditional monopoly of utility companies over power plants and transmission lines.

Enron lobbied for several of the initial actions that set the stage for the era of a deregulated wholesale electricity market.

It supported the 1992 Energy Policy Act, which opened the utility companies' wires to electricity merchants such as Enron. It also worked with the Commodity Futures Trading Commission -- then chaired by Wendy Gramm -- for a regulatory exemption for futures trading in energy derivatives, which later became Enron's most lucrative business. Soon after Gramm stepped down in 1993, she was appointed to Enron's board.

Independent sources knowledgeable about these dealings, however, said Enron was not the main interested party. They said the lead was taken by several major oil companies, including British Petroleum Co. and Phillips Petroleum Co., which were concerned about the effect of CFTC regulation on their offshore trading in crude oil contracts. Wendy Gramm, an apostle of free markets, needed little convincing, the sources said.

That same year, Lay served as chairman of the committee organizing the Republican National Convention in Houston. Hedging its bets, Enron made a major contribution to a "street fair" in honor of Sen. John Breaux (D-La.), a key energy policymaker, at the Democratic convention. Key orders by FERC in 1996 also supported Enron's transformation into a freewheeling trader of gas, electricity and more exotic products, such as telecommunications services and sulfur-dioxide emissions credits.

The new rules ensured that Enron and other merchant companies could buy electricity from independent power plants and sell it to distant customers, using transmission lines borrowed from utility companies.

Even Enron's harshest critics credit Lay with putting new issues -- such as electricity deregulation -- on the Washington agenda. Lay, a former Interior Department official with a PhD in economics, became "the ambassador" for deregulation, one former employee said.

Throughout the 1990s, Enron's agenda was opposed by coal-burning utilities, especially ones in the Southeast, which viewed the emerging wholesale electricity market as a threat to their turf. Many of these, such as Atlanta-based Southern Co., had impressive political funding and connections of their own.

But with the explosive growth of Enron and the GOP takeover of Congress in 1995, the company's soft-money donations -- unregulated and unlimited gifts to political parties and organizations -- jumped sharply. They went from about \$136,000 in the 1993-94 election cycle, to \$687,000 in 1996 and \$1.7 million in 2000, according to the Center for Responsive Politics.

Frustrated by Washington

For all its connections, sources say, Enron often found Washington frustratingly slow and unreliable.

The company placed a substantial bet on federal support for limits on the greenhouse gases causing global warming. Enron officials hoped to exploit a new market in industry for carbon-emissions credits, similar to the one that developed for sulphur credits after clean-air legislation was enacted in 1990.

Lay joined the Union of Concerned Scientists and environmental groups in calling for curbs on carbon in the atmosphere. The Clinton administration was supportive, but this year the Bush administration reneged on a campaign pledge to impose limits on greenhouse gas emissions from coal-burning power plants.

A multimillion-dollar lobbying campaign in Congress to secure legislation requiring states to institute retail electricity deregulation fared even worse.

Enron hired former New York representative Bill Paxon, a leading conservative, to run Americans for Affordable Electricity, which commissioned studies and recruited business support for deregulation. But the legislation never made it out of a congressional subcommittee. At the same time, Enron was growing restive over the slow pace of deregulation in the wholesale electricity market, the core of its business. Large parts of the country, especially the Southeast, were still monopolized by regulated utilities that limited the opportunity for trading gas, electricity and energy derivatives.

Political Pragmatism

Enron's political pragmatism was demonstrated in the 1998 New York Senate election, when it dropped its support of the Republican incumbent, Alfonse M. D'Amato, after Democrat Schumer endorsed Enron's goal of wholesale deregulation, sources said. Lay reciprocated by hosting several fundraisers for Schumer, and Enron's political action committee contributed \$7,500 to the Schumer campaign.

The company's lobbying team expanded along with its political spending. It outgrew the two-person operation that existed in 1989 and began to reflect Enron's interest in everything from pipeline safety and derivatives trading to Overseas Private Investment Corp. loan guarantees. By last year, its lobbying expenses exceeded \$2 million a year and covered a raft of big-name consultants, such as former Montana governor Marc F. Racicot, the new Republican National Committee chairman, and former top aides to House Majority Leader Richard K. Armey (R-Tex.) and House Majority Whip Tom DeLay (R-Tex.)

The hazards of Enron's efforts to connect with both parties were evident last year, when shortly before the November election, the company picked a Clinton administration Treasury official, Linda Robertson, to run its Washington office.

A perturbed DeLay, whose campaign and related funds had received more than \$100,000 from Enron and Lay, briefly "excommunicated" Enron, a House source said. Robertson was not invited to a series of meetings of electricity lobbyists held in DeLay's office last July, though an Enron official did finally attend the sessions.

Enron had more success when Congress overwhelmingly approved legislation last year containing a provision precluding the Commodity Futures Trading Commission (CFTC) from regulating Enron's trading in energy derivatives. These instruments are traded largely between electricity dealers and big wholesale consumers, which use them to hedge against price swings that could adversely affect their businesses.

The exemption, tucked into broader legislation that established the legality of unregulated derivatives trading by banks, was not supported by a Clinton administration working group, largely because of opposition from the CFTC. Since the departure of Wendy Gramm, some in the agency had lobbied for tighter control over the exploding energy derivatives market. The legislation passed through the Senate Banking Committee, then chaired by Phil Gramm, who has received \$97,350 from Enron employees and its political action committee since 1989. A Gramm spokesman said the senator does not recall talking to his wife, an Enron director, about the energy provision and played "no role" in negotiating it. Wendy Gramm did not return phone calls seeking comment.

Enron was a primary player, with Koch Industries Inc., a large, privately held oil and gas company based in Wichita, in pushing for the exemption, a source said. But the company's main effort was focused on the House Agriculture Committee, where the legislation originated. Its chairman and ranking Democrat, Texas Reps. Larry Combest (R) and Charles W. Stenholm (D), respectively, were among the top recipients of Enron campaign donations in the House since 1989.

The CFTC objected strenuously to the initial draft marked up by the committee, but the Texas congressmen helped work out a compromise between Enron and the agency. The compromise was then offered by Rep. Jerry Moran (R-Kan.), the home-state congressman of Koch Industries and a recipient of campaign donations from Enron and Koch in the last election cycle. Moran did not return a phone call seeking a comment.

Early this year, Lay seemed to be at the height of his political power, getting a private meeting with Vice President Cheney to discuss the administration's energy policy proposals and weighing in on key nominations to FERC.

Curtis Hebert Jr., FERC's chairman at the time, has reported that Lay called him and implied that Enron would urge the newly installed Bush administration to keep him in the job -- if he changed his views to support Enron's position for faster electricity deregulation. Lay contended that Hebert called him to ask for support.

Hebert was not reappointed. He was replaced by Texas lawyer Pat Wood III, a strong advocate of deregulation who had the backing of Lay and Enron.

Ironically, since Enron's fall, both FERC and Congress seem to be moving in the direction of the deregulated markets Lay and Enron lobbyists had pushed for.

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CORRECTION

Wednesday, December 26, 2001; Page A02

A Dec. 25 article incorrectly reported the action taken by the Senate Banking Committee, chaired by Phil Gramm (R-Tex.), on a bill that exempted much of Enron Corp.'s trading activities from federal regulation. The legislation was approved by the Senate Agriculture Committee.

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Enron Executives Face Subpoenas

Senate Panel Also Orders Testimony of Directors

By Peter Behr and Dan Morgan

Washington Post Staff Writers

Thursday, January 3, 2002; Page E01

A Senate committee announced yesterday that it is subpoenaing top executives and directors of the bankrupt Enron Corp. to determine their roles in the Houston company's epic collapse.

Three other congressional committees already are digging into the Enron failure, but the subpoenas announced yesterday are believed to be the first of the congressional probes. Among the likely recipients is Wendy Gramm, an Enron director who is the wife of Sen. Phil Gramm (R-Tex.).

Sen. Carl M. Levin (D-Mich.), chairman of the Governmental Affairs Committee's permanent subcommittee on investigations, said the panel also will subpoena financial and trading records from Enron and audit documents from its accountant, Arthur Andersen LLP.

Enron's attorney, Robert Bennett, called the subpoenas "totally unnecessary" and said "we are fully cooperating with Congress."

Although Enron Chairman Kenneth L. Lay did not show up for two earlier congressional hearings on Enron's bankruptcy, he has agreed to testify next month before the Senate Commerce Committee, Bennett said.

Enron has turned over nearly three dozen boxes of documents to the House Energy and Commerce Committee, Bennett said. "I don't question the legitimacy of an inquiry [into Enron's failure], but it's not a measured approach to have a half-dozen different committees doing this at the same time," he said. "It can lead to a circus atmosphere and a lot of wasted time and effort." The full Governmental Affairs Committee has scheduled a hearing for Jan. 24 on Enron's use of a large number of partnerships that kept billions of dollars of corporate debt off the company's books. The hearing will also examine whether federal regulators missed warning signs of the company's trouble.

Accounting errors involving the private partnerships caused Enron to overstate its earnings by half a billion dollars over the past four years. Enron's disclosure of the overstatement, in November, triggered a final plunge in the company's stock price and the company's bankruptcy filing Dec. 2.

Sen. Joseph I. Lieberman (D-Conn.), chairman of the full committee, said, "The focus is, how did this corporation collapse, and what can we do to make sure that something like this never happens again?"

Lieberman's committee joins an already crowded field of Enron inquiries. The House Energy and Commerce Committee has sent investigators to interview Enron officials in Houston.

Subcommittees of the House Financial Services Committee and the Senate Commerce Committee have already held hearings.

But Lieberman's panel is the top investigative committee of the Senate. Under Republican leadership during the Clinton administration, then-chairman Fred D. Thompson (R-Tenn.) headed an investigation of Bill Clinton's 1996 presidential campaign fundraising.

Levin and Lieberman said they intend to look into the close ties between Lay and President Bush, a connection that some Democratic Party officials say they hope to take advantage of in this year's congressional election campaigns.

Levin said he wants to know what advice Lay, who was a large contributor to the Bush campaign, gave to officials of the new administration as it formulated energy policy a year ago. Enron "also had close relationships with some Democrats, it's fair to say," Lieberman acknowledged. He said he expected the inquiry to be bipartisan and to have Thompson's support. "We are going to work together," Lieberman said.

Lieberman said the committee also wants to learn whether federal regulators have the authority to adequately oversee the complex commodity trading and financial transactions that were the foundation of Enron's rapid growth over the past three years.

Lieberman noted that much of Enron's trading in energy derivatives was exempt from regulation by the Commodity Futures Trading Commission, and he said a focus of the inquiry would be whether this allowed the company to hide some transactions.

Enron was an active player in lobbying for the exemption beginning in the early 1990s, according to sources. The exclusion was initially approved by the CFTC in 1992, and in 2000 Congress endorsed it as part of the Commodity Futures Modernization Act, despite concerns of some senior regulators.

At a joint hearing on the legislation by the Senate Banking and Agriculture committees in June 2000, then-CFTC chairman William J. Rainer spelled out his "reservations" about the exclusion and said that "the case for it has not been made" with regard to energy derivatives.

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December 18, 2001

Senator Eyes End To Enron-Type Special-Purpose Entities

Dow Jones Newswires

WASHINGTON -- U.S. Senate Commerce Committee Chairman Fritz Hollings, D-S.C., pledged Tuesday to introduce legislation to eliminate the sorts of financial accounting that led to the financial collapse of Enron Corp. (ENE).

At a committee hearing on the Enron debacle, Hollings called for legislation to eliminate the use of special-purpose entities, which are partnerships or trusts through which companies keep their debt off the books and, in Enron's case, overstate earnings.

Hollings said such off-the-balance-sheet transactions should end in order to protect investors. Hollings also was highly critical of the amount of insider stock selling by top Enron officials. He noted that Enron Chairman Kenneth Lay and former Chief Executive Jeffrey Skilling each sold shares in recent months for more than \$60 million, while members of Enron's board sold shares worth more than \$160 million.

"The selling of Enron was prolific," Hollings said, calling the insider selling "a screaming red flag."

If Enron officials felt the stock was undervalued, as they publicly attested, "why were they cashing in?" Hollings said.

Hollings also said there was plenty of blame for the "shenanigans" associated with Enron's collapse, which he likened to a "cancer." He cited Enron's role in persuading the Commodity Futures Trading Commission against the Clinton administration's call for regulation of energy derivatives, and subsequent congressional action to exempt from regulation the highly complex energy derivatives Enron's special-purpose entities engaged in.

"We are all guilty for letting it happen," Hollings said of Enron's collapse.

Sen. Byron Dorgan, D-N.D., chairman of the committee's consumer affairs panel, described Tuesday's hearings as the first of several that will delve into the roles in Enron's financial collapse played by: Enron officials; Arthur Andersen, Enron's outside auditor; Wall Street analysts, and regulators.

"This is about an energy company that morphed into a trading company involved in hedge funds and derivatives. It took on substantial risks, created secret off-the-books partnerships and, in effect, cooked the books under the nose of their accountants and investors," Dorgan said.

Dorgan noted that Lay, Enron's chairman and chief executive, has agreed to testify at a future hearing. Dorgan also said the committee will invite Skilling, Enron's former chief executive, and Andrew Fastow, Enron's former chief financial officer, to testify at the same hearing.

"Was this just bad luck, incompetence and greed, or were there some criminal or illegal actions, as has been suggested by the accounting firm that reviewed Enron's books?" Dorgan said.

Such a venture would help shore up EnronOnline which was once one of Enron's most valuable asset.

Spokesmen for J.P. Morgan Chase, Citigroup and UBS declined to comment officially. A spokesman for **Enron** wasn't immediately available.

Enron filed for bankruptcy protection on Dec. 2 after its debt was downgraded to junk status and investors and clients lost confidence in the company over accounting irregularities and off-balance-sheet liabilities. The Chapter 11 filing is the largest in U.S. history, with more than \$31 billion in reported debt and billions more in as-yet unreported off-balance-sheet liabilities.

-By Carol S. Remond; Dow Jones Newswires; 201 938 2074;
carol.remond@dowjones.com

Gabilondo, Jose

From: Carleton, Norman
Sent: Thursday, December 06, 2001 4:26 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorenna (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: US Power Markets Showing Few Scars From Enron's Fall

December 6, 2001

US Power Markets Showing Few Scars From Enron's Fall

By JON KAMP and KRISTEN MCNAMARA

OF DOW JONES NEWSWIREs

NEW YORK -- U.S. electricity markets continued to hum along Thursday without **Enron Corp.**'s (ENE) formerly dominant presence, and with few signs the energy giant's sudden departure is having any impact on prices.

The unwinding of trading positions with **Enron** has caused some prices to fluctuate recently. But such trading activity has waned, and fundamental factors like weather conditions and natural gas prices have regained their place as key market drivers, traders said.

"I think everybody's done unwinding," said one power trader, who noted that **Enron's** Web-based trading platform wasn't showing any prices Thursday. "There's not a market open on **EnronOnline**."

Enron wouldn't comment on the status of its trading operations or **EnronOnline** Thursday.

Even in the Northeast U.S., one area where forward power prices were moved recently by **Enron's** troubles, prices were once again moving on normal market conditions, traders said.

"Right now, everything's back to normal," a New York trader said, with "no influence at all" from **Enron**.

Prices for Northeast electricity scheduled for delivery months from now fell late last week, as traders sought to resell power previously contracted with **Enron** into an already saturated market. Early this week, traders who had purchased electricity from **Enron** and dissolved those contracts emerged as buyers, sending prices back up. That trend seemed to end Thursday, as traders finished flattening positions with **Enron**.

Stronger natural gas futures prices bolstered so-called forward power prices in the Northeast Thursday. The price of natural gas, fuel for a growing number of power plants, is often a major influence on forward electricity

markets.

The price for power scheduled for delivery in New York City during summer 2002 traded at \$72 per megawatt-hour Thursday, up \$1 from the price seen for the same contract the previous day. Prices for winter power also rose \$1 in New England, pushed up by with natural gas, to trade at \$38/MWh.

A similar increase in Midwest and Southeast forward power trading - linked by some traders to unwinding **Enron** positions - also appears over with little impact seen on prices, traders said.

Gabilondo, Jose

From: Carleton, Norman
Sent: Thursday, December 06, 2001 4:29 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novoy, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Vast Dealings With Enron Helped Diversify Risk, Some Say

December 6, 2001

Vast Dealings With Enron Helped Diversify Risk, Some Say

By JOE NIEDZIELSKI

OF DOW JONES NEWSWIRES

NEW YORK -- **Enron** Corp.'s (ENE) financial dealings rippled throughout global financial markets, but in some ways, the spread of risk among hundreds of institutions has softened the blow from the biggest bankruptcy in U.S. history.

At a time when many companies are putting their house in order with regards to **Enron** - for example, by disclosing bond holdings or closing out derivatives contracts - Standard & Poor's noted Thursday that credit exposure to **Enron** isn't concentrated in any one institution, country, or even industry.

Total credit exposure to **Enron** likely exceeds the \$33 billion on **Enron** Corp.'s balance sheet, but those exposures come in many forms, not all of which are equally risky, S&P said. "The good news is that while some of the exposures may be material, they do not appear, at least on the basis of initial reports, to be life threatening to any institution," the rating agency said.

The tone of S&P's remarks Thursday echoes that of some reports this week from Wall Street fixed-income firms. Merrill Lynch said almost every global financial entity has derivative contracts outstanding with **Enron**. "This is actually a positive as risk to **Enron** is spread over a large number of counterparties," Merrill said.

But what's been difficult for agencies like S&P to get at, is the full picture of **Enron's** exposure throughout financial markets, such as derivatives. **Enron's** liabilities to counterparties, or the amount it owed to third parties under derivatives contracts, was around \$18.7 billion as of Sept. 30, according to Swaps Monitor, the New York firm that tracks over-the-counter derivatives.

A lot of **Enron's** derivatives counterparties who didn't want to keep the full share of their **Enron** exposure on their trading books may have offloaded some of the risk in the credit derivatives market, or through surety bonds issued by insurers. That in turn created more financial contracts or synthetic bonds that use credit derivatives exposed to an **Enron** failure.

"We, by no means, have gathered the complete picture of who's holding the bag," S&P's Tanya Azarchs told

Dow Jones Newswires.

Last week, S&P noted about a \$3.3 billion notional, or face value, of **Enron** credit exposure in the synthetic collateralized debt obligations, or CDOs, that it rates. In these deals, the credit risk of a portfolio of obligors is transferred to a swap counterparty and to investors who buy notes ranging from high credit quality to slightly speculative. **Enron** also was a swap counterparty on some \$3 billion face value worth of deals rated by S&P.

And **Enron** was among the more actively-traded names in the single name credit default swap market, insurance-like contracts between two counterparties that protect against defaults and other credit events like restructuring. Estimates from CreditSights in New York put the counterparty exposure to **Enron** in the default swap market in the range of \$8 billion to \$10 billion.

But Enron's credit exposure isn't concentrated among financial institutions like it may have been at one time, S&P said Thursday.

The bonds are held mostly by insurance companies, pension and mutual funds, and CDO structures, which, in turn, may be held by insurance and banking organizations, S&P said.

Among banks, the highest exposures in dollar terms are to be found at Enron's lead banks, J.P. Morgan Chase & Co. (JPM) and Citigroup Inc. (C), S&P said. But much of that exposure is secured.

As of Thursday, the estimated direct exposure of U.S. insurers' asset portfolios to securities issued by **Enron** and its affiliates is more than \$3.5 billion, which is not likely in itself to "negatively affect" the ratings of those insurers, S&P added.

The derivatives exposures present the more "complicated and incomplete" picture. But **Enron**, prior to its demise, was a triple-B-rated counterparty, meaning that institutions on the other side required higher levels of collateral.

And S&P added that those with **Enron** exposure often sought to protect themselves by obtaining credit protection on the **Enron** name in the form of credit default swaps, letters of credit, or bank guarantees. This transferred the risk beyond the natural counterparties on derivative transactions, which are otherwise a relatively small group of companies.

"The mechanism of diversifying risk, by laying it off in a variety of markets, worked," Azarchs said.

-By Joe Niedzielski, Dow Jones Newswires, 201-938-2039; joe.niedzielski@dowjones.com

Gabilondo, Jose

From: Carleton, Norman
Sent: Thursday, December 06, 2001 4:25 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Enron's \$1.5B DIP Loan Syndication To Start Next Week

December 6, 2001

Enron's \$1.5B DIP Loan Syndication To Start Next Week

By CAROL S. REMOND

Of Dow Jones Newswires

NEW YORK -- **Enron** Corp.'s (ENE) \$1.5 billion interim financing package will be marketed for syndication beginning next week.

A final term sheet for the deal, which was preliminarily approved by the bankruptcy judge who oversees Enron's reorganization on Dec. 3, is now in the process of being finalized, people familiar with the matter said Thursday.

J.P. Morgan Chase & Co. (JPM) and Citigroup INC. (C), Enron's two lead banks, have been organizing the rescue loan, known as debtor-in-possession, or DIP, financing.

That money is needed for the company to continue to operate and to protect any value left - value that could be crucial for creditors to recoup any of their losses.

Under the terms of the deal, **Enron** has already received \$250 million from J.P. Morgan Chase and Citigroup. Another \$250 million is expected to become available in the next couple of weeks, after Enron's lenders approve the company new business plan.

The final \$1 billion in funding is contingent on final approval of the court and successful syndication of the loan. Some of that last installment will be used to repay a \$550 million loan extended by Citigroup and J.P. Morgan Chase to **Enron** last month.

Although Enron's rapid fall has left a number of financial institutions exposed to the company's fiscal and accounting woes, the people familiar with the matter said they expected most syndicate players to be interested in taking on some of the DIP financing. In a loan syndication, lead lenders offload a large part of the loan onto other banks, thereby sharing the risk with the so-called syndicate group.

Most banks are willing to take on DIP lending because such exposure is senior to all other claims in bankruptcy court. DIP loans are also attractive because they carry higher interest rates.

In the case of **Enron**, DIP financing comes at a cost of 350 basis points (3.5 percentage points) over the London Interbank Offered Rate, or LIBOR. That's 100 basis points wider than the rate under which Citigroup and J.P. Morgan Chase recently loaned \$1 billion to **Enron**, which consisted of a \$550 million loan secured by Enron's Transwestern pipeline and a \$450 million loan secured by the company's Northern Natural Gas pipeline.

The final DIP package is scheduled to be approved by the bankruptcy judge on Jan. 7.

Meanwhile, J.P. Morgan Chase and Citigroup are said to continue working with UBS AG (UBS) on a plan to form a joint venture under which UBS' subsidiary UBS Warburg would take over Enron's trading operations.

From: Meg Donovan
To: BERGK, CHRISTOPULOS, CLAPPG, KUHLWM, SILLSG, ex.m...
Date: 12/14/99 1:10pm
Subject: DR Power Sector - Cogentrix -Reply

Todd:

[(b)(5)]

0050000001184

[(b)(5)]

>>> ex.mail."tcrawford@worldbank.org" 12/13/99 05:37pm >>>

[(b)(5)]

Just thought you might want to know.

----- Forwarded by Todd W. Crawford/Person/World Bank EDs on
12/13/99 05:30 PM -----

Orsalia Kalantzopoulos
12/10/99 08:37 AM
Extn: 82638 LCC3C

To: Todd W. Crawford Eds
cc:

Subject: DR Power Sector - Cogentrix

Todd:

Please see the attached from Max.

As you know, the Bank, IDB technical staff, and members of IDB senior management
have raised concerns, but with very limited success. Orsalia

----- Forwarded by Max B. Pulgar-Vidal/Person/World Bank on
12/10/99 05:36 AM -----

Philippe J-P. Durand
12/09/99 05:55 PM
Extn: 33244 LCSFE

0050000001185

To: Max B. Pulgar-Vidal
cc:

Subject: Re: DR Power Sector - Cogentrix (Document link: Max B. Pulgar-Vidal)

Max:

Aide memoire is almost ready. I hope to finish it tonight.
IDB has distributed the documentation on the Cogentrix project to its Board.
Presentation date is December 15 and approval is expected.

[(b)(5)]

regards.
Philippe.

Max B. Pulgar-Vidal
12/07/99 08:12 PM
Extn: 34839 LCC3C

To: Orsalia Kalantzopoulos
cc: Philippe J-P. Durand, Susan G. Goldmark

Subject: DR Power Sector - Cogentrix

Orsalia:

I met with Philippe Durand earlier today. He is finalizing the Aide-Memoire and will get back to me tomorrow. Once I meet with him again, we should meet with you. Meanwhile, a few items for your information:

[(b)(5)]

Max

0050000001186

CC:

MCGREWW, JOHNSTONR

00500000001187

* *
From: ex.mail."tcrawford@worldbank.org"
To: ex.mail("Bruce_Juba%iadb@worldbank.org"),Dom13.DOP...
Date: 11/19/99 10:51am
Subject: Re: DR Power Project

[(b)(5)]

[(b)(5)]

Todd

From: Bruce Juba/IDB-HQ/IDB@IADB on 11/17/99 01:29 PM

To: William Schuerch@William.Schuerch@Do.Treas.Gov@Smt@Iadb, David
Bloomgarden@David.Bloomgarden@Do.Treas.Gov@Smt@Iadb, Greg
Christopoulos@Greg.Christopoulos@Do.Treas.Gov@Smt@Iadb
cc: Lawrence Harrington/Idb-Hq/Idb@Iadb, Todd W. Crawford Eds

Subject: DR Power Project

[(b)(5)]

0050000001210

[(b)(5)]

CC: ex.mail("William_Schuerch%william.schuerch%do.trea...

From: ex.mail."tcrawford@worldbank.org"
To: ex.mail("gay.sills", "greg.christopoulos", "hofschire...
Date: 8/25/99 2:22pm
Subject: Dominican Republic -- US Concerns Follow-up

FYI, attached a message from the World Bank's country director indicating follow up action she took in Dominican Republic pursuant to concerns we had raised with her about the investment climate.

----- Forwarded by Todd W. Crawford/Person/World Bank EDs on
08/25/99 02:20 PM -----

Orsalia Kalantzopoulos
08/13/99 04:55 PM
Extn: 82636 LCC3C

To: Todd W. Crawford Eds
cc:

Subject: Dominican Republic -- US Concerns Follow-up

Todd:

I was in the DR this week for couple of days. During my visit I met with USAID and staff from the economic section of the US Embassy. [(b)(5)]

Please give me a call if you would like to discuss this further. Regards,
Orsalia

Todd Crawford
Advisor, Office of U.S. Executive Director
The World Bank
Phone: 202-458-0112
Fax: 202-477-2967
email: tcrawford@worldbank.org

0050000001213

DEALS

COMING UP

Enron goes global

Houston-based corporation Enron announced an annual turnover last year of \$6bn - making it one of the world's largest gas companies. Although most of their business is still in the United States, the company's greatest growth is through contracts beyond North America.

According to Rod Gray, Enron's senior vice president, finance and treasury, the world will need another 100,000MW of power over the next 10 years, most of that outside the US. If gas-fired stations account for even a small percentage of that, it is still a very big market.

"We are looking at countries with the following characteristics: those that are privatizing their infrastructure, those that have a natural gas potential which is under-utilised, and those with a need for more electrical power," says Gray.

"We see great opportunities for Enron to participate in all levels of development in such countries - from exploration and development to transporting gas through pipelines, liquid extraction and electrical power generation."

In the UK, Enron is in negotiation on four more plants, one of which, valued at \$400m, could go ahead later this year.

Another area of focus is Latin America, where Enron owns 3,800 miles of pipeline in Argentina, and has just completed a 110MW plant in Guatemala financed by the International Finance Corporation (IFC). In southeast Asia, the company has just completed one 100MW plant and is starting construction on another, both project financed with advice from Citibank, and with multilateral agency funding. Enron is also in discussion on possible future projects in Malaysia, Indonesia and China.

Eastern Europe and the former Soviet Union have proved frustrating frustrating markets for Enron. A number of projects are under consideration, including one in Bitterfeld, in eastern Germany, and a \$200m project for Russia's Gazprom to update part of its pipeline system and compressor stations. "But is a very slow process, and the lack of a sound legal structure is a great problem in that region," says Gray.

Much more promising is a possible \$2bn 500MW station in Turkey, where Enron is being advised by Kidder Peabody and Bankers Trust, in conjunction with the UK's Midlands Electricity.

Gray expects Turkey's relatively developed capital markets to play a significant role in the financing of the project.

In India the company is closest to success on a new development. Enron proposes building a 2,000MW power station south of Bombay. The project will cost between \$2bn and \$3bn, to be built in two phases, starting as a naphtha-fuelled operation which will later be converted to liquified natural gas (LNG).

It wasn't at all the agonising experience you often hear about

The project, in which Enron is being advised by Barclays Bank, is to be funded through a combination of World Bank, IFC and the US Export-Import Bank (Eximbank) loans, with further participation by the Overseas Private Investment Corporation (OPIC) and the Asian Development Bank (ADB). Gray expects at least \$100m in rupee financing to be raised from the Indian capital markets.

"Most of the risks in the natural gas sector are similar to other sectors, even though the operational factors may differ," notes Gray. "So, of course the

IN BRIEF

■ **Ligang power plant expansion:** China International Trust & Investment Corp Hongkong (CITIC Hongkong) has signed a letter of intent for a \$800m third-phase expansion of the Ligang power plant in Wuxi, Jiangsu province. The expansion involves the installation of two coal-fired generators, of up to 800,000 kilowatts. CITIC Hongkong has a 56% interest in the project.

■ **Tenneco Gas of Houston and British Gas join up:** The two companies have signed a joint agreement at the beginning of May to pursue natural gas transportation projects in South America. Joe Ramsey, Tenneco Gas senior vice president, international and power generation, says: "We have already identified a number of exciting opportunities that we will be pursuing under this agreement, using our combined experience in operating pipelines and developing gas-related business". Tenneco, which transports more than 14% of US natural gas along its 20,000 mile pipeline system, and British Gas are still targeting projects for joint bids.

■ **ADB loans to reduce Philippines energy shortage:** The Asian Development Bank (ADB) has approved loans of almost \$47m to help fund two power plants and combat the Philippines' critical shortage of electricity. The plants will serve the main island of Luzon, where power shortages in Manila last more than 10 hours a day. The ADB says one loan of \$40m will help pay for a 770MW thermal plant in Quezon province, south of Manila. The bank has also approved a \$7m equity investment in the Pagbilao power plant. The loan carries an annual interest rate of 10.25% with a repayment period of 14 years.

■ **Sinopec joins forces with Indonesian entrepreneurs:** China's state-owned China Petrochemical Corp (Sinopec) is joining a group of local businessmen led by president Suharto's second son, Bambang Trihatmodjo, to build an oil refinery and fertiliser plant in Indonesia. Sinopec's local partners include Trihatmodjo's Bimanatara Group, the Napan Group run by Henry Pribadi, Prayogo Pangestha's Barito Group, and Bank Danamon, headed by Usman Admadjaya. Sinopec's president, Sheng Huaren, says the partners will

know how much financing is required after studies are concluded. Costs are expected to be in the region of \$2bn if the group is to build a refinery with a capacity of 150,000 barrels of oil a day.

■ **Shanghai airport revamp:** A reconstruction project to extend Shanghai's Hongqiao airport is expected to begin next year and should be completed before 2005. With a planned area of 26.4 square km, the extended airport will be a multi-functional international air terminal composed of a bonded area, warehouses, processing workshops and passengers' service facilities. A new runway will be built before 1995 and a subway will be opened to the airport.

■ **Singapore power station planned:** The Singapore government plans to spend about \$5bn on a power station in Tuas, which will cater to the republic's electricity demand well into the next century. Trade and industry minister, S Dhanabalan, says the Tuas plant will be built in four stages, each of two 60MW units, yielding a total generating capacity of 4,800MW on completion of the project. The first 600MW will be operational in 1998 and the second by about 2005.

DEALS

COMING UP

Bio-Bio awards imminent

Contracts for the construction of a controversial 450MW hydro-electric power plant in Chile are expected to be awarded in June. The plant on the Bio-Bio River south of Santiago is to be built by a joint venture called Pangué.

The joint venture will be dominated by the part-privatized Chilean utility company Endesa, which will own approximately 90% of the shares. The International Finance Corporation (IFC) has also indicated that it will take a small equity stake in the joint venture.

Negotiations to finance Pangué are already underway. The estimated total cost is around \$470m, with \$120m being provided in the form of a loan from the IFC. Around half of this loan will be syndicated through the New York capital markets, with the balance provided by the IFC's own account. Another major element to the financing is expected from the export credit agency of the equipment supply contractor. Further funds will be provided by locally generated loans and share capital from Endesa.

The project is also likely to benefit from tied aid. Several development agencies have stressed that they are willing to

offer funds if companies from their countries are awarded the equipment supply contracts. One of the most prominent agencies involved in negotiations is the Swedish development agency BITS. The agency has stated that it is willing to offer a \$30m tied aid package if equipment supply and machinery supply contracts are awarded to ABB Generation in Sweden and the Swedish subsidiary of the Norwegian engineers Kvaerner Turbin.

However, the project has yet to pass the hurdle of a three-phase investigation into its environmental and social impact. The IFC has initiated the studies - the second phase of which should be ready by June. The first phase, which looked at the impact of the plant up-river, concluded in Pangué's favour. It stated that only a few families would have to be displaced and that the reservoir created by the plant's dam was small enough to have minimal impact. Phase two reports on the impact of the project down-river.

The Bio-Bio plan has a troubled history. The construction of a dam and power plant on the site was conceived in the 1970s, but only became a concrete proposal in the last decade. Under Pinochet's dictatorship, no attention was paid to the environmental impact and the project became the subject of furious criticism from ecology groups - criticism that has not entirely abated.

approach to structuring the financing is similar." What is less typical is the ease with which Enron operates within the framework of multilateral lending.

"If you work with multilateral agencies," says Gray, "it is important to understand their needs and give them the kind of structure they want. In this sense, they are really no different from any commercial bank lender. It can also be necessary to understand the relationship the host country has with the agencies. In Guatemala, for example, our co-operation with the IFC went very well. It wasn't at all the agonising, long drawn-out experience you often hear about."

A new aspect to the India project will be the participation of Eximbank. "Up to now," Gray explains, "we haven't worked very much with the export credit agencies, which used to lend to sovereign credit risks. They are now moving into limited recourse project financing. In India, for example, Eximbank will probably be a key player."

Enron usually takes a certain amount of direct project risk, including an equity stake if the company is to operate the facility after construction. But the company is not comfortable taking on country risk, according to Gray, and usually includes OPIC or MIGA insurance in its structures, as well as multi-lateral agency lending, to ensure this risk is offset.

More aircraft orders with Boeing: Shanghai Airlines has ordered \$450m worth of Boeing aircraft, bringing to almost \$1.5bn the figure China has pledged in orders to the depressed US aviation industry over the past month.

The Shanghai Airlines deal involves five B-767-300 wide-bodied 263-seat passenger jets, coupled with a separate order for aircraft engines from Pratt & Whitney. The other deals include China Aviation Supplies Corp's \$800m order for 20 medium-range B-737s and one B-757, and a \$150m engine order from CFM International, a joint venture company with General Electric of the US. The US aviation industry will be cheered by the decision not to remove China's most favoured nation (MFN) trade status.

Petronas in Malaccan oil refinery: Malaysia's national oil company, Petronas, and Conoco of the US are to jointly develop a second Petronas-controlled oil refinery in the Sungai Udang district of north Malacca.

Petronas had been looking for a partner for the refinery since last year when Japan's Idemitsu Kosan and a unit of South Korea's Samsung Corp pulled out of the project.

Petronas president, Azizan Zainul Abidin, says that while the state-owned company will hold the majority stake in the 60/40 joint venture, third parties might be invited to take some equity in the project. The new refinery, which will cost at least \$1.9bn to build with a refining capacity of 100,000 to 130,000 barrels a day of sour crude, is the second stage of Petronas' \$2.8bn integrated refinery complex. The first stage, now under construction, is wholly-owned by Petronas and is due to come onstream by next April with a capacity of 100,000 barrels per day of local sweet crude. Completion of the second refinery is scheduled for late 1997. Meanwhile, Petronas is also discussing a proposed refinery in Bintulu with Australia's Broken Hill Proprietary Co (BHP) and Taiwan's Chinese Petroleum Corporation (CPC).

Telecom projects hook up in Manila: Singapore Telecom and the UK's Cable & Wireless are members of two consortia competing for a multi-billion dollar telecommunications contract in the Philippines. The contract involves the development of a nationwide digital cellular mobile telephone system and an expansion of the country's over-stretched

telephone system. The proposal by Globe Telecom, a publicly listed Manila company, 29.6% owned by Singapore Telecom International and 36% by the local Ayala group, comprises a \$2bn investment package to install 1.2m telephone lines over the next seven years.

The proposal by Cable & Wireless, which has teamed up with Australia's government-owned Telstra International (the offshore operating arm of Telecom) and a local company, Bepres, involves an investment of \$3bn to install about one million telephone lines over five years. While 13 other proposals have been submitted to the government, the proposals from Singapore Telecom and Cable & Wireless are the largest.

Viet Sin to develop huge site: Singapore-based textile and consultancy group, Viet Sin, has secured a 1,000 hectare development site 40km west of Hanoi, Vietnam, which usually grants 50-year leases for foreign investment properties, has given Viet Sin a 70-year lease for residential projects and a 99-year lease for commercial buildings. Viet Sin says the development will include residential units, recreation and light industrial facilities.

0050000001422

Stewart, Elizabeth K.

From: Rao, Geetha
Sent: Monday, February 05, 2001 1:06 PM
To: Sampliner, Gary; Grewe, Maureen; Mills, Marshall; Christopoulos, Greg; Clapp, Gene; Stewart, Elizabeth K.; Wallace, James
Cc: Radelet, Steve
Subject: RE: India/Dabhol Meeting

John Hardy from Enron left a message this morning to inform us that Enron is planning on calling the GOI guarantee for the MSEB's missed payments tomorrow. Around 10 days ago, Enron invoked the State guarantee for MSEB's payments which the State did not honor, as of last Thursday's deadline. In the meanwhile MSEB submitted a small payment (approx \$2 million). The State had one week to submit the payment to Enron but opted to put in place an expert committee to review the Dabhol situation instead. In other news, Enron is close to selling its 30% stake in oil/gas fields offshore of Maharashtra and Gujarat.

Clapp, Gene

From: Rao, Geetha
Sent: Monday, January 22, 2001 3:14 PM
To: Christopulos, Greg; Grewe, Maureen; Mills, Marshall; Sampliner, Gary; Clapp, Gene
Cc: Radelet, Steve
Subject: RE: India/Dabhol Meeting

We will go ahead and have the meeting on Wednesday January 24 at 3 pm. This time works for Greg as well. Thanks, geetha

-----Original Message-----

From: Christopulos, Greg
Sent: Monday, January 22, 2001 3:04 PM
To: Rao, Geetha; Grewe, Maureen; Mills, Marshall; Sampliner, Gary; Clapp, Gene
Cc: Radelet, Steve
Subject: RE: India/Dabhol Meeting

Is there a chance this meeting can be moved up an hour or so?

-----Original Message-----

From: Rao, Geetha
Sent: Monday, January 22, 2001 3:01 PM
To: Grewe, Maureen; Mills, Marshall; Sampliner, Gary; Christopulos, Greg; Clapp, Gene
Cc: Radelet, Steve
Subject: FW: India/Dabhol Meeting

Attached is background material for the Enron meeting on Wednesday. Pls. note Mr. John Hardy will also be attending.

-----Original Message-----

From: Tom.Briggs@enron.com [mailto:Tom.Briggs@enron.com]
Sent: Monday, January 22, 2001 1:54 PM
To: geetha.rao@do.treas.gov
Subject: India/Dabhol Meeting

Geetha,

My apologies for the delay in sending this material. I have lost both my regular assistant and my temp so I am a bit overwhelmed.

John Hardy will be attending the meeting tomorrow at 3. [(b)(6)]
If you could remind me of the address of the meeting I would appreciate it. I managed to lose that as well.

John and I have a brief agenda: 1) we want to update you on Dabhol and 2) we want to discuss way in which the USG may become involved in encouraging market reform necessary to extract value out of our generating asset. Specifically, we want to focus on reiform at the Indian federal level that will be necessary to deliver power to customers other than MSEB.

We look forward to meeting you tomorrow.

(See attached file: Dabhol PPA - DC Talking Points.doc)

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(See attached file: Dabhol PPA - DC Talking Points.doc) << File: Dabhol PPA - DC Talking Points.doc >>

Clapp, Gene

From: Rao, Geetha
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To: Grewe, Maureen; Mills, Marshall; Sampliner, Gary; Christopoulos, Greg; Clapp, Gene
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Dabhol PPA - DC
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(See attached file: Dabhol PPA - DC Talking Points.doc)

Dabhol Power Company
January 10, 2001

[(b)(4)]

[(b)(4)]

[(b)(4)]

Clapp, Gene

From: Grewe, Maureen
Sent: Tuesday, January 23, 2001 8:55 AM
To: Rao, Geetha; Mills, Marshall; Sampliner, Gary; Christopoulos, Greg; Clapp, Gene
Cc: Radelet, Steve
Subject: RE: India/Dabhol Meeting

Please note the following article from this morning's press summary:

US Envoy: India's Enron Project Key To Foreign Investment

BOMBAY (AP)—U.S. Ambassador to India Richard Celeste warned Monday that foreign investment in India would falter because of political pressures that threatened to derail the \$3 billion Enron Corp. (ENE) power project.

"It regrettably feeds the concern among American and other foreign investors that India remains a less-than-reliable destination for their investment dollars," Celeste told an audience of business leaders, politicians and nongovernment agencies in Bombay, India's financial hub:

India's largest-ever foreign investment has been in trouble since December after the government of Maharashtra state, in which Bombay is situated, said it would review a power-purchase agreement with U.S. energy giant Enron Corp. Maharashtra considers the power rates being charged are exorbitant.

The agreement signed in 1995 details the rate at which Enron's Indian subsidiary, the Dabhol Power Co., will sell electricity to the state.

The project's first phase, a power plant of 740 megawatts, already has been commissioned, while the second phase of 1,444 megawatts is scheduled for completion by end 2001.

Depreciation of the Indian rupee and high cost of naphtha used to generate electricity caused the power generated by the Enron project to touch 7 rupees a unit as against INR1.80 agreed on when the deal was signed six years ago (\$1=INR46.375).

Enron has said it saw no current need to renegotiate the tariff and maintained that a transition from naphtha to liquefied natural gas would reduce the tariff.

Celeste, an appointee of former U.S. President Bill Clinton, said he hoped both sides would find a solution in ongoing discussions, but cautioned that "perceptions among American and other foreign investors will be affected by the challenge to Dabhol and how it is resolved."

He said despite partnerships in software and information technology, U.S. investors were wary of India because of political pressures at the federal and state level that had slowed the economic-reform agenda.

Stressing the need to strengthen business ties with India, Celeste focused on the Enron project and asked that "The Dabhol power plant remain a symbol of successful American investment in India and not a symbol of the impediments that still hinder even greater foreign direct investment."

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Received by NewsEDGE/LAN: 1/22/01 7:23 PM

—Original Message—

From: Rao, Geetha
Sent: Monday, January 22, 2001 3:01 PM
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