Dam, Ken

From: LaKritz, Robb
Sent: Wednesday, January 09, 2002 10:53 AM
To: Dam, Ken
Subject: FW: Protests at World Economic Forum in NYC (Jan 31-Feb 4)

FYI

Thanks.

Robb LaKritz

-----Original Message-----
From: Carnes, Carol
Sent: Wednesday, January 09, 2002 10:37 AM
To: Sebade, Keith; Figura, Linda; Galen, Reed
Cc: Donovan, Meg; Toloui, Ramin; Sobel, Mark; Harlow, Robert; Harvey, Reavie; Valentic, Marsha; LaKritz, Robb; Paulson, Sara; Conley, Robert; Crowe, Brian; Stedman, Louellen; Baukol, Andy; Lundsager, Meg; Backes, Steven
Subject: Protests at World Economic Forum in NYC (Jan 31-Feb 4)

[(b)(5)]

Carleton, Norman

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/electonic 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 stuctured as electonic 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

Tracking:

Recipient	Delivery	Read
o e oro r an	e ered	ead
a r e a	e ered	ead
ro ared	e ered	ead
edman ar	e ered	ead
er er mo	e ered	
m m	e ered	ead
c e e d nne	e ered	ead
c o off e er	e ered	ead
e ar a	e ered	ead
a ondo o e	e ered	ead
on ar	e ered	ead

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)]

[(b)(5)]

ISSUE AND DISCUSSION

[(b)(5)]

[(b)(5)]

CONCLUSION

[(b)(5)]

Attachments

[(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 unequaled 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 Horner, 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 slowand 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.

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.

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.

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.

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, October 30, 2001 10:11 AM
To: Schultheiss, Heidilynne
Subject: FW: Enron Meeting Request

FYI.

-----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

seems ok to me...should be run through GC.

-----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?

Tracking:	Recipient	Delivery	Read
	Schultheiss, Heidilynne	Delivered: 10/30/01 10:11 AM	Read: 10/30/01 10:11 AM

01300000000041

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, January 08, 2002 6:21 PM
To: Schultheiss, Heidilynne; Nickoloff, Peter
Subject: FW: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

-----Original Message-----
From: Bair, Sheila
Sent: Tuesday, January 08, 2002 5:56 PM
To: Carleton, Norman
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:44 PM
To: Bair, Sheila
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

Norman

-----Original Message-----
From: Bair, Sheila
Sent: Tuesday, January 08, 2002 5:24 PM
To: Carleton, Norman
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

Sheila

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:14 PM
To: Bair, Sheila
Cc: Smith, Amy; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

Sheila,

[(b)(5)]

[(b)(5)]

Norman

Tracking:

Recipient	Delivery	Read
Schultheiss, Heidilynne	Delivered: 1/8/02 6:21 PM	Read: 1/9/02 9:22 AM
Nickoloff, Peter	Delivered: 1/8/02 6:21 PM	Read: 1/9/02 11:25 AM

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:45 PM
To: Schultheiss, Heidilynne; Nickoloff, Peter
Subject: FW: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:44 PM
To: Bair, Sheila
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

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Subject: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

Sheila,

[(b)(5)]

01300000000044

[(b)(5)]

Norman

Tracking:

Recipient	Delivery	Read
Schultheiss, Heidilynne	Delivered: 1/8/02 5:45 PM	Read: 1/9/02 9:21 AM
Nickoloff, Peter	Delivered: 1/8/02 5:45 PM	Read: 1/9/02 11:21 AM

Carleton, Norman

From:	Carleton, Norman
Sent:	Wednesday, December 19, 2001 11:33 AM
To:	Schultheiss, Heidilynne; Nickoloff, Peter
Subject:	FW: enron

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

From:	Wiedman, Mark
Sent:	Wednesday, December 19, 2001 11:21 AM
To:	Bitsberger, Timothy; Carleton, Norman
Subject:	RE: enron

[(b)(5)]

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

From:	Bitsberger, Timothy
Sent:	Wednesday, December 19, 2001 11:18 AM
To:	Carleton, Norman; Wiedman, Mark
Subject:	enron

[(b)(5)]

Tracking:

Recipient	Delivery	Read
Schultheiss, Heidilynne	Delivered: 12/19/01 11:33 AM	Read: 12/19/01 11:33 AM
Nickoloff, Peter	Delivered: 12/19/01 11:33 AM	Read: 12/19/01 11:36 AM

Carleton, Norman

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

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Sent: Friday, January 04, 2002 5:10 PM
To: Carleton, Norman
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enroncfma.doc

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er er mo	e ered	
m m	e ered	ead
c e e d nne	e ered	ead
c o off e er	e ered	ead
e ar a	e ered	ead
a ondo o e	e ered	ead
on ar	e ered	ead

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)]

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ISSUE AND DISCUSSION

[(b)(5)]

[(b)(5)]

CONCLUSION

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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 unequaled 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

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"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.

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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 Horner, 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."

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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.

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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 slowand 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.

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.

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.

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.

Carleton, Norman

From:	Carleton, Norman
Sent:	Wednesday, December 19, 2001 3:43 PM
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:	Converation with Frank Hampton and ABI Website: House Leaders Continue to Push Netting Provisions

According to Frank Hampton of TBMA, Dick Armey is also pushing the netting legislation. However, Sensenbrenner hopes to acheive a compromise on the larger bankruptcy legislation by February and is opposed to passing the netting legislation separately. In the Senate, Grassley is also opposed to a separate netting bill and is reportedly avoiding a meeting with Greenspan to discuss this.

Norman Carleton

ABI Website news:

December 19, 2001

House Leaders Continue to Push Netting Provisions

House leaders are trying to nudge forward legislation that seeks to prevent systemic financial crises by allowing creditors to "net out" their derivatives losses with major counter parties that have filed for bankruptcy, The American Banker reported. It is still unclear, however, whether even they will be successful in overcoming the political obstacles that have stalled it for more than a year - especially considering that Congress is expected to adjourn for the year as early as this week. Majority Whip Tom DeLay (R-Texas) "believes that it's important to get the netting provisions done, either within the context of bankruptcy reform or elsewhere," a spokesman said.

Such highly technical bills rarely attract the attention of top House or Senate leaders, but the recent collapse of Enron Inc. has given the netting legislation newfound relevance. Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Paul O'Neill say markets are at risk until a law is enacted that allows contracts to be quickly and easily netted out without the approval of slow-moving bankruptcy courts. Holding it up, however, is House Judiciary Committee Chairman James Sensenbrenner (R-Wis.), who heads the House-Senate bankruptcy legislation conference committee. The netting legislation is a part of the bankruptcy reform legislation. Sensenbrenner and some Senate Judiciary Committee members, including bill sponsor Charles Grassley (R-Iowa), oppose passing the netting authority separately because they still hope that the relatively uncontroversial provisions will propel the bankruptcy package.

Though industry sources said they have received commitments from House leaders that netting will be enacted by year-end or soon thereafter, they are not expected to force a vote without the support of Sensenbrenner. Even after a meeting last week with Greenspan, Sensenbrenner maintained that he was "going to try to keep it in the bankruptcy package," his spokesman said.

Tracking:	Recipient	Delivery	Read
	Wiedman, Mark	Delivered: 12/19/01 3:43 PM	
	Bair, Sheila	Delivered: 12/19/01 3:43 PM	Read: 12/26/01 8:41 AM
	Bieger, Peter	Delivered: 12/19/01 3:43 PM	
	Bitsberger, Timothy	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 4:25 PM
	DeMarco, Edward	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 3:58 PM
	Dorsey, Karen	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 3:45 PM
	Ellett, Martha	Delivered: 12/19/01 3:43 PM	Deleted: 12/20/01 10:24 AM
	Ellis, Dina	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 3:43 PM
	Gabilondo, Jose	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 3:46 PM
	Gross, Jared	Delivered: 12/19/01 3:43 PM	Read: 12/23/01 5:53 PM

Recipient	Delivery	Read
Huffman, Lucy	Delivered: 12/19/01 3:43 PM	Read: 12/20/01 1:17 PM
Hughes, Gerry	Delivered: 12/19/01 3:43 PM	Read: 12/26/01 9:31 AM
McGivern, Tom	Delivered: 12/19/01 3:43 PM	Read: 12/28/01 1:30 AM
Mcinerney, Roberta	Delivered: 12/19/01 3:43 PM	Read: 12/28/01 12:13 PM
Nickoloff, Peter	Delivered: 12/19/01 3:43 PM	Read: 12/20/01 9:32 AM
Roseboro, Brian	Delivered: 12/19/01 3:43 PM	Read: 12/20/01 6:43 AM
Salladin, Anne	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 3:53 PM
Schultheiss, Heidilynne	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 3:43 PM
Smith, Amy	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 3:43 PM
Sutton, Gary	Delivered: 12/19/01 3:43 PM	Read: 12/19/01 6:27 PM
Tishuk, Brian	Delivered: 12/19/01 3:43 PM	Read: 12/20/01 7:59 AM

Carleton, Norman

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/electonic 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 stuctured as electonic 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

Tracking:

Recipient	Delivery	Read
o e oro r an	e ered	ead
a r e a	e ered	ead
ro ared	e ered	ead
edman ar	e ered	ead
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c e e d nne	e ered	ead
c o off e er	e ered	ead
e ar a	e ered	ead
a ondo o e	e ered	ead
on ar	e ered	ead

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)]

[(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.

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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.

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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 slowand 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.

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.

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.

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.

Carleton, Norman

From:	Carleton, Norman
Sent:	Tuesday, January 08, 2002 2:51 PM
To:	Bair, Sheila
Cc:	Roseboro, Brian; Bitsberger, Timothy; Wiedman, Mark; Gross, Jared; Schultheiss, Heidilynne; Nickoloff, Peter
Subject:	PWG's Report on OTC Derivatives and the CEA

Sheila,

[(b)(5)]

Tracking:

Recipient	Delivery	Read
Bair, Sheila	Delivered: 1/8/02 2:51 PM	Read: 1/8/02 2:56 PM
Roseboro, Brian	Delivered: 1/8/02 2:51 PM	
Bitsberger, Timothy	Delivered: 1/8/02 2:51 PM	Read: 1/9/02 8:35 AM
Wiedman, Mark	Delivered: 1/8/02 2:51 PM	Read: 1/8/02 3:04 PM
Gross, Jared	Delivered: 1/8/02 2:51 PM	Read: 1/8/02 3:03 PM
Schultheiss, Heidilynne	Delivered: 1/8/02 2:51 PM	Read: 1/8/02 2:51 PM
Nickoloff, Peter	Delivered: 1/8/02 2:51 PM	Read: 1/8/02 2:52 PM

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:44 PM
To: Bair, Sheila
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(6)] [(b)(5)]

Norman

-----Original Message-----
From: Bair, Sheila
Sent: Tuesday, January 08, 2002 5:24 PM
To: Carleton, Norman
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

Sheila

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:14 PM
To: Bair, Sheila
Cc: Smith, Amy; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

Sheila,

The CFTC proposed an exemptive order for certain energy contracts on January 27, 1993. It was finalized on April 20, 1993. [(b)(5)]

Norman

Tracking:

Recipient	Delivery	Read
Bair, Sheila	Delivered: 1/8/02 5:44 PM	Read: 1/8/02 5:55 PM

Carleton, Norman

From:	Carleton, Norman
Sent:	Wednesday, January 09, 2002 3:51 PM
To:	Wiedman, Mark
Cc:	Schultheiss, Heidilynne; Nickoloff, Peter
Subject:	Policy Briefing Topics

Here are the topics for Heidilynne and Peter.

[OUTSIDE SCOPE]

Enron and CEA Issues

[OUTSIDE SCOPE]

Tracking:

Recipient	Delivery	Read
Wiedman, Mark	Delivered: 1/9/02 3:51 PM	Read: 1/9/02 4:56 PM
Schultheiss, Heidilynne	Delivered: 1/9/02 3:51 PM	Read: 1/9/02 3:51 PM
Nickoloff, Peter	Delivered: 1/9/02 3:51 PM	Read: 1/9/02 4:02 PM

Carleton, Norman

From: Carleton, Norman
Sent: Thursday, January 10, 2002 5:49 PM
To: Rzemien, Susan
Subject: RE: CFTC Daily Newsclips 01/10/02 (News on Walt Lukken)

[(b)(5)]

-----Original Message-----
From: Rzemien, Susan
Sent: Thursday, January 10, 2002 5:17 PM
To: Carleton, Norman
Subject: RE: CFTC Daily Newsclips 01/10/02 (News on Walt Lukken)

[OUTSIDE SCOPE]

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, January 10, 2002 5:09 PM
To: Rzemien, Susan
Subject: RE: CFTC Daily Newsclips 01/10/02 (News on Walt Lukken)

[OUTSIDE SCOPE]

Norman

-----Original Message-----
From: Rzemien, Susan
Sent: Thursday, January 10, 2002 5:05 PM
To: Carleton, Norman
Subject: RE: CFTC Daily Newsclips 01/10/02 (News on Walt Lukken)

[OUTSIDE SCOPE]

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, January 10, 2002 5:04 PM
To: Rzemien, Susan
Subject: RE: CFTC Daily Newsclips 01/10/02 (News on Walt Lukken)

[OUTSIDE SCOPE]

Norman

-----Original Message-----
From: Rzemien, Susan
Sent: Thursday, January 10, 2002 5:02 PM
To: Carleton, Norman
Subject: RE: CFTC Daily Newsclips 01/10/02 (News on Walt Lukken)

[OUTSIDE SCOPE]

Thanks for forwarding this to me.

[(b)(6)]

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, January 10, 2002 4:46 PM
To: Rzemien, Susan
Subject: FW: CFTC Daily Newsclips 01/10/02 (News on Walt Lukken)

Susan,

[OUTSIDE SCOPE]

Norman

-----Original Message-----
From: McCoy, Antoinette B. [mailto:amccoy@CFTC.gov]
Sent: Thursday, January 10, 2002 9:51 AM
Subject: CFTC Daily Newsclips 01/10/02

<< File: nc011002.pdf >>

Tracking:

Recipient	Delivery	Read
Rzemien, Susan	Delivered: 1/10/02 5:49 PM	Read: 1/11/02 9:20 AM

Daily NEWS Clips

Prepared by Office of Public Affairs • Commodity Futures Trading Commission • (202) 418-5080

Selected From Current Issues and the Washington Wires of:

Thursday, January 10, 2002

Futures World News

The Financial Times
Bloomberg Business News
Investor's Business Daily
The New York Times
The Wall Street Journal
USA Today
The Washington Post
Washington Times
Chicago Tribune
Chicago Sun-Times

BNA-DER · 07 DER A-18, 2002
Daily Report for Executives, Budge Slaton, Reuters
Regulation, Law & Economics
Thursday, January 10, 2002

CFTC: BUSH TO NOMINATE GOP SENATE AIDE TO CFTC; PICK IS SECOND WITHIN A MONTH

The White House Jan. 9 announced its intention to nominate Senate aide Walter Lukken to be a member of the Commodity Futures Trading Commission.

The announcement follows President Bush's Dec. 18 statement that he intended to nominate Republican Sharon Brown-Hruska, an assistant professor of finance at George Mason University in Virginia, to serve on the CFTC.

Lukken, a graduate of Indiana University and Lewis and Clark Law School, has been a staff member for the Senate Agriculture Committee since 1997. He previously was a legislative assistant to Sen. Richard Lugar (R-Ind.) for five years, according to a White House release.

Lukken's nomination would be for a five-year term expiring in April 2005. He could not be reached for comment.

07 DER A-18, 2002

END OF DOCUMENT

1/9/02 Reuters Eng. News Serv. 17:19:00
Reuters English News Service

Wednesday, January 9, 2002

USA: Bush to name Senate aide as U.S. CFTC commissioner.

WASHINGTON, Jan 9 (Reuters) - President George W. Bush plans to nominate Senate aide Walter Lukken as a commissioner of the Commodity Futures Trading Commission, which regulates U.S. futures markets, the White House said on Wednesday.

Lukken has been a staff member for the Senate Agriculture Committee since 1997 and was a legislative assistant to its former chairman, Indiana Sen. Richard Lugar, from 1993 to 1998. If confirmed, he will serve a term expiring in April, 2005.

The five-member commission currently has two open seats. Bush said last month he planned to nominate economist Sharon Brown-Hruska to fill the other vacancy.

End!

1/9/02 Dow Jones Int'l News 17:19:00, Reuters
Dow Jones International News

Wednesday, January 9, 2002

Bush Nominates Walter Lukken To Serve On CFTC

WASHINGTON -(Dow Jones)- President George W. Bush has nominated Walter Lukken to be a commissioner on the Commodity Futures Trading Commission (CFTC).

The White House said Lukken would serve the reminder of a five-year term expiring on April 13, 2005.

Lukken has served as a staff member of the Senate Agriculture Committee since 1997 and was a legislative assistant to Sen. Richard Lugar, R-Ind., from 1993 to 1998.

Lukken is a graduate of Indiana University and Lewis and Clark Law School.
-By Alex Kato, Dow Jones Newswires; 202-862-9256;

End!

BNA-DER 07 DER N-2, 2002
Daily Report for Executives
Calendar
President's Calendar
Thursday, January 10, 2002

WHITE HOUSE ANNOUNCEMENTS

Jan. 9:

President Bush announced his intention to nominate Walter Lukken to be a commissioner of the Commodity Futures Trading Commission.

The president announced his designation of the following 11 individuals to represent the United States at the Inauguration of Enrique Bolanos Geyer as president of the Republic of Nicaragua: Oliver Garza; John Maisto; Lino Gutierrez; Janet Ballantyne; George Prescott Bush; James C. Kenny; Earle Irving Mack; Anna Navarro; Raul Romero; and Evelyn Dee Potter Ross.

The president and Florida Gov. Jeb Bush signed an agreement to ensure adequate water supplies are available for the Comprehensive Everglades Restoration Plan.

The White House announced the president on Jan. 8 signed the following bills into law:

H.R. 2199, which permits any federal law enforcement agency to enter into a cooperative law enforcement agreement with the Metropolitan Police Department of the District of Columbia.

H.R. 2657, which designates the Family Division of the Superior Court of the District of Columbia as the Family Court of the Superior Court and makes structural and administrative changes affecting the court's operations.

H.R. 643, the African Elephant Conservation Reauthorization Act; and

H.R. 645, the Rhinoceros and Tiger Conservation Reauthorization Act.

07 DER N-2, 2002

END OF DOCUMENT

FT 01/10/01

Collapse of Enron sparks criminal investigation

Justice Department sets up new task force to investigate failed energy trader

By Peter Spiegel in Washington and Sheila McNulty in Houston

The US government has launched a criminal investigation into the collapse of bankrupt energy giant Enron, a Justice Department official speaking on condition of anonymity said yesterday. The move was welcomed by Enron's new Washington lawyer, who said it will help consolidate the various investigations currently under way.

The inquiry, which will be headed by the Justice Department's Washington-based criminal division, will be run by a new task force being set up by the agency, which will include prosecutors in New York, San Francisco and Houston, where Enron is based.

Robert Bennett, the prominent Washington attorney who was recently retained by Enron to handle the sundry investigations into the company's collapse, said yesterday the new task force will centralise requests made of the company.

"It makes it a much more rational process to be dealing with a primary leader in the investigation," Mr Bennett said in an interview. "I wish there were no investigation, but if there were an investigation, this is the way to do it."

The Labor Department and the Securities and Exchange Commission have launched separate civil inquiries into the company's dealings, and the decision by the Justice Department to launch a full criminal inquiry comes after it has been debated within the agency for weeks.

Mr Bennett said Enron has set up its own independent investigation committee, headed by a former head of the SEC's enforcement division, and cautioned that the launch of a criminal investigation does not necessarily signal any wrongdoing.

"People should keep their powder dry and not rush to judgment here," he said. "Enron wants to get to the bottom of this as soon as possible."

Enron is also subject to four major congressional inquiries, and Mr Bennett said he hoped congressional leaders would consolidate their investigations as the Justice Department has.

In addition to the causes of Enron's collapse, a number of the congressional committees have indicated they will also examine the company's ties to the Bush administration. Kenneth Lay, Enron chief executive, is close to President George W. Bush, and Enron and its executives donated $114,000 to Mr Bush's presidential campaign.

Earlier this week, the White House disclosed that vice president Dick Cheney and his staff had met with Enron representatives six times last year, but never discussed the company's financial condition. Ari Fleischer, White House spokesman, said yesterday he was not aware of any other White House staffers discussing the matter with Enron.

Enron filed for bankruptcy last month after investors fled from the company following revelations it would take a $1.2bn reduction in shareholder equity. The financial crisis was tied to the company's questionable use of private partnerships.

Cont'd

WP 01/10/02

Enron Is Target of Criminal Probe

U.S. Said to Focus On Whether Firm Deceived Investors

By Peter Behr and Dan Eggen
Washington Post Staff Writers

Justice Department officials confirmed yesterday that they have begun a criminal investigation of Enron Corp. Sources said the probe is focusing on whether the company defrauded investors by deliberately concealing crucial information about its finances.

Officials said the investigation will be run by a task force based in the criminal division at Justice Department headquarters in Washington and will include federal prosecutors from New York, San Francisco and Enron's home city of Houston.

The Justice action marks a new escalation in a many-sided investigation of Enron, which filed the largest corporate bankruptcy in U.S. history on Dec. 2. Four congressional committees, the Securities and Exchange Commission, and the Labor Department have begun separate investigations. Justice Department prosecutors first began a tentative inquiry into the Enron case several weeks ago.

Additionally, a host of civil suits have been filed against current and former Enron executives and directors and its accounting firm, Arthur Andersen LLP, by attorneys for Enron employees, investors and retirees who lost billions of dollars when Enron's stock price collapsed late last year.

"I think this is a positive development," said Enron's Washington attorney, Robert Bennett. "It appears they have centralized the investigation" at Justice headquarters, he said.

"I hope people will suspend judgment" until the investigations have been completed, Bennett added.

Arthur Andersen chief executive Joseph F. Berardino testified before Congress last month that the energy-trading company may have committed "illegal acts" by withholding critical financial information from auditors.

The information, he said, concerned one of the many outside partnerships established by Enron with which Enron swapped stock, energy assets and financial contracts. Enron replied that its own internal investigation had uncovered the withholding and that it gave the information to Andersen.

Congressional investigations are looking into whether Enron used the partnerships to exaggerate its revenue and conceal the full dimensions of billions of dollars in debts from failed investments in overseas power and water projects.

Enron acknowledged in October, after an internal investigation, that it had overstated profits by $586 million over the past four years because of what it called accounting errors.

Plaintiffs in civil suits contend that senior Enron executives and directors took advantage of the company's high stock price a year ago to sell hundreds of millions of dollars in stock before share prices began to slide. Enron contributed company shares to employees in a retirement program but barred them from selling the shares until age 50, and many employees' savings were ravaged.

Enron's chairman and chief executive, Kenneth L. Lay, is scheduled to testify for the first time about his company's collapse at a Feb. 4 hearing before the Senate Commerce Committee.

Lay and other Enron officials met six times with Vice President Cheney or his aides last year, before and after the release of the administration's energy plan, the White House said this week. Lay and his company have been leading financial supporters of President Bush as well as a long list of other Republican and Democratic officeholders.

Bennett said the federal criminal probe "is not going to change whether Ken Lay or several other people testify" on Feb. 4. "We are still going to cooperate."

Meanwhile, U.S. District Judge Lee Rosenthal in Houston said she may consider freezing financial assets of 29 current and former Enron officers and directors but added that lawyers for pension plans that lost money on Enron stock have not yet persuaded her to do so. The suits seek to recover trading profits of Enron insiders.

White House press secretary Ari Fleischer said last night that as a result of Enron's collapse, Bush is likely to propose new federal policies aimed at protecting people's pensions and ensuring that financial reports are more revealing.

"The president thinks it's important to explore new policies so that lessons from this collapse can be learned and people can be protected," Fleischer said. "The president believes that all allegations of wrongdoing need to be thoroughly and fully investigated by all the relevant agencies of the government."

Staff writer Mike Allen contributed to this report.

L.A. Times 01/10/02

U.S. Launches Wide Criminal Probe of Enron

Inquiry: The Justice Department is forming a task force of prosecutors. The breadth of the investigation is 'like the Microsoft case,' one source says.

By JOSH MEYER
and NANCY RIVERA BROOKS
TIMES STAFF WRITERS

Reuters

Until its recent troubles, Enron and its chairman, Kenneth Lay, were fixtures in Washington.

WASHINGTON—The Justice Department said Wednesday that it is launching a wide-ranging criminal investigation of Enron Corp., whose sudden collapse shredded billions of investor dollars and cost thousands of jobs.

Justice officials took the rare step of disclosing the existence of the criminal investigation, saying they will create a task force at department headquarters that will bring in federal prosecutors from Houston, New York, San Francisco "and probably other places" to work with senior administrators in Washington, one department official said.

"We usually don't discuss investigations, but this is a case of national significance," said the Justice Department official, speaking on condition of anonymity.

"It is like the Microsoft case in that regard—a national case," added the official, referring to the high-profile civil antitrust probe of the Redmond, Wash.-based software giant. "Because of the diversity of [Enron's corporate] offices, we wanted to centralize the investigation in order to coordinate efforts on all fronts."

The investigation signals further trouble for Houston-based Enron, once the world's largest energy trading firm. Enron, a darling of Wall Street, saw its value plummet in just a few weeks last year, culminating Dec. 2 in the largest bankruptcy filing in U.S. history.

Enron's collapse threw thousands of people out of work and cost them—and investors—billions of dollars. Employees were blocked from selling shares in their retirement accounts because Enron was in the middle of switching plan administrators. But top company executives previously had sold their company shares at hefty profits.

Justice Department officials said they want to know whether there is any criminal culpability on the part of corporate officers and others. The points of inquiry will include whether the company knew about problems but never disclosed them and whether key financial records were altered, as well as other potentially illegal acts, the department official said.

The head of accounting firm Arthur Andersen, Enron's auditor,

MORE →

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Continued

testified last month before a congressional panel that Andersen warned Enron directors that the energy company might be guilty of "possible illegal acts" for withholding key financial information from Andersen auditors. Enron sharply disputed the claims.

Illegal insider trading by Enron executives and directors was alleged in a lawsuit filed last month by a bank that manages union retirement funds. Amalgamated Bank accused company executives of using inside information to sell stock and reap $1.1 billion in profits.

The Justice investigation could take years to conclude and involve hundreds of subpoenas, depositions, interviews and a complete scouring of the firm's financial records, authorities said Wednesday night.

White House spokeswomen Jeanie Mamo said President Bush had been briefed on the investigation Wednesday and supported it.

"The president is concerned about Enron's bankruptcy and thinks it's important and appropriate for relevant government agencies to investigate as they see fit," Mamo said.

Enron referred inquiries to its Washington lawyer, Robert S. Bennett, whose clients have included former President Bill Clinton. Bennett said he is glad the Justice Department has consolidated what appeared to be separate inquiries from various offices.

"We are going to fully comply with this investigation, Bennett said. "It's important that the Washington scandal machine not take over, which would have as a consequence that every move would be politicized and the facts would be trivialized."

The probe will be headed by the Justice Department's criminal division with assistance from its civil fraud unit and investigators from the FBI, other federal law enforcement agencies and perhaps the Securities and Exchange Commission, Justice officials said. Already, Enron is embroiled in several lawsuits and is the subject of congressional investigations as well as probes by the SEC and the Labor Department.

Current and former Justice Department officials characterized the investigation as significant and somewhat unprecedented, in that "main Justice" task force probes are usually saved for national issues such as the rash of church arson fires in recent years and the flurry of failures of savings-and-loan institutions in the 1980s.

"It's unusual. In the recent past, I am hard pressed to come up with another task force looking into a single entity or individual," said Eric H. Holder Jr., the deputy attorney general in the Clinton administration. "It is clearly an indication that the department is taking this very seriously."

"One of things you can certainly draw from this is that some threshold has been crossed and clearly there is some belief that there is a predicate for a wide-ranging investigation," Holder said. "It is a reflection of, and an indication of, the complexity and breadth of the case."

Another former senior Justice Department official familiar with such task force investigations said that "running this out of 'main Justice' suggests that it is something that is so large and so wide-ranging that they know they are going to have a hard time getting their arms around it."

For weeks, Justice Department investigators have been involved in preliminary inquiries into the Enron collapse, asking questions, conducting interviews and deliberating over whether a full-scale investigation was warranted.

Justice Department officials would not say when the decision was made to launch the full-scale probe, or whether Atty. Gen. John Ashcroft was involved in those deliberations. And they said such an investigation does not necessarily indicate a belief that criminal wrongdoing was committed, only that the issue merits a thorough review.

Authorities said it is likely that a federal grand jury will be used to issue subpoenas and, later, to hear testimony from witnesses.

One former Justice official said that all actions of the company's executives will come under scrutiny.

"What did senior officials know about the downfall of the company in advance that led to them divest themselves when the rest of the company was locked in?" asked the official. "What kind of cooking of the books was done, if any? Did they mislead employees, investors and Wall Street about how solid the company was financially?"

Enron's fall was even more dramatic than its aggressive push to the top of the energy industry. Its stock traded for $90 a share in late 2000 but on Wednesday sold for a mere 79 cents per share on the New York Stock Exchange.

From its roots as a small natural gas pipeline operator, Enron grew to become the world's largest energy trading operation. Until a few months ago, it was handling one out of every four wholesale deals

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for electricity, gas and other energy products.

Enron championed the deregulation of energy markets and tried to influence the way California structured its energy markets and then steered through its electricity crisis. Enron and its chairman, Kenneth Lay, wielded enormous political influence, pushing to successfully replace the head of the Federal Energy Regulatory Commission and aiding in shaping the Bush administration's energy policy.

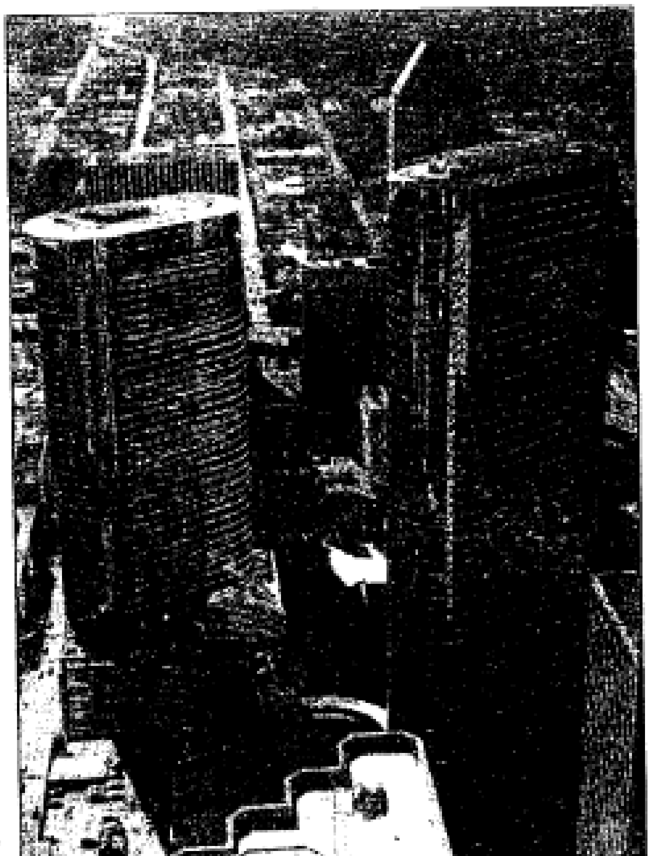
Vice President Dick Cheney or members of his energy task force met six times with Enron executives last year, according to a White House letter released Tuesday. Enron's financial problems were not discussed, the White House said.

Enron began to crumble in mid October when it revealed surprise losses from bad investments in telecommunications and water ventures. But wrapped in those charges were losses and a $1.2-billion drop in shareholder equity associated with partnerships run by company employees.

Enron then admitted that, after accounting for losses in other off-balance-sheet partnerships, it had overstated its financial strength and that investors should no longer rely on more than four years of income and other financial data. Investors fled Enron, and the company ran into a massive cash crunch that led it to seek a rescue from its smaller, cross-town rival Dynegy Inc.

Dynegy later pulled the plug on its $9-billion merger with Enron, saying the company had not revealed the depth of its financial problems. Enron then filed for protection from its creditors under Chapter 11 of the U.S. Bankruptcy Code, citing more than $31 billion in debt.

Chapter 11 allows a company to continue operating while it works out a plan to pay its creditors. Enron is expected to auction its core energy trading business this week and has agreed to let Dynegy buy a valuable natural gas pipeline.


Associated Press

Enron's headquarters, right, and a partially completed second tower, left, are prominent fixtures of the Houston skyline.

Meyer reported from Washington, Rivera Brooks from Los Angeles.

01/10/02
WASH TIMES

Justice sets in motion new probe of Enron

Executive actions under scrutiny

By Jerry Seper
THE WASHINGTON TIMES

The Justice Department yesterday opened a criminal investigation into Enron Corp. to determine if company executives acted improperly when employees were blocked from selling billions of dollars in plummeting shares from retirement accounts.

The wide-ranging probe, coordinated by the department's criminal division in Washington and involving prosecutors in San Francisco, New York, Houston and several other cities, is expected to focus on concerns that Enron officials concealed growing financial problems to maintain its credit rating in order to obtain cash to run the business.

The Houston-based company filed for bankruptcy Dec. 2 after another Houston firm, Dynegy Inc., its main rival, offered $8.4 billion to buy the ailing company but then backed out of the deal.

Dynegy pulled its offer after Enron eliminated nearly $600 million in debt with earnings revised through 1997, and its credit rating was downgraded to junk status.

Enron also is under investigation by the Labor Department, and the Securities and Exchange Commission.

Justice Department officials declined comment last night and Enron executives referred inquiries to their Washington attorney, Robert Bennett, who did not return calls to his office for comment.

On Tuesday, the White House acknowledged in a letter to Congress that Vice President Richard B. Cheney or his aides had met last year on six occasions with Enron representatives — including a meeting two months before the firm made the largest corporate bankruptcy filing in U.S. history.

Written by David S. Addington, the vice president's counsel, the letter said the meetings — including five with staff members and one involving Mr. Cheney himself — continued after President Bush released an energy policy developed by the vice president's staff.

The Addington letter was sent in response to a request in December by Rep. Henry A. Waxman of California, ranking Democrat on the House Committee on Government Reform. Mr. Waxman said the letter "shows that the access provided to Enron far exceeded the access provided by the White House to other parties interested in energy policy."

On Dec. 2, Enron filed for bankruptcy in New York to keep creditors and lawsuits at bay so the company could try to preserve its trading operation.

The president's energy plan was released May 17.

The chief executive of Enron's longtime auditing firm, Arthur Andersen LLP, told a House hearing last week that his firm notified Enron's audit committee on Nov. 2 of "possible illegal acts within the company."

Sen. Joseph I. Lieberman, Connecticut Democrat and chairman on the Senate Governmental Affairs Committee, has said his panel will investigate why Enron's auditors allowed the firm to overstate its profits for four years "using what appear now to be very questionable accounting practices."

Mr. Lieberman said the committee also will ask why Enron's board of directors allowed financial arrangements "that some claim were intended to hide company holdings from public view."

Enron created hidden partnerships with entities that assumed the company's debt and thus kept those debts off its books.

Enron, formed in 1985, had as many as 20,000 employees. It was considered the world's top buyer and seller of natural gas and the largest electricity marketer in the country.

The firm also marketed coal, pulp, paper, plastics, metals and fiber-optics. Last year, Enron stock traded at $85 per share. Today, it is less than $1.

Senate Democrats have said they want to investigate whether the Bush administration should have acted sooner to protect investors from the Enron collapse. Hearings in the matter before the Senate Governmental Affairs Committee are expected to begin Jan. 24, the day after Congress returns to work.

Enron Chairman Kenneth Lay is a longtime friend of Mr. Bush and has served as a member of the Bush campaign's Pioneer club, raising nearly $100,000. Mr. Bush has supported government investigations into the bankruptcy of the company that was rated seventh among the Fortune 500 firms last year.

Since the 1989-90 election cycle, Enron has made nearly $5.8 million in campaign contributions, with 73 percent going to Republicans. The company contributed $113,800 to the Bush campaign, including the use of corporate jets, ranking as the campaign's 12th-largest donor.

The firm also gave $100,000 to Senate Democrats one week before filing for bankruptcy.

On Dec. 2, Enron filed for bankruptcy in New York to keep creditors and lawsuits at bay so the company could try to preserve its trading operation.

In a statement, Sen. Susan Collins, Maine Republican, praised the Democrats for starting the probe. She said there were "many questions surrounding the conduct of Enron's top management that need to be answered promptly and publicly."

Mrs. Collins said, "I'm particularly concerned with reports that top executives at Enron were selling their shares of company stock at very high profits while lower-level employees were forbidden from selling theirs."

Enron's downfall cost investors billions of dollars, even while top executives at the firm collected huge profits — estimated at about $41 billion — by selling shares before the firm's trading price plummeted. The selling was ongoing while other lesser Enron employees were blocked from selling company stock from their Enron-heavy 401(k) accounts.

(end)

WSJ 01/10/02

U.S. Puts Task Force on Criminal Probe of Enron

The Justice Department said a task force has been formed to pursue a criminal investigation of Enron Corp., confirming a probe that is expected to center on possible accounting fraud.

The investigation will be run by the department's criminal division coordinating among U.S. Attorneys in New York

By Wall Street Journal staff reporters Rebecca Smith in Los Angeles and Michael Schroeder in Washington.

City, San Francisco, Houston and elsewhere. The Wall Street Journal first reported the criminal investigation in early December.

Enron, the nation's biggest marketer of electricity and natural gas, filed for bankruptcy-court protection following a crisis of confidence among its investors. The problems have resulted largely from Enron's dealings with private partnerships, run by some of its own executives. The company saw its market value plunge recently to about $540 million from more than $77 billion last year.

The Securities and Exchange Commission, which has been investigating Enron since October, and the Justice Department could both file cases alleging violations of securities laws if Enron is found to have intentionally misled investors about its financial condition. Several Congressional committees also have begun inquiries into various aspects of Enron's collapse.

Enron acknowledged that it is the target of a criminal investigation by the Justice Department. "It has been the posture of the company to fully cooperate with government investigations," said Robert Bennett, an attorney with Skadden, Arps, Slate, Meagher & Flom, which represents the company. "At the end of day, I'm pretty optimistic ... an objective person will see that many of the things said and written [about Enron] aren't true."

Confirmation of the probe came even as nearly two dozen firms asked a U.S. bankruptcy-court judge to temporarily block Enron's intended sale of its energy-trading business, until recently the earnings juggernaut for the entire company.

The court approved an auction process on Dec. 19 that was to have resulted in the announcement of the winning bidder as early as tomorrow.

Bidders for pieces of Enron's energy-trading business, which still has a staff of about 1,000 people, include Citigroup Inc., UBS AG and BP PLC, people familiar with the matter have said.

But a host of creditors have asked the court to delay the sale indefinitely. The list includes financial institutions such as Royal Bank of Scotland PLC and GE Capital Corp. as well as power-trading rivals such as Mirant Corp., El Paso Merchant Energy LP and Aquila Inc., a unit of UtiliCorp United Inc.

Aquila said it doesn't oppose the sale, per se, but wants guarantees that Enron will put the proceeds in an escrow account until a determination has been made about how it will be split among creditors.

Mirant, Atlanta, in its pleadings with the U.S. Bankruptcy Court for the Southern District of New York, said the sales materials circulated by Enron lacked "significant material information that is essential ... to make an informed decision regarding the wisdom of the transaction."

The materials lack a minimum bid, which "begs the question," Mirant said, "as to whether there is a bid that is simply too low to accept or whether the debtors are preparing to sell at any price." Challengers also questioned who would be responsible for liabilities excluded from the sale.

Enron's energy-marketing unit, which includes its once-mighty EnronOnline Internet-based trading platform, traded dozens of products until recently and generated roughly 90% of the firm's earnings in the most recent quarter. It also was responsible for the bulk of Enron's 2001 revenue of $101 billion.

In bankruptcy-court documents filed in December, Enron said the company's wholesale-trading business, of which the energy-trading unit is a major part, had assets of about $13 billion and liabilities of at least $8 billion.

Concerns over Enron's financial strength and the integrity of its accounting practices caused trading partners to back away from doing business with it starting in mid-October. From that point on, a significant portion of Enron's trading volume came from customers trying to wind down their Enron-related positions. The unit ceased meaningful operations prior to Enron's Dec. 2 bankruptcy-court filing.

Resuscitation will require a cash infusion from a trusted partner with a blue-chip credit rating, the company has said. It has proposed transferring assets to a new venture in which Enron would retain a 49% position. The new investor would control the partnership, that has been dubbed New Energy Trading Company LP.

An Enron spokesman said the firm would press to go ahead with the proposal. "It's in the best interest of Enron and its creditors to get the trading operation started as soon as possible to get as much value for the estate as possible," said spokesman Mark Palmer.

—Kathy Chu of Dow Jones Newswires contributed to this article.

NYT 01/10/02

Justice Dept. to Form Task Force To Investigate Collapse of Enron

By KURT EICHENWALD with JONATHAN D. GLATER

Widening the potential scope of the criminal investigation into the Enron Corporation, the Justice Department plans to form a special task force of prosecutors from across the country to conduct the inquiry into the company and its eventual collapse, government officials said yesterday.

Legal experts said the decision to create such a task force on a white-collar case involving a single company was virtually unheard-of and signaled that the government might elevate the case to a level of significance usually reserved for investigations of entire industries.

The task force will bring together prosecutors from several United States attorney's offices — including those in Houston, New York City and San Francisco — with all of them reporting through the department's criminal division, government officials said. In addition, prosecutors from the fraud section, which is part of the criminal division, will be part of the task force.

"This is a case of national scope and national significance that is going to require coordination and manpower, and the task force is a way of achieving that," one official said.

A spokesman for Enron referred a telephone call to Robert S. Bennett, a Washington lawyer who represents the company. He could not be reached for comment last night.

While the decision to form the task force is final, many details have yet to be worked out, officials said. Some prosecutors involved in the case have not been notified of their specific roles in the task force, and other decisions about where the group will work and how the various strands of investigation will be coordinated have not been determined.

The Justice Department has formed numerous task forces in the past, but they have usually focused either on complex cases of violent crime, like the Unabomber case, or conducted inquiries into practices by entire industries, like the health care and tobacco businesses.

Legal experts who have examined the Enron case said yesterday that by bringing together the disparate pieces of the sprawling criminal investigation of the company, the government is overcoming hurdles that might have hampered the inquiry if it was conducted in separate United States attorneys' offices nationwide.

By bringing the prosecutors together, while simultaneously adding

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For example, while federal prosecutors in Manhattan have the most experience in investigating complex white-collar cases, they might face difficulty in meeting the requirement that potential crimes took place in their geographical jurisdiction. And while prosecutors in Houston, where Enron is based, would have no such problems, they do not have the same experience in white-collar cases.

By bringing the prosecutors together, while simultaneously adding the manpower from the department's fraud section, legal experts said, the government is raising the probability of indictments.

"Prosecutors tend to indict what they investigate," said John C. Coffee Jr., a law professor at Columbia University who has testified in Congress on the Enron case. "This kind of task force for an individual investigation is without precedent, and while it doesn't guarantee an indictment, it certainly raises the stakes."

But some past efforts by the Justice Department to take a more central role in a criminal investigation of a corporation with influence in Washington have raised concerns about potential political influence over the inquiry. For example, in the 1990's, when part of an inquiry involving the Archer Daniels Midland Company was assigned to the fraud section, some critics contended — to the vehement denials of Justice officials — that Washington was trying to protect Archer, the politically influential grain company. Enron, whose officers have been close to both President Bush and Vice President Dick Cheney, has exercised similar political influence in the past.

In addition to the inquiry being conducted by the Justice Department, Enron's collapse is being investigated by the Securities and Exchange Commission and several Congressional committees.

Meanwhile, in Enron's bankruptcy proceedings, parts of the company are now up for auction to the highest bidder. For example, an auction of its trading business is scheduled to take place today, and a spokeswoman said it should be presented to the bankruptcy court at a hearing tomorrow. But a speedy approval by the court is not assured. Several creditors have filed objections to the auction because they are worried that they will not have time to evaluate whether all or parts of the business will be sold at a fair price.

Creditors have also expressed concern about what would happen to the proceeds from the sale. Creditors of Enron North America, the unit that owns the trading business, want to make sure that the money goes to them and is not distributed among all the company's creditors.

In Houston yesterday, in a suit filed by investors against 29 Enron directors and officers, a federal judge dealt a setback to plaintiffs by declining to freeze more than $1 billion that they say the directors and officers gained from the sale of Enron shares while hiding information about the company's decline. However, the judge also told defendants that she had the power to freeze the assets if necessary.

End!

FT

01/10/02

Enron creditors bid to halt sale

By Sheila McNulty in Houston and Elizabeth Wine in New York

More than 15 Enron creditors are seeking court permission to postpone the sale of Enron's energy-trading business, citing concerns about how the money will be spent by the bankrupt company.

The official creditors committee said it did not support the bid to delay court approval for the sale of what was once the most profitable unit of the US's biggest energy trader.

But individual creditors, including Aquila and the Royal Bank of Scotland, nevertheless filed motions asking federal bankruptcy judge Arthur Gonzales to consider their request ahead of a hearing set for Friday to approve the sale.

Enron is to meet today with its creditors committee to try to agree on which of three bids for its trading operations to approve. If an agreement can be reached, they are to seek approval from the court on Friday.

● A federal judge ruled yesterday that the court has the authority to freeze more than $1.1bn in assets belonging to 29 Enron executives and directors, money which they made on the sale of stock.

The court has given the attorneys suing on behalf of shareholders until January 23 to file a brief supporting its request.

Bill Lerach, attorney for Amalgamated Bank, which manages union pension funds and is alleging insider trading, said he was pleased that the court said he could conduct discovery to obtain additional evidence to justify freezing the accounts.

Mr Lerach charges that the workers' retirement funds have lost more than $10m since Enron's collapse late last year.

End!

Los Angeles Times

Mysteries of the Energy Plan

For months, the White House has refused to hand over any information about the closed-door meetings of Vice President Dick Cheney's energy task force—a group that was heavy on energy executives, including Enron Corp. Chief Executive Kenneth L. Lay. Both Rep. Henry A. Waxman (D-Los Angeles) and the congressional General Accounting Office have insisted that the workings of the task force be disclosed. The White House has steadfastly maintained it is not obligated to do so. But considering the impact of the energy recommendations issued in May, from drilling for oil in Arctic wilderness to weakening the Clean Air Act, Americans should be privy to the making of these decisions. The collapse of Enron Corp., which has led to a federal criminal investigation, just bolsters the argument.

The links between administration officials and Enron, starting with President Bush's own ties to the now-disgraced Lay, are going to get deserved scrutiny from several congressional committees. Democrats are gleeful at having such a fat target in a congressional election year. Yet the White House continues releasing too little, too late.

In a Jan. 3 letter to Waxman, White House counsel David S. Addington states that Cheney or members of his energy task force met six times with Enron executives. Once Cheney met with Lay. All of the meetings may have been perfectly innocent. But the adamant refusal of the White House to explain what took place not only creates the appearance of impropriety but also illuminates a dangerous penchant for secrecy. Whether it's keeping Congress out of the loop or preventing historians from examining past presidential papers, this is too often the administration mind-set.

Some of Waxman's requests may be picayune. He is asking, for example, about any communication that may have taken place between Cheney and Lay at a panel discussion on energy matters held at an American Enterprise Institute forum in Colorado in June. But the bulk of Waxman's questions are not unreasonable. Given the enormity of the Enron collapse and the company's seeming role in determining U.S. energy policy, it seems fair to ask for details about the meetings, any requests for changes in federal policies by Enron executives, copies of documents presented and the names of those attending.

The vice president's office obviously doesn't see it that way. White House counsel Addington ends his paltry letter to Waxman by saying, "It is our hope that submission of [this] information will help you avoid the waste of time and taxpayer funds on unnecessary inquiries." This is maximum spin.

Both Congress and the public deserve a full accounting of the administration's dealings with Enron. The fastest way to avoid wasting time and taxpayer money is for the White House to come clean.

(end)

1/9/02 Dow Jones Commodities Serv. 10:03:04
Dow Jones Commodities Service

Wednesday, January 9, 2002

ODJ NFA To Provide Regulatory Services To Island Futures

Chicago, Jan. 9 (OsterDowJones) - The National Futures Association will provide regulatory services to Island Futures Exchange, an electronic exchange that plans to trade security futures in the second quarter of 2002, the NFA said Wednesday in a release.

Island Futures - an affiliate of Island ECN - is waiting for approval as a designated contract market by the Commodity Futures Trading Commission. The exchange is the fourth new electronic exchange to outsource its regulatory

programs to NFA since the Commodity futures Modernization Act of 2000 was passed, the NFA said.

Island ECN executes approximately one out of every five trades on Nasdaq, and counts more than 700 broker-dealers as clients, the NFA, the industry's self-regulatory organization.

Kate Gibson, OsterDowJones, (312) 977-1673
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Bloomberg 01/10/02

CRL NYMEX TO LOWER NATURAL GAS MARGINS
Jan 9 2002 14:55

EXCHANGE TO LOWER NATURAL GAS MARGINS

NEW YORK, NY, January 9, 2002 -- The New York Mercantile Exchange, Inc., today announced that it would lower the margins on its natural gas futures and swaps contracts as of the close of business tomorrow.

The spot month margins will decrease to $2,500 from $3,500 for clearing members; to $2,750 from $3,850 for members; and to $3,375 from $4,725 for customers. Margins in other months will be reduced as follows:

Clearing Members Members Customers

Second month $2,500 from $3,000 $2,750 from $3,300 $3,375 from $4,050

Third through sixth months $2,000 from$2,500 $2,200 from $2,750 $2,700 from $3,375

Seventh montha and beyond $1, 500 from $2,000 $1,650 from $2,200 $2,025 from $2,700

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1/9/02 ~~Dow Jones Commodities Serv. 12:13:00~~
Dow Jones Commodities Service

Wednesday, January 9, 2002

ODJ CBOE Executive Moving To Single Stock Futures Venture
[refiling to add Walsh's start date]

Chicago, Jan. 9 (OsterDowJones) - Single stock futures exchange OneChicago has tapped Chicago Board Options Exchange executive Robert Walsh as its managing director of operations, the joint venture said in a release Wednesday.

Walsh is a 25-year veteran in the futures and securities business, including 13 years at the CBOE, where he was involved in the debut of CBOE's extended trading sessions on the exchange's screen-based trading system, CBOEdirect, the release said. OneChicago on Tuesday said it had chosen CBOEdirect as its single trading platform.

While Walsh's appointment was announced by OneChicago on Wednesday, he began work at the joint venture on Dec. 3, said a spokesman, Gary Compton.

Former Commodities Futures Trade Commission Chairman William Rainer late last summer signed up to head the joint venture, launched in May 2000 by the Chicago Mercantile Exchange, the Chicago Board of Trade and CBOE to launch single stock futures.

In recent months, Rainer has hired four industry executives to join OneChicago, including C. Robert Paul as general counsel, Peter F. Borish as senior managing director business development and Martin Doyle as managing director of business development.

OneChicago, which along with at least two other U.S. exchanges expects to begin trading single stock futures in the second quarter, will be headquartered in the Chicago Board of Trade building, where it recently signed a lease.

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1/9/02 M2 Presswire (Pg. Unavail. Online)
2002 WL 4156957
M2 Presswire

Wednesday, January 9, 2002

OneChicago selects CBOEdirect as its match engine

CHICAGO -- OneChicago, LLC, the joint venture created to trade single stock futures by Chicago Mercantile Exchange Inc. (CME), Chicago Board Options Exchange (CBOE), and Chicago Board of Trade (CBOT), today announced that CBOEdirectTM, the screen-based trading system of CBOE, has been selected as its matching engine.

OneChicago will operate exclusively as an electronic exchange, and orders may be entered through either the CBOEdirect electronic platform or via connections to CBOEdirect through access points to CMEs GLOBEX electronic trading platform.

"CBOEdirect will provide our members with the most-efficient arena for trading single stock futures, because it was designed to work with a Lead Market Maker system and is scalable to accommodate our future needs," said William J. Rainer, Chairman and Chief Executive Officer of OneChicago.

"The combination of this platforms state-of-the-art technology, coupled with the vast number of experienced liquidity providers that the memberships of our three exchanges possess, will create a dynamic trading environment for this new product."

"CME supports OneChicagos choice of CBOEdirect as the match engine for the new exchange to trade single stock futures," said CME President and CEO Jim McNulty, a member of OneChicagos Board of Directors. "The capabilities of CBOEdirect, combined with GLOBEX electronic distribution channels, will facilitate a unique market-making system designed to add liquidity to the market."

"CBOEdirect was designed to handle individual equity products with a lead market maker capability. The unique functionality of the CBOEdirect platform is ideally suited to OneChicagos market model," said CBOE

Chairman and CEO William Brodsky.

OneChicago will implement Lead Market Makers (LMMs), who will be responsible for providing continuous, two-sided markets for all products in which they are allocated. CBOEdirect is currently in use at CBOE during extended, pre-opening trading hours.

((M2 Communications Ltd disclaims all liability for information provided within M2 PressWIRE. Data prepared by named party/parties. Further information on M2 PressWIRE can be obtained at http://www.presswire.net on the world wide web. Inquiries to info@m2.com)). (end)

1/9/02 Dow Jones News Serv. 11:59:00
Dow Jones News Service

Wednesday, January 9, 2002

OneChicago Names Robert Walsh Managing Director Of Opers

CHICAGO -(Dow Jones)- OneChicago LLC named Robert Walsh managing director of operations.

In a press release Wednesday, the company said Walsh worked previously at the Chicago Board Options Exchange on its project to extend trading sessions on CBOEdirect, its new screen-based trading system.

OneChicago, a venture of Chicago Mercantile Exchange Inc., Chicago Board Options Exchange and Chicago Board of Trade, was created to trade single stock futures.

-Dorothea Degen; Dow Jones Newswires; 201-938-5400

Bloomberg 01/09/02

BN Brazil Future Exchange to Trade Energy, ADR Futures (Update1)
Jan 9 2002 15:09

Brazil Future Exchange to Trade Energy, ADR Futures (Update1)

(Updates to add last year's results, seventh and eighth paragraphs.)

Sao Paulo, Jan. 9 (Bloomberg) -- Brazil's Commodities and Futures Exchange plans to start trading contracts next month for the future delivery of energy as an easing of electricity rationing boosts demand for power.

Trade in the contracts would improve efficiency in Brazil's energy market, which was hammered last year by rationing after a drought left hydroelectric dams with insufficient of water to produce electricity, said the exchange, known by its Portuguese acronym BM&F.

``It's a way for players in the energy market to guarantee the price and, most importantly, the delivery of energy,'' BM&F President Manoel Felix Cintra Neto told reporters. ``We've already been authorized by the central bank to start trading in the energy future contracts in February.''

Brazil last month eased power rationing, especially in the industrial southern and southeastern regions, after last June requiring individuals and companies reduce monthly consumption by 20 percent. There isn't now an exchange in Brazil for trading energy futures.

The BM&F also hopes to begin trading later this year in futures contracts on an index of Brazilian stocks that trade in New York as American Depositary receipts, Cintra Neto said.

Trading in ADR index futures, which could be used by investors as a hedge, would depend on whether the buying and selling of the new instrument would be exempt from Brazil's 0.38 percent tax on financial transactions, he said. It will also depend on the government authorizing the BM&F to permit non-residents to trade financial contracts.

2001 Results

Volume on the BM&F rose 8.6 percent last year to $4.137 trillion. The number of contracts traded in the year rose 18 percent 97.9 million.

``It was a very positive year for the BM&F,'' Cintra Neto said. ``Because of high volatility in the markets, investors were looking for a hedge in futures. That helped increasing trading here.''

--Telma Marotto in Sao Paulo (5511) 3048-4640 or tmarotto1@bloomberg.net and James Craig in Sao Paulo through the Sao Paulo newsroom (5511) 3017-4830/bh

1/9/02 Dow Jones Commodities Serv. 12:58:00
~~Dow Jones Commodities Service~~

Wednesday, January 9, 2002

ODJ KCBT Members Vote To Alter HRW Wheat Contract Rules

Chicago, Jan. 9 (OsterDowJones) - Kansas City Board of Trade members voted
Tuesday to approve changes to the wheat futures contract upon the recommendation of the Wheat Contract Committee, the KCBT announced in a press
release.

One portion of the change mandates that No. 3 hard red winter wheat warehouse receipts delivered in satisfaction of futures contracts to the
Clearing Corp. and registered with the KCBT must contain no more than 5% wheat
of other classes.

Previously, the KCBT allowed No. 3 hard red winter wheat deliveries to
contain as much as 10% wheat of other classes.

"This is a good compromise between the sector of the trade looking to make
the delivery process all No. 2 hard red wheat and those wanting to keep No. 3
as a delivery option," one KCBT trader said.

The fear has always been that takers of delivery could end up with a No. 3
hard red winter wheat delivery receipt with as much as 10% other wheat classes, he said. The changes should help to improve the delivery mechanism
for obtaining No. 3 hard red winter wheat supplies that is more attractive for
merchandising.

The amendments to the rules will become effective with the Jly 2003 wheat
futures contract month. Any person establishing a position in the Jly 2003
wheat futures contract month or beyond does so according to the amended rules
and any economic decision made in establishing such a position should be done
with that understanding.

The amendment also allows for replacement receipts reflecting the maximum
5% wheat of other classes. The issuing warehouse must comply with the request
and may charge the receipt holder a maximum of 5 cents per bushel to issue
replacement receipts.

According to the vote, discounts for No. 3 hard red winter wheat will be
changed from 3 cents per bushel under contract price to 5c under contract
price. Also, deliveries made in Hutchinson, Kan., have been changed to a
discount of 9c under the contract price as opposed to the previous discount of
12c.

Additionally, the KCBT has authorized the listing of Mar, May and Jly
2003 wheat futures contract months for trading effective Thursday. Trading in
the Mar and May 2003 wheat futures contract months should be done with an
understanding of the aforementioned rule changes and the relationship between
those contract months and the Jly 2003 contract month.

KCBT members ratified the wheat contract rule amendments by a vote of 101-
14. These rule amendments are being submitted to the Commodity Futures Trading
Commission for final approval.

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-- UPDATE 1-Iowa senator tells USDA hands off soybean loan rate --

WASHINGTON, Jan 8 (Reuters) - Iowa Sen. Chuck Grassley said on Tuesday the U.S. soybean loan support rate should be kept at $5.26 a bushel throughout 2002 and any future changes should be left to Congress.

"I say to Agriculture Secretary Ann Veneman just leave the soybean loan rate alone," the Republican senator told reporters. "Let Congress set policy in the next farm bill."

Loan rates effectively assure farmers of a minimum level of return on their grain, cotton and soybeans.

Last week, the Bush administration decided to delay setting loan support prices for all 2002 crops for a few months while Congress tried to finish work on a new farm subsidy law.

USDA Undersecretary J.B. Penn said that if Congress failed to pass a farm bill by early March, the department would go ahead and announce this year's loan rates. He indicated that the department believed the 2001 soybean loan rate was too high.

"J.B. Penn talks too much," Grassley said. "He is not very politically realistic."

He said USDA's actions were "needlessly making bankers worried about loans to farmers" due to uncertainty on what the federal loan rate will be for the 2002 soybean crop.

"If the loan rate is going to be changed on beans, it should have been changed six months ago" when farmers were distributing fertilizer for their 2002 crop, Grassley said.

Farmers had been concerned that soybean and cotton supports would be reduced under formulas that allow adjustment in loans to reflect market prices in recent years. Grain prices collapsed in late 1998 and recovery was at least a year away.

The House of Representatives several months ago passed a farm bill that would lower the soybean rate to $4.92 a bushel. A stalemated Senate bill would set it at $5.20 a bushel.

Both the House and Senate bills would release additional payments whenever returns from sales and subsidies fell below targets set by law.

The House bill would set a soybean target price of $5.86 a bushel and the Senate version would be $5.75.

The American Farm Bureau Federation, the largest U.S. farm group, and the National Farmers Union on Monday both urged Congress to keep the soybean support rate at $5.26 a bushel.

(end)

-- Expand farm supports now, largest US farm group says --
By Charles Abbott

RENO, Nev., Jan 9 (Reuters) - The largest U.S. farm group voted on Wednesday to push aggressively for billions of dollars worth of new farm supports, and urged Congress to offer the fatter subsidies on this year's crops.

Senate Majority Leader Tom Daschle has said the farm bill would be one of the first items for action when Congress re-convenes on Jan. 23.

A stalemate between Republican and Democratic senators dashed hopes that a new farm policy law would be enacted last month. Subsidy spending on grain, cotton and soybeans would rise by about $5 billion a year whenever lawmakers reconcile their disagreements and send a bill to the White House.

"We will continue to push for passage of a farm bill as soon as we can," president Bob Stallman said after the American Farm Bureau Federation adjourned its annual policy-setting convention. With 5.1 million members, it ranks as the largest U.S. farm group.

The farm bill is written every few years to chart federal spending on crop subsidies, export programs, public nutrition and agricultural research.

With Congress mid-way through an overhaul of farm law, the Farm Bureau's 397 voting delegates decided to stick with a set of priorities that included new subsidies to be released whenever market prices were below "target prices" set by law.

The Farm Bureau also favored higher wheat, rice and feed (coarse) grains supports that would be in line with soybeans. Analysts say a generous soybean support rate has encouraged record seedings despite low market prices.

"This is a re-affirmation we are headed in the right direction," Illinois Farm Bureau president Ron Warfield said of the convention.

BIGGER FARM SPENDING NEEDED

U.S. competitors in the global export market regard the House and Senate farm bills, which prescribe larger farm spending, as an example of good politics but poor policy.

"It's good policy with respect to going into a new round of (world trade) negotiations. We're not going to disarm unilaterally," said Stallman.

He said the Farm Bureau supported the U.S. proposal to reduce export subsidies and domestic supports and to remove barriers to agricultural trade worldwide.

The European Union has complained about the level of U.S. domestic crop subsidies that are likely to grow in the next farm bill, and the U.S. push to eliminate export subsidies, which is one of the EU's prime ways of supporting farmers.

The House of Representatives passed a $73.5 billion farm bill last fall that would run an unprecedented 10 years. It would hold crop supports at current levels but give growers a larger annual subsidy and revive "target price" payments.

By comparison, the $45 billion, five-year bill pending in

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the Senate would raise crop support rates and scale down annual payments. But like the House, it would revive the target price system.

STALLMAN RE-ELECTED LEADER

On the final day of the convention, delegates re-elected Stallman, a cattle and rice grower from Texas whose blunt, energetic pursuit of a new farm law rankled Senate Republicans who wanted to modify the Senate bill.

Some Farm Bureau members, who generally are social and fiscal conservatives, have complained Stallman worked too closely with Senate Democrats. But he won a second term with no opposition in an endorsement of his leadership. Steve Appel of Washington state was re-elected vice president.

Indiana delegate Don Villwock said the decision not to make major changes in the Farm Bureau's farm bill priorities "was politically astute."

"We wrote our farm bill policy last year," Villwock said. "It's pretty broad. Hopefully this will allow us to be in those discussions" on Capitol Hill to complete a farm bill.

Missouri Farm Bureau president Charles Kruse held the same view. "It would be very tough to change our policy half-way through a farm bill."

As part of policy discussions, Farm Bureau delegates voted for country-of-origin labels on food imports and against the current practice of meatpackers raising their own animals for slaughter or contracting with farmers for exclusive access to herds. Both are contentious issues in the farm bill.

Delegates also voted to raise national dues by 50 cents, to $4, in December 2003. The increase was a compromise that came a day after a $1 increase, spread over four years, was defeated.

Without an increase, leaders said the Farm Bureau, widely regarded as one of the most powerful lobbying groups in Washington, would soon begin to eat into reserves and have to lay off workers.

(end)

-- U.S. farm group raises dues to hone its influence --
RENO, Nev., Jan 9 (Reuters) - The American Farm Bureau Federation, often cited as one of the most influential Washington lobbying groups, will raise its dues, but only half as much as its board recommended, delegates decided on Wednesday.

The increase of 50 cents, to $4 a year, was approved as a compromise on the final day of the annual convention of the 5.1 million-member group, the largest U.S. farm organization. It was the first increase since 1983.

"We're telling the world...we're ready to take on all the challenges," president Bob Stallman said after the increase was approved, 270-127. A two-thirds majority, 265 votes, was needed.

Indiana delegate Alan Kemper said the increase would enhance the "outstanding farm organization in the country."

The board's request for a $1 increase, spread over four years, was defeated on Tuesday. Southerners resisted the increase, which state Farm Bureaus would pay to the national group.

Without more income, AFBF leaders said, the group would soon eat into its reserves or have to sharply curtail staff and services. Dues accounted for $17.85 million of the AFBF's $20.3 million in revenue last year. Expenses totaled $19.1 million.

Fourteen jobs have been eliminated in the past two years and expenses have been cut by $3 million since 1999.

Delegates also asked for a vote next year on giving the board the power to decide the location of AFBF headquarters, now in the Chicago suburb of Park Ridge, Ill. The location is dictated in AFBF bylaws.

"Our office space in Chicago is very old and poorly laid out," said South Carolina Farm Bureau president David Winkles.

Stallman said the proposal was "a structural thing."

"Don't think that action means we are going to pack up and move sometime," he said after the convention adjourned.

A perennial topic in Farm Bureau circles has been whether to combine the Chicago and Washington offices.

The proposal for a $1 increase, spread over four years, failed, 254-159, on Tuesday. Efforts began immediately to find a compromise.

"Some of us need some time to get our ducks on a row to lay the eggs to send to the Farm Bureau" said Tennessee Farm Bureau president Flavius Barker, who proposed the 50-cent increase. It takes effect in December 2003.

Some delegates remained skeptical any increase was needed. Membership has continued to grow and the national body had a strong balance sheet with assets of $28 million, up $2 million from a year ago.

Don Meacham, vice president of the Nevada Farm Bureau, supported the increase as a way to retain clout.

"You all know we have Harry Reid," Meacham said, referring

MORE →

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to the assistant Senate majority leader, a Nevada Democrat regarded in farm country as overly friendly with environmentalists.

"We've got to have another lobbyist or two back in Washington to paddle that man...I won't bore you with any more wind."

Besides being in the forefront to boost farm subsidies, AFBF was active in Washington on ethanol, agricultural trade and environmental regulation. It was named recently by Fortune magazine as one of the 25 top lobbying groups. (end)

WSJ 01/10/02

Gold Surges $4.50, Leaving Its Doldrums Behind

COMMODITIES

By David Bogoslaw
OsterDowJones Commodity News

Gold awakened from its torpor and surged higher on a mixture of commodity-fund and trade-house buying, enhanced by the triggering of preplaced purchase orders, or buy-stops, above the market.

The February gold contract on the Comex division of the New York Mercantile Exchange settled $4.50 higher at $283.70 a troy ounce, the highest close since mid-October, when gold was still clinging to its flight-to-quality gains in the aftermath of the Sept. 11 attacks.

Dave Meger, senior metals analyst at Chicago brokerage Alaron Trading Corp., described the move as a technically led rally, not related to underlying supply and demand influences, and provoked by further advances in silver.

Silver prices on Comex have leaped nearly 65 cents in the five weeks since a surge in borrowing demand in London lifted short-term lease rates to historic levels just shy of 30%.

The gathering of strength in the U.S. dollar against a weaker euro and yen this week would likely have pushed gold $5 to $6 lower if not for the support of the extended silver rally, according to analyst John Reade at UBS Warburg in London.

Dollar-denominated gold becomes more expensive in foreign currency terms—damping consumer demand—when those currencies lose value relative to the dollar.

"Gold had languished while silver went up, so at some point there had to be a reaction in gold," said Frank McGhee, a dealer at AllianceFinancial LLC in Chicago.

The impending expiration tomorrow of options on the February gold contract also contributed to the gold rally, Alaron's Mr. Meger said. "A lot of shorts have been defending that $280 level for quite some time," he noted, pointing out that open interest in the call options at the $280 strike price had risen to 6,218 contracts by yesterday.

Call options give holders the right, but not the obligation, to buy the underlying futures contract if the futures' price is higher than the strike price at the time of expiration. The rally through $280 compelled funds that were short the $280 calls to cover their exposure by buying futures, Mr. Meger explained, adding to the upward momentum.

George Gero, senior vice president at Prudential Securities, estimated that more than 10,000 options contracts changed hands yesterday, with total volume for both futures and options estimated at 75,000 contracts, three times that traded in a typical trading day.

At first funds were merely canceling their bets that prices would drop, but after the second round of buy-stops was hit above $283, funds began establishing new long positions, betting on higher prices, Alliance's Mr. McGhee said.

The sharp gains surprised traders who had assumed trading activity in gold would remain muted until after the next Bank of England auction, scheduled for Wednesday. The Bank of England auctions have a track record of inciting selloffs in the days before, thereby guaranteeing the auction itself garners the lowest possible price. The last auction, in November, had a demand ratio of 2.6 bids for every ton of gold being offered and was sold at $273.50 an ounce.

Mr. Meger wondered whether demand for the 20 metric tons being auctioned next week would fall off seriously if the price remained above $280 an ounce. Noting the February contract's inability to hold $285 yesterday, which had been identified as a more convincing breakout level than $280.50, Mr. Gero at Prudential said he expected some profit-taking by funds today before another attempt to break through technical resistance.

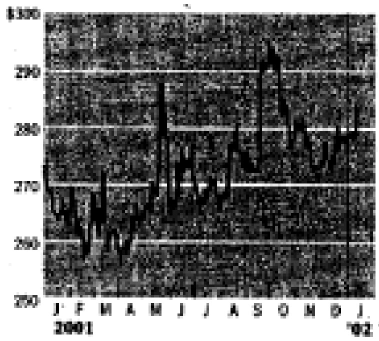
In other commodity markets:

SUGAR: World sugar futures made sharp gains, speeding to the highest levels in more than five months as speculative funds bought in heavy volume. The March contract climbed 0.23 cent to 8.03 cents per pound.

CATTLE: Chicago Mercantile Exchange cattle futures neared last summer's highs as bullish traders pushed prices up through key levels. The February contract rose 0.62 cent to 70.75 cents a pound. (end)

Gold Rush?

Gold futures prices climbed $4.50 to $283.70 a troy ounce yesterday. Price on the continuous front-month contract.



Source: Nymex via Thomson Financial/Datastream

COMMODITY INDEXES

Wednesday, January 9, 2002

	CLOSE	NET CHG.	YR. AGO
Dow Jones-AIG Futures	91.534	− 0.540	115.580
Dow Jones Spot	99.72	+ 0.18	110.73
Reuter U.S.	1200.70	+ 1.38	1384.30
C R B Bridge Futures	195.13	+ 0.10	229.61

FUTURES

Energy Slumps As Supplies Swell; Gold Climbs To Three-Month High

BY REUTERS

Oil prices slumped on Wednesday after weekly reports showed an unexpected buildup in U.S. heating oil stockpiles last week even as cold weather boosted heating demand in the Midwest and Atlantic coast.

Elsewhere, gold prices jumped as they tried to play catch-up with silver's recent strong rally.

The Energy Information Administration said Wednesday that national distillate stocks, which include heating oil and diesel, rose 4.6 million barrels last week.

That confirmed a bearish 5.7 million barrel build in distillate stocks reported on Tuesday night by the American Petroleum Institute, an industry group. Oil traders had on average expected stocks to be 1.05 million barrels lower.

The market response was swift: February **heating oil** crashed 3.03 cents to 53.79 cents a gallon, **gasoline** fell 2.93 cents to 58.06 cents a gallon and **crude oil** fell $1.07 at $20.18 a barrel.

Analysts said the mild autumn in the Northeast had built up more heating oil stocks than had been indicated in past weekly updates.

"It now looks like secondary storage was being filled at a more prodigious rate than may have been suspected," said Peter Beutel, president of oil trading consultant Cameron Hanover.

The unexpected rise in distillate stocks extended the winter heating fuel supply cushion and left U.S. inventories almost 27 million barrels above year-ago levels.

"The level of distillates is even higher than our most extreme expectations," said Alan Levine, a Washington-based energy specialist with Morgan Stanley.

"It casts serious doubt on the likelihood of a seasonal rally, leaving many oil dealers with the problem of purchased oil price well above current levels," Levine added.

Gold jumped to a three-month high in what traders said was catch-up with the recent gains in silver.

February **gold** shot up $4.50 to $283.70 an ounce, with the high of $285 the highest price since Oct. 18.

Commodity funds were big buyers, while one investment bank sold heavily into the rally, dealers said.

The move accelerated as the contract cleared the 100-day moving average at $280.70, which chart watchers consider an important pivot for gold.

"All of those kicked in — the 100 day, chart points, all of those. There was a lot of stop-loss buying out there too," said Ian MacDonald, head of bullion dealing at Commerzbank.

March **silver** rose to $4.735 an ounce, the highest since May 17, before closing 7 cents higher at $4.71

"The gold/silver spread hadn't really moved, so maybe there is just some realignment here for those people in the market who still pay attention to that," one dealer said.

Silver has been the outperformer in precious metals since December, propelled by a punishing squeeze in the forward markets that came as short-term silver lease rates soared as high as 30% early this week.

One-month silver loans were available around 26% late Wednesday. The ongoing tightness has seen silver prices increase 19% since setting eight-year lows around $4.04 an ounce in late November.

(end)

Bloomberg 01/09/02

BN Fed's Greenspan to Appear Jan. 24 at Senate Committee (Update1)
Jan 9 2002 15:00

(Adds that Greenspan testimony is part budget process in second paragraph.)

Washington, Jan. 9 (Bloomberg) -- Federal Reserve Chairman Alan Greenspan is scheduled to testify before the Senate Budget Committee on Jan. 24.

Greenspan's testimony will begin at 10 a.m. Washington time, said committee spokesman Bob Stevenson. He typically testifies to Congress every January about the economy as part of the budget process. This is in addition to Greenspan's twice-yearly testimony to the banking committees, commonly referred to as Humphrey-Hawkins testimony.

The Fed chairman will make his first speeches of the year later this week, including one Friday on the U.S. economy to a San Francisco public policy group. He will also discuss financial literacy at an economic summit in Oakland on Thursday.

The last time Greenspan commented publicly about the economy was Oct. 19, when he spoke to the National Italian American Foundation. The central bank cut interest rates 11 times last year as the slipped into recession.

--Siobhan Hughes and Laura Litvan in Washington (202) 624-1943 or shughes@bloobmerg.net /cah

WSJ 01/10/02

New Treasury Securities-Auction Policies Attempt To Cut Costs by Speeding Up Release of Results

By Rebecca Christie
Dow Jones Newswires

WASHINGTON — The U.S. Treasury is trying to lower its borrowing costs by cutting the time it takes to prepare results from Treasury securities auctions.

The shift means new auction policies that are stricter and less forgiving of mistakes by auction participants, putting more responsibility on bond dealers and their customers. So far, people in the market say the extra hassle is balanced by the potential benefits.

Peter Fisher, Treasury's undersecretary for domestic finance, unveiled Treasury's new plan in a speech this week to the Bond Market Association, an industry trade group, in New York. He also made strong comments about a need for dealers to self-police the secondary market for Treasurys.

"He's cracking the whip," said Stephen Stanley, senior market economist for Greenwich Capital Markets. "People like us, primary dealers, are going to have to be careful. Hopefully, we already are."

Beginning in February, Treasury will begin taking bids as submitted and rejecting bids that aren't submitted correctly. Treasury also intends to set stricter limits on when it will accept telephone bids from participants whose computer systems aren't working properly.

In the past, Treasury has reviewed bids to ensure they seem reasonable and follow correct procedures. It sometimes has given dealers a chance to correct glaring errors.

Now, Treasury will scale back these safety nets, leaving bidders more at the mercy of their own proofreading.

Mr. Fisher summed up his new policy this way: "Add an extra zero or mess up the big figure, and if it hits, it's yours."

The payoff for bond dealers is faster results and less risk, with a proposed margin of just six minutes between the time when auctions close and results are announced. That would mean bidders will no longer have to take as much risk of market movements in the interim.

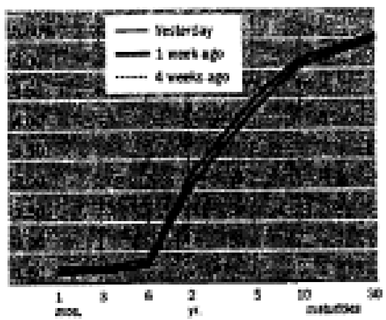
Consistently shorter release times would help Treasury lower its borrowing costs, since it wouldn't have to pay a premium for that uncertainty.

In the long run, Mr. Fisher said, Treasury is aiming for a two-minute turnaround. That could take a while, as it will require a number of technical upgrades. But it already has drawn praise from market participants.

"The minor inconvenience of the stricter bidding is more than offset by the two-minute turnaround time," said Gerald Lucas, senior government bond strategist for Merrill Lynch, a designated primary dealer in government securities.

Treasury Yield Curve

Yields as of 4:30 p.m. Eastern time



Source: Reuters

YIELD COMPARISONS

Based on Merrill Lynch Bond Indexes, priced as of midafternoon Eastern time.

	1/9	1/8	52 WEEK HIGH	52 WEEK LOW
Corp.-Govt. Master	5.01%	5.02%	6.01%	4.35%
Treasury				
1-10yr	3.61	3.63	5.10	2.92
10+yr	5.66	5.67	5.94	4.83
Agencies				
1-10yr	4.04	4.05	5.77	3.25
10+yr	6.23	6.23	6.54	5.38
Corporate				
1-10 yr High Qlty	4.61	4.63	6.20	4.20
Med Qlty	6.06	6.09	7.09	5.52
10+yr High Qlty	6.82	6.82	7.31	6.27
Med Qlty	7.51	7.51	8.08	7.08
Yankee bonds (1)	5.67	5.68	6.70	5.10
Current-coupon mortgages (2)				
GNMA 6.50%	6.46	6.49	6.94	5.75
FNMA 6.50%	6.48	6.50	6.95	5.66
FHLMC 6.50%	6.50	6.53	6.97	5.65
High-yield corporates	12.08	12.11	13.70	12.01
Tax-Exempt Bonds				
7-12-yr G.O. (AA)	4.35	4.39	4.62	3.84
12-22-yr G.O. (AA)	5.11	5.13	5.32	4.67
22+yr revenue (A)	5.25	5.26	5.47	4.91

Note: High quality rated AAA-AA; medium quality A-BBB/Baa; high yield, BB/Ba-C.
(1) Dollar-denominated, SEC-registered bonds of foreign issuers sold in the U.S. (2) Reflects the 52-week high and low of mortgage-backed securities indexes rather than the individual securities shown.

Treasurys

Treasurys ended modestly higher as a late round of repositioning erased early price declines.

At 4 p.m., the benchmark 10-year Treasury note was up 4/32 point, or $1.25 per $1,000 face value, at 99 18/32. Its yield fell to 5.057% from 5.074% late Tuesday, as yields move inversely to prices.

The 30-year Treasury bond's price was up 8/32 point at 98 6/32 to yield 5.500%, down from 5.518% Tuesday.

Also yesterday, the Treasury sold $6 billion of 10-year inflation-indexed notes, which were well-received by the market. Amid stronger-than-expected demand, the issue was awarded at 3.48%, about 0.01 percentage point better than the pre-auction level.

10-YEAR INFLATION-INDEXED NOTES

Here are the results of yesterday's Treasury auction of 10-year inflation-indexed notes. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

Applications	$14,317,397,000
Accepted bids	$6,000,004,000
Bids at market-clearing yld accepted	91.96%
Accepted noncompetitively	$191,967,000
Accepted frgn noncomp	$0
Auction price (Rate)	99.120 (3.480%)
Coupon equivalent	3⅜%
Cusip number	9128277J5

The notes are dated Jan. 15, 2002, and mature Jan. 15, 2012.

Corporate Bonds

DaimlerChrysler AG's DaimlerChrysler North America Holding Corp. sold a multicurrency issue via Banc of America Securities, Deutsche Banc Alex. Brown and Goldman Sachs.

A $1.5 billion, 10-year portion, increased from $1 billion, was given a yield margin of 2.25 percentage points over Treasurys, compared with initial guidance of 2.30 to 2.35 percentage points over Treasurys. When freed to trade, it narrowed to 2.14 percentage points over Treasurys. The deal also included a 1.5 billion euros ($1.34 billion) five-year part, increased from 1 billion euros. It was priced at a yield 1.18 percentage points over swaps.

The debt was rated single-A-3 by Moody's Investors Service and triple-B-plus by Standard & Poor's.

—*Steven Vames and Richard A. Brave contributed to this article.*

INVESTOR'S BUSINESS DAILY 01/10/02

CREDIT MARKET

Corporate Debt Sales Sway Market As Treasuries Trade In Tight Range

BY REUTERS

U.S. Treasuries rose slightly on Wednesday in a session dominated by investor interest in higher-yielding corporate debt and stocks.

On Wednesday, DaimlerChrysler AG launched nearly $3 billion in investment-grade bonds, while Freddie Mac launched a record $7 billion sale of 10-year notes. Those offerings followed $14 billion of corporate and agency debt sales on Tuesday.

A Treasury inflation-indexed 10-year note sale also proved popular with investors, with $14 billion in bids competing for the $6 billion in notes being offered.

"It's been heavy supply now for several days," said Sadakichi Robbins, head of fixed-income trading at Bank Julius Baer in New York. "We've got a trading range that we've held to very tightly."

Analysts said much of the movement in Treasuries this week has been tied to the buying and selling of Treasuries to lock in interest rates ahead of large corporate and agency debt sales.

The market did not react to Dallas Fed President Robert McTeer's view that the recessionary U.S. economy is in the process of forming a bottom.

Lehman Bros. economist Drew Matus said McTeer, a voting member on the Fed's policy-making committee, merely echoed a view expressed by several other Fed officials on Tuesday.

But traders said many players stayed sidelined on Wednesday, waiting for key remarks on the economy from Federal Reserve Chairman Alan Greenspan this Friday.

Recent Fed speakers "have the door left open to another rate cut, given they think the recovery is still some months away," said Kim Rupert, market analyst at Standard & Poor's MMS. "But they also acknowledged the lagged effect of policy," she said.

At 3 p.m. Eastern time, two-year Treasury notes were up 2/32 at 100 14/32, yielding 3.02%. Five-year notes were up 2/32 to 96 11/32, yielding 4.35%.

Benchmark 10-year notes rose 3/32 to 99 15/32, yielding 5.07%. And 30-year bonds were up 14/32 to 97 7/32, yielding 5.50%.

For Wednesday, January 9, 2002

Dow Jones Bond Averages

	2000		Today's	
	High	Low	Close	Change
20 Bonds	97.49	93.23	100.30	+ 1.11
Utilities	96.99	90.49	101.27	+ 0.74
Industrials	95.86	95.53	105.33	+ 1.47

Bonds Summary

	Domestic		All Issues	
	Wed	Tue	Wed	Tue
Issues Traded	140	127	145	136
Advances	80	50	80	58
Declines	39	53	40	56
Unchanged	21	21	21	22
New Highs	9	5	9	5
New lows	0	2	1	2
Total NY Bond Volume				$7,631,000
Total Amex Bond Volume				$277,000

(end)

WSJ 01/10/02

Recession Will End In a Month or Two, Economists Predict

By a WALL STREET JOURNAL *Staff Reporter*

KANSAS CITY, Mo.—Slightly more than half of the economists surveyed by the Blue Chip Economic Indicators say the recession will be over by the end of February, and most of the rest expect it to be over by the end of March.

Most of the forecasters, however, don't see a strong recovery this year. The average of the 52 forecasts collected by the monthly newsletter is for inflation-adjusted growth of only 1% in 2002, measured on a year-over-year basis. But the economists predict 3.4% growth in 2003, much slower than the growth of the late 1990s. The forecasters surveyed were almost evenly split on whether the Federal Reserve will cut interest rates further. By the end of the year, however, they expect the Fed to have lifted its target for the federal-funds interest rate (which governs overnight interbank loans) to 2.5% from the current 1.75%.

The results of the Blue Chip survey are similar to those of a recent Wall Street Journal survey, published last week.

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Bloomberg 01/9/02

BN O'Neill Says U.S. Economy Will Take 9 to 18 Months to Recover
Jan 9 2002 17:47

O'Neill Says U.S. Economy Will Take 9 to 18 Months to Recover

Washington, Jan. 9 (Bloomberg) -- The U.S. economy probably will return to its ``potential'' growth rate of about 3.5 percent in nine to 18 months, Treasury Secretary Paul O'Neill said.

``At the moment, the weight of the evidence is cautiously positive and it's been improving,'' O'Neill said in an interview.

O'Neill's assessment of how long it will take before U.S. growth returns to a 3.5 percent rate is less optimistic than most economists predict. The median of 42 forecasts in a Bloomberg News survey is for the economy to expand at a 3.5 percent pace in the third quarter and a 3.9 percent rate in the final three months of the year.

The economy slipped into recession in March and contracted at a 1.3 percent annual rate in the third quarter. The Bloomberg News survey shows the economy probably shrank at a 1.4 percent rate at the final three months of the year. Recent statistics show an increase in consumer confidence, a rise in home sales and a pickup in orders to manufacturing and service companies.

``We're in the recovery process and we're in the beginning of the positive real growth period,'' O'Neill said.

The Treasury chief described the current quarter, in which analysts expect gross domestic product to contract at a 0.1 percent rate, as the ``ambiguous period where it's not obvious what the rate of movement out of the low economic period is going to be.''

Unemployment is likely to rise above the 6 1/2-year high of 5.8 percent it reached in December, O'Neill said. It's unlikely, he said that the jobless rate will rise as much as another full percentage point.

``The rate is going to go up from where we are,'' he said. ``It takes a while before the economy's growing fast enough to not only absorb the new population coming into the workforce, but to begin to eat into the population that was dislocated by the slowdown. But, I don't think 6.8 percent is a real probability.''

Fed Officials

Federal Reserve policy makers have said this week that they expect a recovery this year, though possibly not at the pace economists forecast. The U.S. will probably ``see a more gradual recovery from the recession than in most other postwar business cycles,'' Al Broaddus, president of the Richmond Fed Bank, said yesterday. Growth later this year and next may be ``a little softer than the consensus,'' Broaddus said.

O'Neill also dismissed arguments that by eroding the nation's budget surplus with a $1.35 trillion tax cut last year,

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the Bush administration is partly to blame for high interest rates on longer term borrowing, which some say are stunting a rebound in growth.

Some investors bet the tax cut will push the U.S. budget back into deficit and require the government to sell more government securities.

The yield on the Treasury's benchmark 10-year note, at 5.05 percent today, is 6 basis points lower than it was on Jan. 1, 2001. In that same time, Fed policy makers have lowered the overnight bank lending rate by 4 3/4 percentage points.

`Lots Going On'

``There are lots of things going on in the world, including enormous changes in energy prices and Argentina,'' he said. ``To say this change in the federal revenues accounts for everything you see or don't see in interest rates is wrongheaded.''

The former chairman of No. 1 aluminum producer Alcoa Inc. said his conversations with industrialists offered a ``mixed bag'' of outlooks. Manufacturing, as measured by the Institute for Supply Management's monthly survey, rose in December to the highest level since October 2000 as new orders and production increased. That's a sign factories are starting to recover from a 17-month slump.

``There are people I speak to that already see in their own demand picture an early pickup in the economy and there are some who don't,'' O'Neill said.

One reason he cited for optimism was that inventories were now lean enough to allow production to increase, something he said would boost growth.

``You've created the basis for a resurgence,'' O'Neill said of those who have sliced their stockpiles amid falling demand of 2001. Inventories declined at a record $61.9 billion annual rate during the third quarter.

Commodities `Encouraging'

O'Neill also said a rise in commodities prices is ``encouraging.'' The Commodity Research Bureau index, which includes 17 markets for raw materials, is up 6.3 percent since falling a two-year low on Oct. 24.

Automobile producers, such as General Motors Corp. and Ford Motor Co., were also praised by O'Neill for helping the economy by introducing zero financing costs in the wake of Sept. 11, even though they may have lost profits.

``If they insisted on margin maintenance then, that might have been better for them,'' he said. ``But from a broader economic point of view (their actions) meant jobs for people that

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would otherwise have been taken out.''

Such workplace security had a beneficial effect on confidence and productivity, he said. ``If you lay off 100 of 100,000, all 100,000 think they're next,'' he said.

O'Neill offered an optimistic view of the U.S. economy's ability to outpace those of other countries because of its free-market foundations and the ability of its businesses to innovate.

``There is a huge opportunity for our economy to grow at rates that most economies can't achieve because they have rigidities built into their structure,'' he said. ``I think we have enormous potential going forward.''

--Simon Kennedy and Brendan Murray in Washington (202) 624-1834 or skennedy4@bloomberg.net with reporting by Liz Goldenberg in Washington /jrc/cah

WSJ 1/10/02

U.S. Blocks Assets Of Two Additional Islamic Charities

The U.S. blocked the assets of two more Islamic charities accused of raising funds for the al Qaeda terrorist network while telling donors the money would go to Muslim widows and orphans.

The charities and two top al Qaeda officials in Pakistan "defrauded well-intentioned donors and turned funds meant for good into funds for evil," Treasury Secretary Paul O'Neill said.

One group, the Kuwait-based Revival of Islamic Heritage Society, also has been accused by Albania and Egypt of serving as a front for terrorists operating in the Balkans. U.S. officials said the group may have been used by terrorists without the knowledge of its top officials in Kuwait.

By Wall Street Journal staff reporters Christopher Cooper in London and Michael M. Phillips in Washington.

Treasury officials said the other group, the Pakistan-based Afghan Support Committee, was established by Osama bin Laden, the Saudi exile blamed by the U.S. for the Sept. 11 attacks on the World Trade Center and the Pentagon. The Afghan Support Committee has been run by Abu Bakr Al-Jaziri, whom U.S. officials identified as the "head of organized fund raising" for al Qaeda.

Paul O'Neill

In Peshawar, Pakistan, and the Afghan city of Jalalabad, Mr. Al-Jaziri allegedly solicited donations from Arab nongovernmental organizations by claiming the funds were for orphans and widows, then gave the funds to al Qaeda, the Treasury said, adding that Revival of Islamic Heritage Society operated similarly. The Treasury ordered the seizure of personal assets of Mr. Al-Jaziri, whose whereabouts were unclear last night.

The U.S. also blocked assets of Abd al-Muhsin Al-Libi, who managed the Peshawar offices of both the Afghan Support Committee and the Islamic Heritage Society. His whereabouts also weren't disclosed.

The announcement brought to 168 the number of organizations and individuals the U.S. has publicly identified as financiers of terrorism. The U.S. and its allies have frozen $68.1 million in alleged terrorist assets since the Sept. 11 attacks. Mr. O'Neill said the Treasury would continue to issue seizure orders as investigators find more suspect organizations.

The Treasury secretary said the Bush administration has secured the active support of major money-center nations in the effort to prevent terror groups from getting hard currency. "When the terrorists have no access to hard currency, they have

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no means of purchasing the technology and equipment of terrorism," Mr. O'Neill said. He singled out Canada, Luxembourg, Britain, Hong Kong, Switzerland and the United Arab Emirates for praise among the 144 nations that have issued orders to block assets at Washington's behest.

The Islamic Heritage Society drew the attention of U.S. intelligence officials during the Balkans conflicts of the 1990s. The group was one of several organizations infiltrated by extremist Muslims in Albania. Many of the extremists, members of an Egyptian group called Al-Jihad that was merging with al Qaeda, later were deported to Egypt in a 1998 Central Intelligence Agency operation, U.S. and Albanian officials said.

According to sworn statements from several Jihad members tried in Egypt in 1999, Islamic Heritage officials actively recruited from the ranks of Egyptian Jihad.

Ahmed Ibrahim al-Naggar, a Jihad member put to death in Egypt in 2000, had called a lack of funds the biggest problem facing the radical Muslim movement in the mid-1990s. He said that he and other Jihad members were told to find work, and many turned to Islamic charities for employment.

Shawki Salama Attiya, an Egyptian Jihad member currently serving a life sentence in Egypt, said he was recruited to work at Islamic Heritage's offices in Albania in August 1995, where he was paid $700 a month to run an orphanage. Shortly thereafter, Mr. Attiya said, he was appointed head of Jihad's Albania cell.

Several Muslim extremists said they were recruited in Afghanistan by a fellow defendant in the Egyptian case, Mohamed Hassan Tita. In his sworn statement, Mr. Tita said he was recruited by Mohamed Zawahri, brother of al Qaeda lieutenant Ayman Zawahri. Mr. Tita said he was hired to work for a Saudi charity, but later became manager of Islamic Heritage's Albanian chapter. Mr. Tita said five Jihad members worked there, and he collected money from them for use in Jihad-related activities.

Such activity wasn't overlooked by the Albanian authorities or the CIA, which eavesdropped on telephone traffic at Islamic Heritage and several other Albanian charities during the mid-1990s.

—Glenn R. Simpson in Brussels contributed to this article.

End

FT 01/10/02

US extends crackdown on terror funding

By Edward Alden in Washington

The US yesterday moved to block the assets of a Kuwait-based Islamic charity, the first time that the US effort to crack down on terrorist financing has reached the wealthy emirate that is one of its closest allies in the Arab world.

The US Treasury department ordered a freeze on accounts belonging to the Pakistan and Afghanistan-based offices of the Revival of Islamic Heritage Society, a Kuwaiti charitable group connected to the Salafi Islamist movement, which has ties to Saudi Arabia.

The US also ordered a freeze on the assets of the Afghan Support Committee, currently based in Peshawar, Pakistan, which it said was established by Osama bin Laden to raise funds for al-Qaeda. The ASC allegedly solicited money from other Arab aid organisations by claiming the funds were for widows and orphans, but then diverted the money to al-Qaeda operatives.

US officials said the finance chief for the ASC was Abu Bakr Al-Jaziri, who had also served as head of organised fund-raising for Mr bin Laden. Mr Al-Jaziri, who left Afghanistan for Pakistan in 2000, was named in yesterday's action, along with Abd al-Muhsin Al-Libi, the Pakistan office director for the Revival of Islam Heritage Society. Mr Al-Libi is alleged to have provided facilities for al-Qaeda in Peshawar and to have carried both money and messages for Mr bin Laden.

The latest US move brings to 168 the number of groups and individuals that have been targeted since the September 11 attacks, leading to the freezing worldwide of accounts worth about $68m.

Kuwait has tried to rein in Islamist charities that might be funnelling money to al-Qaeda or other terrorist groups by bringing charities under closer regulatory control. The country was embarrassed last year when one of its citizens, Sulaiman Abu Ghaith, appeared in videos as a spokesman for Osama bin Laden.

Kuwait said yesterday that it had moved on January 2 to freeze accounts of the ASC and the Pakistan and Afghanistan asset of the Revival of Islamic Heritage Society following a request from the US government. The US order excludes the Kuwait headquarters of the group, though there appear to be close ties between the headquarters and the regional offices.

"The government of Kuwait has not so far found anything suspicious regarding this group," said Shafeeq Ghabra, director of the Kuwait government's information office in Washington.

US officials said the Pakistani office of the RIHS had defrauded the head office in Kuwait by claiming money to care for orphans who had already died or had never existed. The additional funds were then diverted to support al-Qaeda operations. The US said it had no evidence that RIHS headquarters in Kuwait were aware of the fraud.

The US plans to send a delegation of Treasury and Justice Department officials to Kuwait next week to discuss the crackdown.

End

Bloomberg 1/09/02

BN SEC Flooded With Paper Filings After Anthrax Scare (Update1)
Jan 9 2002 16:33

SEC Flooded With Paper Filings After Anthrax Scare (Update1)

(Adds new case of anthrax hoax in 13th paragraph.)

Washington, Jan. 9 (Bloomberg) -- The U.S. Postal Service is belatedly delivering thousands of insider-trade reports to the Securities and Exchange Commission, paper filings delayed when anthrax contaminated Washington's postal center three months ago.

The reports of executive stock transactions from October through early December are just now arriving at the SEC, where they are studied by investors as a sign of how company insiders view the strength of their companies' stock.

``You can truly see what people are doing with their own funds,'' said Mark Buckingham, an analyst with Muzea Consulting LLC, a firm that tracks insider data for institutional investors. ``If you believe in your company and you are willing to put your money where your mouth is, that is a stronger testament than words.''

About 1 million letters and packages were quarantined when the Postal Service shut down the Brentwood mail-sorting facility on Oct. 21, after an envelope containing anthrax was delivered to the office of Senate Democratic Leader Tom Daschle. Two Brentwood postal workers died from inhalation anthrax in what authorities described as a likely terrorist attack.

The quarantine and an irradiation treatment applied to Brentwood letters created a backlog in paper filings going to the SEC and other U.S. government agencies.

`Twiddling Our Thumbs'

``We have been just twiddling our thumbs waiting for documents,'' said Pam Galasso, owner of Securities Document Service, which obtains insider filings for clients. ``It was like a trickle.''

The trickle turned into a flood when the filings were released from quarantine. In the first five business days of January, the SEC made public more than 1,400 documents known as Form 144s that were originally mailed in October, November and early December.

Among the quarantined insider reports were filings from Microsoft Corp. co-founder Bill Gates and Starbucks Corp. Chairman Howard Schultz.

Many of the documents had turned yellow and brittle because of the treatment to kill anthrax spores. Some of the filings crumbled in the hands of document researchers who sift through insider reports to gather information for Wall Street brokerages and institutional investors.

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Security Procedures

The SEC yesterday issued a one-paragraph statement noting that filings and other documents mailed to the commission were delayed ``due to U.S. Postal Service security procedures for mail to be delivered to government agencies.''

While the postal service has delivered all of the mail that was held at Brentwood, it continues to send letters addressed to government agencies to outside contractors in Lima, Ohio, and Bridgeport, New Jersey, for irradiation, a process that can add several days to the delivery process, said Postal Service spokesman Gerry Kreienkamp.

``It's unfortunate but it's something the Post Office had to do,'' said SEC spokesman John Heine.

The U.S. Capitol building was closed for an hour and a half on Jan. 3 after another threatening letter sprinkled with powdery dust was sent to Daschle. Authorities concluded that the second letter was a hoax and the powder was not hazardous.

SEC filings are required to be made by top executives who buy and sell shares in the companies that they run, as well as by large shareholders and people who receive stock through private transactions.

An insider who plans to sell stock must file a Form 144 by the time the order is placed with his broker. The same insider must file a Form 4 reporting the details of stock sales or purchases in the month that follows the actual transaction.

Exception to Rule

Insider reports are an exception to rules that require U.S. corporations to file their disclosure reports through the SEC's electronic data gathering, analysis and retrieval (EDGAR) system. The agency has yet to require electronic filing by insiders because it believes that many lack the resources to use Edgar.

Some stock analysts have intensified their examination of insider transactions since the SEC's Regulation Fair Disclosure barred companies from selectively releasing information to analysts and investors.

``Because of Regulation FD, people are paying attention to the insider trades a little more,'' said Michael Johanns, another analyst at Muzea Consulting. ``There are no whisper numbers anymore.''

Although insider reports rarely move markets, the documents provide a window into what is happening at major companies. In one instance, Louis Borders, founder of Webvan Group Inc., revealed in an insider filing that he sold most of his company stake less than three weeks before the online grocer shut down.

In another example, Paul Allen, a co-founder of Microsoft, reported that he had purchased securities that protected the value of much of his stake in the Redmond, Washington, software manufacturer.

--Miles Weiss in Washington (202) 624-1879 or at mweiss@bloomberg.net /rp

Carleton, Norman

From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:36 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

[(b)(6)]

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 2:35 PM
To: Gabilondo, Jose
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:32 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 11:48 AM
To: Paulus, Michael; Nickoloff, Peter; Schultheiss, Heidilynne; Novey, Michael; Hammer, Viva; Eichner, Matthew; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; DeMarco, Edward
Subject: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

<< File: retail swaps redline.wpd >>

<< File: retail swap study release (10).wpd >>

02701

01300000001310

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, June 19, 2001 2:42 PM
To: Annette Nazareth (E-mail); Belinda Blaine (E-mail); Bob Colby (E-mail); Bob Zwirb (E-mail); 'David Wall'; 'Diane Virzera'; Eichner, Matthew; Elizabeth Fox (E-mail); Eric Hirschhorn (E-mail); Hammer, Viva; John Polise (E-mail); 'Joyce Hansen'; Kathryn Dick (E-mail); Kevin Erickson (E-mail); Kurt Wilhelm (E-mail); Lori Sanatamorena (E-mail); 'Miguel Browne'; Nickoloff, Peter; Novey, Michael; Pat Parkinson (E-mail); 'Pat White'; Schultheiss, Heidilynne
Cc: Gross, Jared; Ellett, Martha; Sutton, Gary; Gabilondo, Jose; DeMarco, Edward; Hughes, Gerry
Subject: FW: Suggested Interviewees

```
-----Original Message-----
From: Zwirb, Robert S. [mailto:bzwirb@CFTC.gov]
Sent: Tuesday, June 19, 2001 2:35 PM
To: 'Norman.Carleton@do.treas.gov'
Subject: Suggested Interviewees
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[(b)(5)]

Tracking:

Recipient	Delivery	Read
Annette Nazareth (E-mail)		
Belinda Blaine (E-mail)		
Bob Colby (E-mail)		
Bob Zwirb (E-mail)		
'David Wall'		
'Diane Virzera'		
Eichner, Matthew	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 4:06 PM
Elizabeth Fox (E-mail)		
Eric Hirschhorn (E-mail)		
Hammer, Viva	Delivered: 6/19/01 2:42 PM	Read: 6/20/01 1:54 PM
John Polise (E-mail)		
'Joyce Hansen'		
Kathryn Dick (E-mail)		
Kevin Erickson (E-mail)		
Kurt Wilhelm (E-mail)		
Lori Sanatamorena (E-mail)		
'Miguel Browne'		
Nickoloff, Peter	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:45 PM
Novey, Michael	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 5:04 PM
Pat Parkinson (E-mail)		
'Pat White'		
Schultheiss, Heidilynne	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:42 PM
Gross, Jared	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:42 PM
Ellett, Martha	Delivered: 6/19/01 2:42 PM	Read: 6/21/01 9:34 AM
Sutton, Gary	Delivered: 6/19/01 2:42 PM	Read: 7/2/01 9:04 AM
Gabilondo, Jose	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 3:00 PM
DeMarco, Edward	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 4:10 PM
Hughes, Gerry	Delivered: 6/19/01 2:42 PM	

02702

0130000001311

From: Carleton, Norman
Sent: Tuesday, June 19, 2001 2:42 PM
To: Annette Nazareth (E-mail); Belinda Blaine (E-mail); Bob Colby (E-mail); Bob Zwirb (E-mail); 'David Wall'; 'Diane Virzera'; Eichner, Matthew; Elizabeth Fox (E-mail); Eric Hirschhorn (E-mail); Hammer, Viva; John Polise (E-mail); 'Joyce Hansen'; Kathryn Dick (E-mail); Kevin Erickson (E-mail); Kurt Wilhelm (E-mail); Lori Sanatamorena (E-mail); 'Miguel Browne'; Nickoloff, Peter; Novey, Michael; Pat Parkinson (E-mail); 'Pat White'; Schultheiss, Heidilynne
Cc: Gross, Jared; Ellett, Martha; Sutton, Gary; Gabilondo, Jose; DeMarco, Edward; Hughes, Gerry
Subject: FW: Suggested Interviewees

-----Original Message-----
From: Zwirb, Robert S. [mailto:bzwirb@CFTC.gov]
Sent: Tuesday, June 19, 2001 2:35 PM
To: 'Norman.Carleton@do.treas.gov'
Subject: Suggested Interviewees

Here is our list of organizations/individuals that we propose to interview for the retail swaps study:

[(b)(5)]

Tracking:

Recipient	Delivery	Read
Annette Nazareth (E-mail)		
Belinda Blaine (E-mail)		
Bob Colby (E-mail)		
Bob Zwirb (E-mail)		
'David Wall'		
'Diane Virzera'		
Eichner, Matthew	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 4:06 PM
Elizabeth Fox (E-mail)		
Eric Hirschhorn (E-mail)		
Hammer, Viva	Delivered: 6/19/01 2:42 PM	Read: 6/20/01 1:54 PM
John Polise (E-mail)		
'Joyce Hansen'		
Kathryn Dick (E-mail)		
Kevin Erickson (E-mail)		
Kurt Wilhelm (E-mail)		
Lori Sanatamorena (E-mail)		
'Miguel Browne'		
Nickoloff, Peter	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:45 PM
Novey, Michael	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 5:04 PM
Pat Parkinson (E-mail)		
'Pat White'		
Schultheiss, Heidilynne	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:42 PM
Gross, Jared	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:42 PM
Ellett, Martha	Delivered: 6/19/01 2:42 PM	Read: 6/21/01 9:34 AM
Sutton, Gary	Delivered: 6/19/01 2:42 PM	Read: 7/2/01 9:04 AM
Gabilondo, Jose	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 3:00 PM
DeMarco, Edward	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 4:10 PM
Hughes, Gerry	Delivered: 6/19/01 2:42 PM	

From: Wiedman, Mark
Sent: Friday, January 11, 2002 10:30 AM
To: Carleton, Norman; Bitsberger, Timothy; Schultheiss, Heidilynne; Nickoloff, Peter
Subject: RE: enron meeting -- 12:00?

[(b)(5)]

Thanks.

-----Original Message-----
From: Carleton, Norman <Norman.Carleton@do.treas.gov>
To: Wiedman, Mark <Mark.Wiedman@do.treas.gov>
CC: Schultheiss, Heidilynne <Heidilynne.Schultheiss@do.treas.gov>
Sent: Fri Jan 11 09:52:30 2002
Subject: RE: enron meeting -- 12:00?

[(b)(5)]

-----Original Message-----
From: Wiedman, Mark
Sent: Friday, January 11, 2002 9:10 AM
To: Carleton, Norman; Schultheiss, Heidilynne
Cc: Nickoloff, Peter; Bitsberger, Timothy; Stokes, Veronica
Subject: enron meeting -- 12:00?

Tim would like to go over the Enron paper you folks put together at 12. Can you make that?

Carleton, Norman

From: Gabilondo, Jose
Sent: Wednesday, December 05, 2001 2:56 PM
To: Carleton, Norman
Subject: Enron collage

Norman:

Here -- for what they're worth -- are the best of my Enron resources. Here's the link to a daily price chart of energysquib.doc Enron's common stock, which is easier to drag on to your screen and to open (rather than saving): article2.htm This is a tiny note that I wrote about Enron market structure . These are two (now dated) market intelligence pieces about Enron: article.htm ar2000.pdf Here's the 2000 annual report - Pwr_mkters_110201.pdf and here's a list of the top 20 power marketers prepared by an energy consulting group - . Hope that you like the Paul Klee format.

José

02736

01300000001345

[(b)(5)]

02737

01300000001346

Subject: FW: Enron's Departure from Core Business Takes a Toll on Performance

SCIENTECH

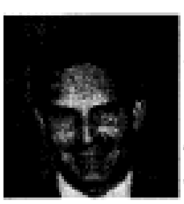
Issue*Alert*™

October 22, 2001

Enron's Departure from Core Business Takes a Toll on Performance

02738

By Will McNamara
Director, Electric Industry Analysis



[*News item from Reuters*] Enron Corp. (NYSE: ENE) stock sustained further heavy losses on October 19 as investor confidence in the former Wall Street favorite remained at a low ebb after it reported its first quarterly loss in over four years. The energy giant's stock was off $3.32 or 11.45 percent at $25.68 per share at mid-day trade on Oct. 19, making a cumulative loss of 28 percent for a week in which it reported a third-quarter loss of $638 million. As of early morning trading on Oct. 22, Enron shares were priced at $21.99, a reflection of new developments (including a new

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Securities and Exchange inquiry) that have caused uncertainty about the company among investors.

Analysis: Enron's first financial report since the departure of former CEO Jeffrey Skilling in August has not done much to once again instill investor confidence in the company, which has experienced one of its most turbulent years in recent memory. While Skilling cited personal reasons for his departure, many analysts suspected that a significant drop in Enron's share price and financial losses in its diversified businesses also played a role. At the time of Skilling's departure, Enron's stock had tumbled to a 52-week low. However, based on the new 3Q report, it now appears that Enron's downward turn may be continuing despite the return of Kenneth Lay to the company's top spot. In essence, Enron's financial problems have been caused by businesses that the company has established as a way to diversify from its core focus on wholesale power sales. It appears that Enron is learning a costly lesson—namely that investors are not responding favorably to the company's innovation, especially if bottom line performance is in any way compromised. The road ahead may remain uncertain for Enron, as a good number of unresolved issues and a new Securities and Exchange Commission (SEC) inquiry into financial dealings of its chief financial officer continue to overshadow the company.

Let's first establish the financial losses that Enron has reported in the third quarter. As noted, as a whole the company reported $638 million in losses, after taking $1.01 billion in charges associated with several of its non-core businesses. When we break down the losses, it becomes clear that Enron is struggling with its operations in three businesses: water, broadband and the retail power market. Specifically, Enron reported $287 million in charges from Azurix, its water and wastewater business; $180 million in charges related to the downsizing of its broadband operations (including severance costs and losses on inventory sales and customer contracts); and $544 million in what the company is calling "investment losses." Evidently, about half of the $544-million figure is related to Enron's investment in NewPower Company, the retail electricity and natural-gas provider that Enron launched about two years ago with partners America Online and IBM. Enron owns 45 percent of NewPower. In addition, Enron's debt to total capitalization ratio reportedly will increase to about 50 percent, although Lay says that pending asset sales may reduce that amount to 40 percent by the end of 2002. However, it is important to note that Enron's 3Q recurring net income (before the write-offs) did increase 35 percent to $393 million, or 43 cents a diluted share, and revenue in the quarter rose to $47.6 billion from $30 billion in 3Q 2000.

The losses associated with NewPower are particularly interesting. As one of the leading investors in the company, Enron drove NewPower's aggressive business focus on retail residential power sales, despite ongoing concerns about the development of retail competition across the United States. NewPower went public last year at an opening price of $21, and in the early days of its initial public offering was trading above that price. However, the company's stock has experienced a devastating drop in value, and is currently priced at $1.25. NewPower is not scheduled to release its own 3Q financial statement until early November, but it is expected that the company will continue to incur significant losses for the foreseeable future. Specifically, NewPower recently reiterated its earlier expectations of a 3Q loss of $65 million to $70 million, or $1.12 to $1.20 a share. Third-quarter revenue reportedly will be slightly lower than the $60 million to $65 million that the company had forecast in August.

In analyzing NewPower's 2Q financial losses (see **Issue*Alert*** from 8/8/01 at www.scientech.com/rci), I argued that the company is really struggling from a mix of positive and negative factors in its efforts to become the leading retail energy provider in residential and small business markets in the United States. On the positive side, NewPower has recently secured a large number of new customer accounts, most significantly from its purchase of customers and related assets from AES Corp. and DTE Energy. These purchases prompted an impressive growth spurt for NewPower, and the company reportedly now has a customer base in 22 markets in 10 states. However, the bad news for NewPower is that its losses continue to widen, apparently resulting from a combination of weather factors and financial hits absorbed in several of the states in which the company operates. This dichotomy does not appear to be getting any better, and the company's stock has continued to drop as a result.

In an effort to alleviate some of its financial woes, NewPower recently revised an existing master netting agreement with Enron Corp. and several of its subsidiaries. The revised agreement essentially lowers the amount of cash collateral that NewPower is required to post to the Enron subsidiaries through Jan. 4, 2002. With the lowered financial obligations that it must make to Enron, NewPower believes that it will have sufficient financial resources to conduct its business in the near term until it secures ongoing asset-based financing.

However, from Enron's perspective, the losses associated with NewPower (and, by the same token, the losses in water and broadband) have contributed to a steady drop in its own stock price. The message is clear: The businesses that Enron plunged into as a way to diversify have tainted the company as a whole. Further, what some analysts perceived as brash hubris on Enron's part has not translated into measurable profits, and consequently Wall Street has reacted by sending Enron's stock to a level that is about half of where it was a year ago. The individual sectors that Enron has pursued are all unique, but they share the common denominator of taking Enron away from what was a successful core business. Further, they are similar in that Enron aggressively sunk large sums of capital into new business lines for which it arguably had unrealistic expectations for growth. The problem with Enron's bandwidth unit is that the company has faced an unanticipated excess of fiber-optic lines, which has prevented the demand for the division's services from materializing as anticipated. The problem with Azurix, which has been losing money since its formation in 1998, is that privatization of the water sector has not materialized as quickly as Enron and other companies anticipated. In addition to these problem areas, Enron also faces challenges related to its investments in India (where it is locked into a legal battle with the state government) and California (from which Enron has yet to receive full payment for previous power sales).

In addition to the losses outlined in the 3Q report, there are new issues that are brewing at the start of this week. First, the SEC has requested that Enron provide information regarding "certain related party transactions." Not much additional information is presently available about this inquiry. However, it is probably connected to earlier reports about concerns related to the dealings of Enron's Chief Financial Officer Andrew Fastow, who up until very recently had run a limited partnership that bought assets from Enron. Ken Lay has said that Enron will cooperate fully with the SEC's request. In a separate development, several mutual funds (including AIM Constellation that once held large positions in Enron) have either liquidated or reduced their holdings in the company, which has further weakened Enron's stock value. Portfolio managers of the mutual funds have cited concerns about Enron's ability to balance its new businesses with its core strength as an energy trader.

The present challenge for Enron is to convince investors that the company remains on solid ground despite the losses. Thus, Lay has been quick to reiterate that earnings from the company's energy and gas-pipeline business are still strong. Further, Lay says that the charges reported in the third quarter should be seen as a way to "clear away issues that have clouded the performance and earnings potential of our core energy businesses." Nevertheless, the fact remains that Enron has invested huge amounts of money toward its diversification effort, and in addition to water and broadband the company has invested into the steel and pulp and paper sectors as well. Thus, several questions remain at this juncture. Are the losses reported in the third quarter only a temporary setback for Enron that will clear the way for the company to return to a primary focus on its core business of energy trading? Or, will the losses continue into the fourth quarter and 2002? Moving forward, will Enron once again reshape its business model and eliminate the various businesses to which investors have reacted less than favorably? Only time will tell as the industry continues to watch the developments at Enron, which is clearly a company in the midst of another wave of change.

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Subject: FW: Enron Update: Sagging Stock Price, Increased Earnings Continue to Fuel Takeover Speculation

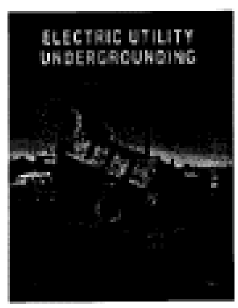
SCIENTECH IssueAlert

In-depth news and analysis from the consulting firm that understands energy.

November 2, 2001

Enron Update: Sagging Stock Price, Increased Earnings Continue to Fuel Takeover Speculation

THE STRUCTURE GROUP



By Will McNamara
Director, Electric Industry Analysis

[*News item from Associated Press*] Troubled Enron Corp. (NYSE: ENE) said it has secured $1 billion in new financing, using its natural-gas and pipeline assets as collateral. But its stock price took another dive after rising a day earlier on takeover speculation. In afternoon trading Nov. 1 on the New York Stock Exchange, Enron shares were down 9.3 percent, or $1.29 a share, at $12.61.

Analysis: Like many following this ongoing story, I have been closely tracking the plummet of Enron's stock since the Oct. 16 release of the company's 3Q financial report, in which a $638-million loss was identified. Since that time, Enron's stature on Wall Street has literally fluctuated by the hour, bumping up or down depending on the latest news report or rumor circulating across the Web. The company's financial problems have been well documented, along with the new Securities and Exchange Commission (SEC) probe into Enron's financial deals involving its just-dismissed chief financial officer. For background information on this case and the factors that led to Enron's current maladies, please review my 10/22/01 **Issue*Alert***, available at www.scientech.com/rci. In this article, I will focus exclusively on the new reports that put Enron in the unprecedented spot of being a possible takeover target. Ironically, the very mention of Enron as a takeover target would have seemed ludicrous last year at this time, when the company's stock had just passed a 52-week peak of nearly $90 in August 2001. As of early morning trading on Nov. 2, Enron shares were priced at $11.05, illustrating just how low the company has sunk over the last year and how quickly the positions along the energy industry's playing field can change.

02742

There are three factors that, when taken together, put Enron in a vulnerable position for takeover efforts. These three factors are a sagging stock price, comparatively solid revenue streams and a solid position in the energy trading space. The first point is obvious; as Enron's share price has hit a nine-year low and dropped by half in just one week, it is natural that other companies on the prowl for lucrative acquisitions would begin to hover around the company. Enron shares have dropped dramatically, and the company's stock is now trading at close to value. The other two factors I mentioned may need some further elaboration. Despite the $638-million loss in the third quarter from businesses such as broadband and water, Enron's core energy trading business posted a 26-percent increase in recurring earnings in the same quarter. Thus, the core trading business is basically in good shape and remains a strong cash generator. In addition, despite the recent turmoil, Enron remains the largest natural-gas and power trader in the United States, and thus is an attractive target for other companies operating in the same space. Further supporting this point, most reports indicate that Enron is a principal in one-quarter of all electricity and natural-gas trades in the United

There are three companies that keep appearing on a short list of potential buyers in an Enron takeover. I think it is important to discuss the individual objectives of these companies and the factors that may lead them to pursue a purchase of Enron. The three companies most often mentioned are Royal Dutch Shell, Berkshire Hathaway and GE Capital. In addition, a small number of European companies such as Germany's E.ON and England's Powergen have also been mentioned. At present, all the companies named have neither denied nor confirmed their involvement in a possible Enron takeover.

Of all these names, Royal Dutch Shell, the number two energy firm in the world, has been perceived as the top contender. The potential connection may have some legitimacy. First, Royal Dutch Shell is the parent company to wholly owned subsidiary Shell Oil, under which Shell Energy Services is a wholesale and retail marketing subsidiary. Shell Energy Services, which is based in Houston, had made previous penetrations into the retail electricity markets of Texas and Ohio, but recently withdrew from both states to focus more exclusively on wholesale power transactions. Thus, Shell's focus on the wholesale market through Shell Energy Services would make for a nice synergy with Enron's prominent position in the wholesale trading space. Further, Shell had unsuccessfully tried on its own to be involved in the merchant energy business, and thus an acquisition of Enron, the dominant player in the energy trading space and an established energy franchise, would be on par with the company's strategy. Other reports have indicated that Shell had previously looked at a possible Enron buy, even before the company began to experience financial instability. Financing the deal would not be a problem for Shell, as Enron's current market capitalization is around $11 billion and Shell would probably not have to offer a huge premium for the company.

Berkshire Hathaway, founded by multi-billionaire Warren Buffett, is another company with deep pockets and a potential synergy with Enron. Berkshire Hathaway penetrated the energy industry with a $9-billion purchase of Des Moines, Iowa-based MidAmerican Energy Company, giving the company a 75-percent ownership in the largest utility in Iowa, which is strategically located in the middle of several major markets in the Midwest. Buffett, who previously invested in non-energy companies such as American Express and Coca-Cola, has been drawn to the energy space due to deregulation opportunities. Berkshire Hathaway's acquisitions fit a pattern that Buffett created: They are well-managed companies that sell a tangible product and have strong growth potential over the long term. MidAmerican Energy arguably fit that template due to its history as an integrated utility. Enron, which is far more difficult to define, may ultimately prove to be too abstract a company for Berkshire Hathaway's tastes.

As discussed in yesterday's **Issue*Alert***, GE Capital has been increasing its holdings in the energy landscape lately due to its affiliation with Trans-Elect, a private company that is actively pursuing the transmission assets sold by utilities. Trans-

02743

Elect and GE Capital are in the process of purchasing the transmission assets of CMS Energy Corp. GE's role in the CMS deal is not entirely clear, but it appears that the company is participating mostly as a financial backer. Although they have downplayed the significance of their relationship, Trans-Elect has clearly received financial backing from GE. In fact, the Structured Finance Group of GE Capital Services owns a minority interest in Trans-Elect (the size of the investment has not been disclosed). Note that GE Structured Finance Group has many investments in other energy companies, including The New Power Company, Enermetrix, Beacon Power, and Plug Power (to name just a few). I don't see the synergies between GE Capital and Enron as much as with Shell or Berkshire Hathaway. However, if GE Capital is attempting to simply increase its investments in the lucrative energy business without any involvement in the operational aspects of the business, then this partnership could be considered viable. GE's own microturbine business has slowed somewhat, so the advantage of gaining Enron's wholesale business from a marketing perspective may also be a driver in this possible play. In addition, a recent report in *Business Standard* indicated that General Electric plans to increase its investment in India to about $800 million over the next three years with increased investments in the infotech sector and GE Capital Services. Of course, Enron is still involved in the India energy market due to its troubled Dabhol Power, which oversees a power contract in India.

The European companies such as Enel and E.ON may turn out to be credible prospects, as companies across the Continent continue to seek merger and acquisition opportunities in the United States, across generation and transmission sectors in particular. E.ON is still in the process of purchasing the United Kingdom's Powergen, so it may be tied up in regulatory proceedings that would preclude an additional acquisition. No word has emerged that may support or refute rumors about a takeover from Enel.

Enron's stock price has oscillated wildly since its 3Q financial report was released in mid-October. The allegedly non-recurring losses in non-core businesses, and their potential impact on the basically strong core business of natural-gas and power trading, coalesced with previous concerns about the departure of Jeffrey Skilling as Enron's CEO and sent the company's stock on a downward spiral (falling an approximate 54 percent in just seven days). Enron shares hit a nine-year low on Oct. 30 and then bounced up about 25 percent on the following day. The surprising upswing occurred when Enron announced that it had secured $1 billion in fresh credit lines from investors such as J.P. Morgan Chase & Co. and Salomon Smith Barney, Inc. that it planned to use partly to supplement short-term liquidity and refinance maturing obligations. However, at the same time, what had started as an informal inquiry by the SEC officially became a full-scale investigation, which thus far has served as a brick wall against any further increases in Enron's stock price. The identification of the SEC probe as a full-scale investigation is significant because it gives regulators the right to subpoena Enron company documents, which has been a point of contention for some time among investors who claim that Enron has not been completely forthcoming about its practices.

The Enron questions of the moment are: How much further can the company's stock fall before Enron's business model is significantly restructured? Will Enron incur additional losses beyond the allegedly non-recurring losses it claimed in the third quarter? Will Enron remain a takeover target, and if so which company would be likely to make a bid for the company? What will be the outcome of the SEC investigation and potential credit downgrades from agencies such as Moody's?

Some of these questions are impossible to answer at this juncture, without the benefit of a crystal ball. Clearly, the sudden lack of investor confidence in Enron has rattled the company's executives, which undoubtedly prompted the ousting of its former CFO. I would think that this lack of confidence would also lead Enron to consider fundamental changes in its business model. However, it may be too late to

02744

avert additional losses in non-core businesses such as broadband, water and retail, into which Enron sunk large sums of capital but which have yet to produce measurable returns.

If Enron's stock remains in the basement, takeover rumors will undoubtedly continue. However, Enron is challenged at this point to undertake a substantial modification of its business model, which may include the complete divestiture of all of its non-core businesses outside of the energy trading core. If a takeover were to take place, it would probably occur soon (while Enron's stock remains low and its core business remains strong) and with a buyer that seeks a large trading operation and experience in risk management. None of the companies mentioned as possible buyers at this time completely fall under this description, but given Shell's strong interest in wholesale markets I would contend that this potential partnership makes the most sense. However, any company that makes a serious bid for Enron would have to be very risk tolerant, considering the ongoing uncertainty surrounding the company with regard to pending lawsuits and the SEC investigation.

In addition, it is significant that Enron is pursuing additional financing, which indicates that the company intends to bolster its financial position and avoid any takeover attempts. Nevertheless, various credit rating agencies such as Moody's are in the process of evaluating the company for potential credit downgrades. A credit rating downgrade would raise Enron's cost of borrowing, which in turn could cut into the profitability of the company's business as a whole. The end result is that, if Enron's financial position does not improve substantially in the near term, it will remain in a very vulnerable position and a very real target for various takeover measures.

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We encourage our readers to contact us with their comments. We look forward to hearing from you. Nancy Spring

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02745

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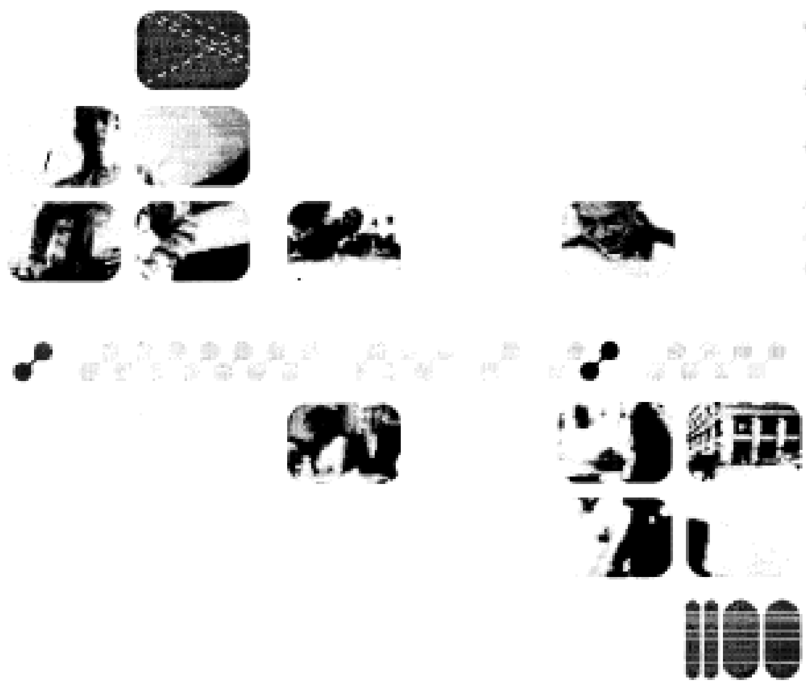
Enron Annual Report 2000



Enron Annual Report 2000

02747

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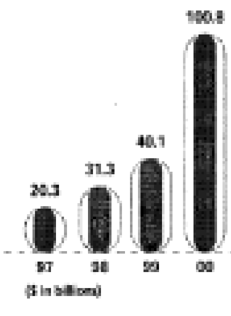
Enron manages efficient, flexible networks to reliably deliver physical products at predictable prices. In 2000 Enron used its networks to deliver a record amount of physical natural gas, electricity, bandwidth capacity and other products. With our networks, we can significantly expand our existing businesses while extending our services to new markets with enormous potential for growth.

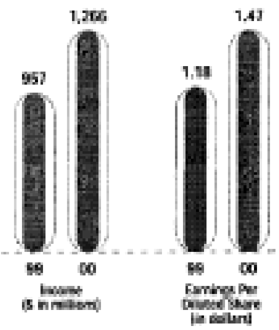
CONTENTS

FINANCIAL HIGHLIGHTS

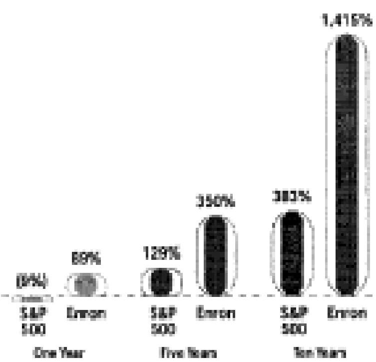
(Unaudited: in millions, except per share data)	2000	1999	1998	1997	1996
Revenues	**$100,789**	$ 40,112	$ 31,260	$ 20,273	$ 13,289
Net income:					
Operating results	**$ 1,266**	957	698	515	493
Items impacting comparability	**(287)**	(64)	5	(410)	91
Total	**$ 979**	893	703	105	584
Earnings per diluted common share:					
Operating results	**$ 1.47**	1.18	1.00	0.87	0.91
Items impacting comparability	**(0.35)**	(0.08)	0.01	(0.71)	0.17
Total	**$ 1.12**	1.10	1.01	0.16	1.08
Dividends paid per common share	**$ 0.50**	0.50	0.48	0.46	0.43
Total assets	**$ 65,503**	33,381	29,350	22,552	16,137
Cash from operating activities (excluding working capital)	**$ 3,010**	2,228	1,873	276	742
Capital expenditures and equity investments	**$ 3,314**	3,085	3,564	2,092	1,483
NYSE price range					
High	**$ 90 [illegible]**	44 [illegible]	29 [illegible]	22 [illegible]	23 [illegible]
Low	**41 [illegible]**	28 [illegible]	19 [illegible]	17 [illegible]	17 [illegible]
Close December 31	**83 [illegible]**	44 [illegible]	28 [illegible]	20 [illegible]	21 [illegible]



REVENUES



OPERATING RESULTS



CUMULATIVE TOTAL RETURN
(through December 31, 2000)

TO OUR SHAREHOLDERS

Enron's performance in 2000 was a success by any measure, as we continued to

outdistance the competition

and solidify our leadership in each of our major businesses. In our largest business, wholesale services, we experienced an enormous increase of 59 percent in physical energy deliveries. Our retail energy business achieved its highest level ever of total contract value. Our newest business, broadband services, significantly accelerated transaction activity, and our oldest business, the interstate pipelines, registered increased earnings. The company's net income reached a record $1.3 billion in 2000.

Enron has built unique and strong businesses that have tremendous opportunities for growth. These businesses — wholesale services, retail energy services, broadband services and transportation services — can be significantly expanded within their very large existing markets and extended to new markets with enormous growth potential. At a minimum, we see our market opportunities company-wide tripling over the next five years.

Enron is laser-focused on earnings per share, and we expect to continue strong earnings performance. We will leverage our extensive business networks, market knowledge and logistical expertise to produce high-value bundled products for an increasing number of global customers.

Competitive Advantages

Our targeted markets are very large and are undergoing fundamental changes. Energy deregulation and liberalization continue, and customers are driving demand for reliable delivery of energy at predictable prices. Many markets are experiencing tighter supply, higher prices and increased volatility, and there is increasing interdependence within regions and across commodities. Similarly, the broadband industry faces issues of overcapacity and capital constraint even as demand increases for faster, flexible and more reliable connectivity. Enron is in a unique position to provide the products and services needed in these environments. Our size, experience and skills give us enormous competitive advantages. We have:

- Robust networks of strategic assets that we own or have contractual access to, which give us greater flexibility and speed to reliably deliver widespread logistical solutions.
- Unparalleled liquidity and market-making abilities that result in price and service advantages.
- Risk management skills that enable us to offer reliable prices as well as reliable delivery.
- Innovative technology such as EnronOnline to deliver products and services easily at the lowest possible cost.

These capabilities enable us to provide high-value products and services other wholesale service providers cannot. We can take the physical components and repackage them to suit the specific needs of customers. We treat term, price and delivery as variables that are blended into a single, comprehensive solution. Our technology and fulfillment systems ensure execution. In current market environments, these abilities make Enron the right company with the right model at the right time.

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The Astonishing Success of EnronOnline

In late 1999 we extended our successful business model to a web-based system, EnronOnline. EnronOnline has broadened our market reach, accelerated our business activity and enabled us to scale our business beyond our own expectations. By the end of 2000, EnronOnline had executed 548,000 transactions with a notional value of $336 billion, and it is now the world's largest web-based eCommerce system.

With EnronOnline, we are reaching a greater number of customers more quickly and at a lower cost than ever. It's a great new business generator, attracting users who are drawn by the site's ease of use, transparent, firm prices and the fact that they are transacting directly with Enron. In 2000 our total physical volumes increased significantly as a direct result of EnronOnline.

left page:
Jeffrey K. Skilling
President and CEO

right page:
Kenneth L. Lay
Chairman

EnronOnline has enabled us to scale quickly, soundly and economically. Since its introduction, EnronOnline has expanded to include more than 1,200 of our products. It also has streamlined our back-office processes, making our entire operation more efficient. It has reduced our overall transaction costs by 75 percent and increased the productivity of our commercial team by five-fold on average. We are not sitting still with this important new business tool — in September 2000 we released EnronOnline 2.0, which added even more customer functionality and customization features and attracted more customers.

Enron Wholesale Services

The wholesale services business delivered record physical volumes of 51.7 trillion British thermal units equivalent per day (TBtue/d) in 2000, compared to 32.4 TBtue/d in 1999. As a result, wholesale services income before interest, minority interests and taxes (IBIT) increased 72 percent to $2.3 billion. Over the past five years, as physical volumes have increased, wholesale IBIT has grown at a compounded average annual rate of 48 percent, and we have had 20 consecutive quarters of year-over-year growth. We have established core wholesale businesses in both natural gas and power in North America and Europe, where we are market leaders.

In North America, we deliver almost double the amount of natural gas and electricity than the second tier of competitors. Our network of 2,500 delivery points provides price advantages, flexibility and speed-to-market in both natural gas and power. Natural gas, our most developed business, has seen substantial volume growth throughout the United States and Canada. In 2000 our physical natural gas volumes were up 77 percent to 24.7 billion cubic feet per day (Bcf/d). Physical power volumes were up 52 percent to 579 million megawatt-hours (MWh).

We are building a similar, large network in Europe. In 2000 we marketed 3.6 Bcf/d of natural gas and 53 million MWh in this market, a vast increase over 1999. As markets open, we tenaciously pursue the difficult, early deals that break ground for subsequent business. We are the only pan-European player, and we are optimizing our advantage to conduct cross-border transactions.

We are extending Enron's proven business approach to other markets, and integrating EnronOnline into all our businesses as an accelerator. Our growth rates are rising in areas such as metals, forest products, weather derivatives and coal. We expect these businesses to contribute to earnings even more significantly in 2001.

Enron Energy Services

Our retail unit is a tremendous business that experienced a break-out year in 2000. We signed contracts with a total value of $16.1 billion of customers' future energy expenditures, almost double the $8.5 billion signed in 1999. We recorded increasing positive earnings in all four quarters in 2000, and the business generated $103 million of recurring IBIT. Energy and facilities management outsourcing is

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now a proven concept, and we've established a profitable deal flow, which includes extensions of contracts by many existing customers. Price volatility in energy markets has drawn fresh attention to our capabilities, increasing demand for our services. No other provider has the skill, experience, depth and versatility to offer both energy commodity and price risk management services, as well as energy asset management and capital solutions. In 2001 we expect to close approximately $30 billion in new total contract value, including business from our newest market, Europe.

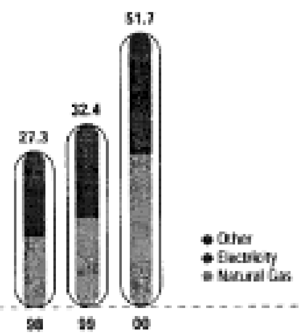
Enron Broadband Services

We have created a new market for bandwidth intermediation with Enron Broadband Services. In 2000 we completed 321 transactions with 45 coun-

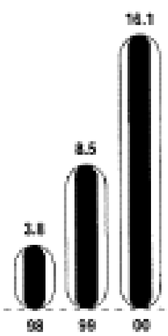
businesses and offer viewers at home an additional convenient way to choose and receive entertainment. Enron provides the wholesale logistical services that bridge the gap between content providers and last-mile distributors. Full-length movies-on-demand service has been successfully tested in four U.S. metropolitan markets.

Enron Transportation Services

The new name for our gas pipeline group accurately reflects a cultural shift to add more innovative customer services to our efficient pipeline operation. To serve our customers more effectively, we are increasingly incorporating the web into those relationships. Customers can go online to schedule nominations and handle inquiries, and they can transact for available capacity on EnronOnline. The pipelines



WHOLESALE SERVICES – PHYSICAL VOLUMES
(trillion British thermal units equivalent per day)



ENRON ENERGY SERVICES – VALUE OF CONTRACTS ORIGINATED
($ in billions)

terparties. We are expanding our broadband intermediation capabilities to include a broad range of network services, such as dark fiber, circuits, Internet Protocol service and data storage. Our opportunities are increasing commensurately.

Part of the value we bring to the broadband field is network connectivity — providing the switches, the network intelligence and the intermediation skills to enable the efficient exchange of capacity between independent networks. We operate 25 pooling points to connect independent third-parties — 18 in the United States, six in Europe and one in Japan. At least 10 more are scheduled to be completed in 2001.

Enron also has developed a compelling commerical model to deliver premium content-on-demand services via the Enron Intelligent Network. Content providers want to extend their established

continued to provide strong earnings and cash flow in 2000. Demand for natural gas is at a high in the United States, and we're adding capacity to take advantage of expansion opportunities in all markets. New capacity is supported by long-term contracts.

Strong Returns

Enron is increasing earnings per share and continuing our strong returns to shareholders. Recurring earnings per share have increased steadily since 1997 and were up 25 percent in 2000. The company's total return to shareholders was 89 percent in 2000, compared with a negative 9 percent returned by the S&P 500. The 10-year return to Enron shareholders was 1,415 percent compared with 383 percent for the S&P 500.

Enron hardly resembles the company we were in the early days. During our 15-year history, we have stretched ourselves beyond our own expectations.

We have metamorphosed from an asset-based pipeline and power generating company to a marketing and logistics company whose biggest assets are its well-established business approach and its innovative people.

Our performance and capabilities cannot be compared to a traditional energy peer group. Our results put us in the top tier of the world's corporations. We have a proven business concept that is eminently scalable in our existing businesses and adaptable enough to extend to new markets.

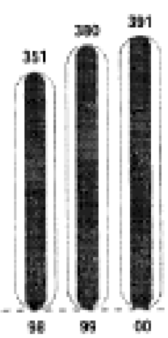
As energy markets continue their transformation, and non-energy markets develop, we are poised to capture a good share of the enormous opportunities they represent. We believe wholesale gas and power in North America, Europe and Japan will grow from a $660 billion market today to a $1.7 trillion market over the next several years. Retail energy services in the United States and Europe have the potential to grow from $180 billion today to $765 billion in the not-so-distant future. Broadband's prospective global growth is huge — it should increase from just $17 billion today to $1.4 trillion within five years.

Taken together, these markets present a $3.9 trillion opportunity for Enron, and we have just scratched the surface. Add to that the other big markets we are pursuing — forest products, metals, steel, coal and air-emissions credits — and the opportunity rises by $830 billion to reach nearly $4.7 trillion.

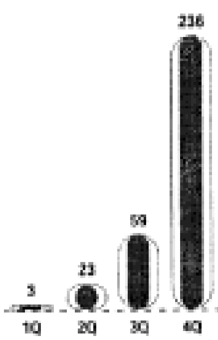
Our talented people, global presence, financial strength and massive market knowledge have created our sustainable and unique businesses. EnronOnline will accelerate their growth. We plan to leverage all of these competitive advantages to create significant value for our shareholders.

Kenneth L. Lay
Chairman

Jeffrey K. Skilling
President and
Chief Executive Officer



ENRON TRANSPORTATION SERVICES
REPORTED INCOME BEFORE INTEREST AND TAXES
($ in millions)



ENRON BROADBAND SERVICES –
2000 BANDWIDTH TRANSACTIONS

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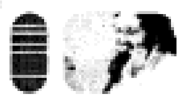
In Volatile Markets,

EVERYTHING CHANGES BUT US



When customers do business with Enron, they get our commitment to reliably deliver their product at a predictable price, regardless of the market condition.

This commitment is possible because of Enron's unrivaled access to markets and liquidity. We manage flexible networks with thousands of delivery points, giving us multiple options and a distinct service advantage.

Our extensive daily market activity keeps us on top of price movements, so we can manage our customers' price risk. We offer a multitude of predictable pricing options.

Market access and information allow Enron to deliver comprehensive logistical solutions that work in volatile markets or markets undergoing fundamental changes, such as energy and broadband.

This core logistical capability led to our best year ever in 2000 because physical volumes drive our wholesale profits. We see ample opportunities for further volume growth in existing and new markets. Enron's ability to deliver is the one constant in an increasingly complex and competitive world.

Enron blends these four elements together to deliver premium logistical solutions.

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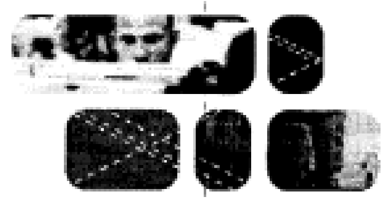

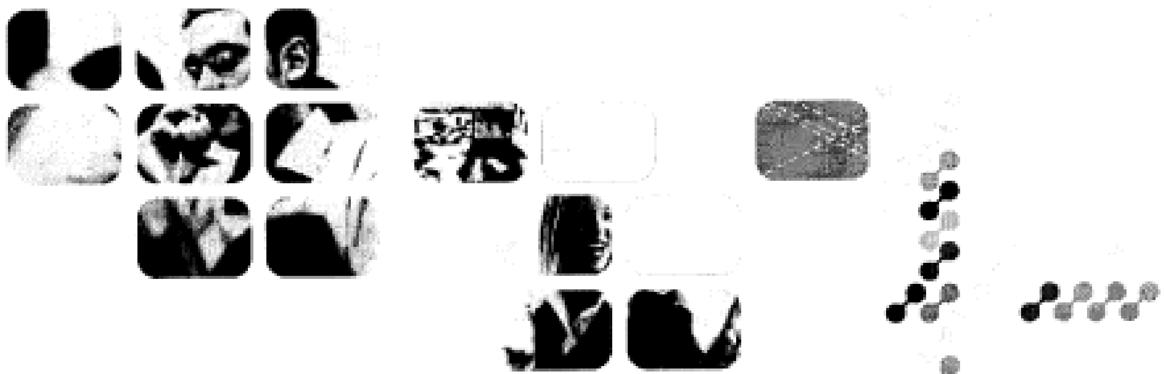

Extensive Market Networks

- Enron manages large, flexible networks of assets, contracts and services that provide unrivaled liquidity.
- Liquidity allows Enron to move products in and out of markets so it can maximize opportunity and margins.
- Because it has broad physical access, Enron reliably executes contracts.

Knowledgeable Pricing

- Enron's market activity captures massive amounts of pricing information.
- Pricing information helps Enron effectively manage its customers' price risk and its own.
- Enron allows customers to choose the optimal way to set a predictable price.

Technology Advantages

- Information systems quickly distribute real-time information.
- EnronOnline extends Enron's reach to increase volumes and market share.
- Enron's sophisticated systems track prices, register exposures and monitor customer credit.

Scalable Fulfillment

- EnronOnline integrates seamlessly into delivery fulfillment systems, reducing transaction costs.
- Existing systems scale readily as volumes increase.
- Standardized legal and tax compliance speed business.
- Systematic risk assessment and control protect Enron.

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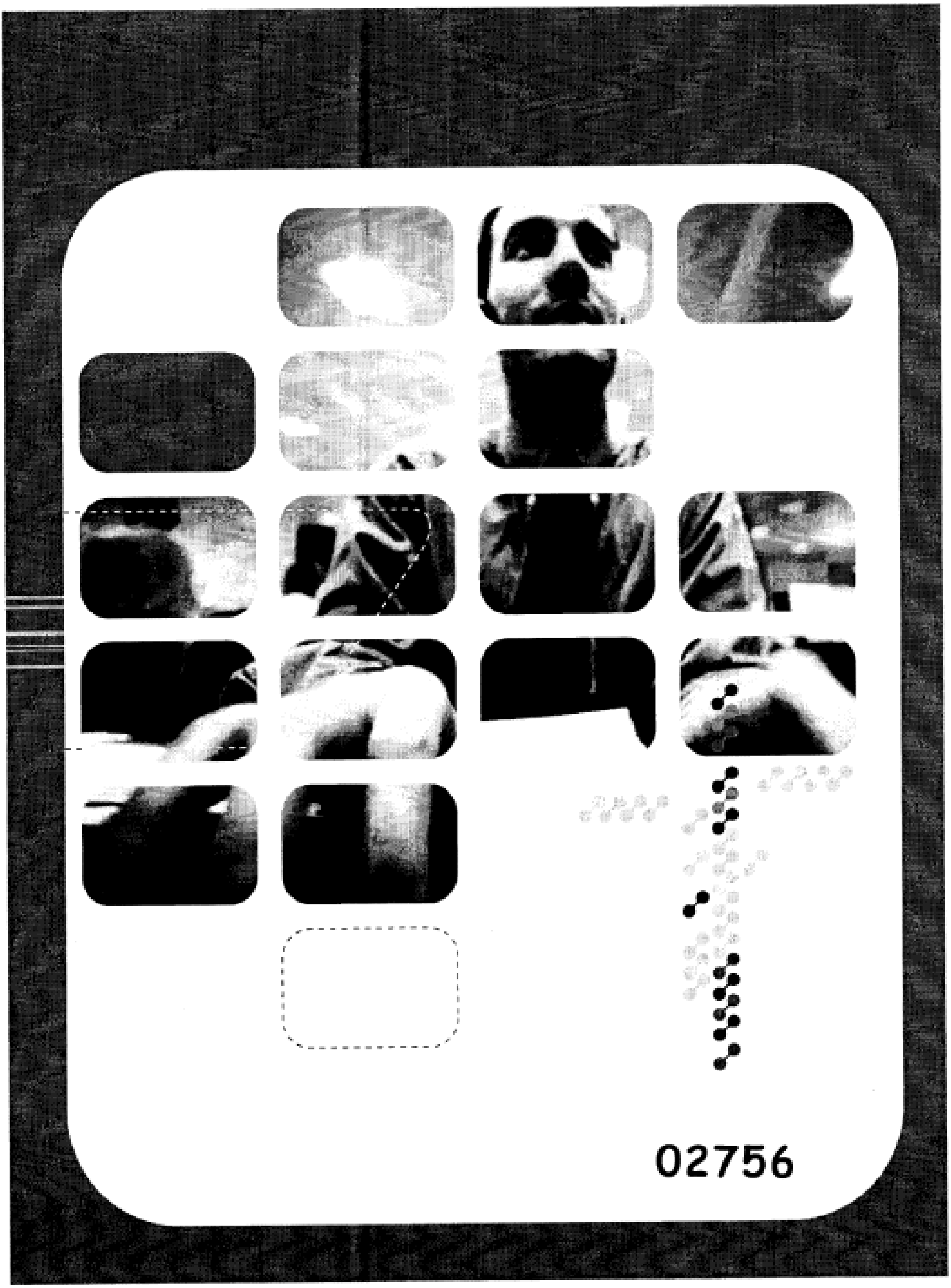

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ENRON WHOLESALE SERVICES

Wholesale services is Enron's largest and fastest growing business, with sustainable growth opportunities in each of its markets. In 2000 income before interest, minority interests and taxes (IBIT) rose 72 percent to $2.3 billion, with record physical energy volumes of 51.7 trillion British thermal units equivalent per day (TBtue/d) — a 59 percent increase over 1999.

For the past five years, wholesale services earnings have grown at an average compounded growth rate of 48 percent annually, and our competitive position is growing stronger. Customers transact with Enron because we offer products and services few others can match. With our flexible networks and unique capabilities in risk management and finance, we deliver the widest range of reliable logistical solutions at predictable prices.

Enron delivers more than two times the natural gas and power volumes as does its nearest energy marketing competitor. Our formidable lead comes from our willingness to enter markets early and serve as a market-maker to build liquidity and price transparency. Breakthrough technology applications, such as EnronOnline, accelerate our market penetration. These competitive advantages have made us the most successful energy marketer in the two largest deregulating energy markets, North America and Europe. We expect to achieve a similar leadership position as we extend our business approach to new regions, products and industries.

Our business has flourished with EnronOnline. Launched in November 1999, EnronOnline handled 548,000 transactions in 2000 with a gross notional value of $336 billion. EnronOnline is unquestionably the largest web-based eCommerce site in the world and dwarfs all other energy marketing web sites combined. By the fourth quarter of 2000, it accounted for almost half of Enron's transactions over all business units. EnronOnline has pushed productivity through the roof: Transactions per commercial person rose to 3,084 in 2000 from 672 in 1999. EnronOnline Version 2.0, launched in September 2000, has attracted more users with its additional functionality (see "EnronOnline" next page).

Enron North America

In North America, Enron's physical natural gas volumes increased 77 percent to 24.7 billion cubic feet per day (Bcf/d) in 2000 from 13.9 Bcf/d in 1999. Power deliveries increased 52 percent to 579 million megawatt-hours (MWh) from 381 million MWh the year before.

EnronOnline has been a runaway success in North America. It accounted for 74 percent of North American volume transacted in 2000, and created liquidity on a scale never seen before. It is a dynamic business accelerator: It took nearly a decade for Enron's daily gas transactions to reach 13.9 Bcf in 1999. Just 12 months later, EnronOnline had helped to practically double daily transactions to 24.7 Bcf.

EnronOnline magnifies the success of our existing business, which springs from the scale and scope of our established networks. We touch more parts of North America's energy system than any other merchant, with access to upwards of 2,500 distinct delivery points each day. The widespread delivery options and possibilities of our network give us a price and service advantage. Our networks and presence in nationwide energy markets also enable us to capture and distribute massive amounts of information about real-time market supply and demand, grid constraints and bottlenecks. When the market moves, we are able to conduct business while competitors are still fact-finding.

Our people also make a difference. We are able to attract the best and the brightest and place them in an entrepreneurial atmosphere in which they can thrive. With our intellectual capital, we develop premium high-margin structured products that draw on our liquidity and market knowledge. A good example is the gas-marketing-services hub in Chicago we launched with People's Energy in March 2000. Known as Enovate, this venture optimizes People's 30 Bcf a year of Chicago-area storage capacity and related transportation. It played a role in increasing our gas volumes in the central United States by 156 percent, the largest increase in our 2000 North American physical volumes.

We continually assess the necessity of adding or owning assets in a region. Sometimes it is less expensive to own an asset than to replicate the asset in the market through contracting and market-making. We are developing generation plants to sell merchant power to high-demand markets, including proposed facilities in California, Florida, Texas, Louisiana and Georgia. But as liquidity increases, asset ownership may no longer be necessary. We plan to sell Houston Pipe Line Company, and Louisiana Resources Company is now held by Bridgeline Holdings, L.P., a joint venture in which Enron retains an interest. Additionally, in the second quarter of 2001 we expect to close the sale of five of the six electricity peaking generation units in operation. The result is the same earnings power with less invested capital.

Mexico's move toward liberalizing its energy markets should gain intensity and speed with its new government. Increased cross-border electricity transactions between Mexico and the United States seem inevitable. Our activities in Mexico seek to

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optimize both the Mexican electricity market and cross-border activity between the two countries.

Enron also is active in South America, where we own and develop assets to help create an energy network.

Enron Europe

We are rapidly extending Enron's market-making approach into the deregulating European markets, focusing on the U.K., the Continent and the Nordic region. The Continent is still in the early stages of liberalization. Although the European Union has mandated liberalization of the power and natural gas markets, each country is responding at its own pace. The velocity of transactions is rising on the Continent, however, and Enron expects to raise the level of liquidity to make the markets work.

Our business throughout Europe is growing rapidly. Natural gas and power volumes more than doubled to 10.3 trillion British thermal units equivalent per day (TBtue/d) in 2000 from 4.1 TBtue/d in 1999. We enjoy several competitive advantages in Europe: We are the only pan-European player; we have a proven business strategy; we entered the market early to build a presence; and we have attracted a talented and skilled local workforce.

Our cross-border capabilities are becoming increasingly important as markets interconnect. U.K. gas can now be transported to Belgium, and subsequently to the rest of the Continent, giving us the opportunity to develop innovative transactions on both sides of the border. The resulting increase in price volatility has nearly doubled U.K. gas prices, which, along with more volatile electricity prices ahead, has significantly improved demand for the U.K. risk management products we offer, both now and over the long term.

Just as in North America, EnronOnline is increasing Enron's reach and volumes in Europe and is a prime driver of liquidity. Its simple contracts, multi-currency capabilities, transparent and competitive prices and easy accessibility have won EnronOnline rapid acceptance.

In the U.K., power and gas volumes more than doubled, with power rising to 113 million MWh in 2000, and gas volumes climbing 119 percent to reach 3.2 Bcf/d. Several market factors are likely to create more business for us. The U.K.'s New Electricity Trading Agreements, which replace the existing U.K. power pool, are scheduled to be implemented by the second quarter of 2001. The agreements will result in increased price volatility, and Enron is well-positioned to help customers manage this risk. Additionally, lower power prices are shrinking profit margins for U.K. merchant power plants, which increasingly need to turn to market intermediaries such as Enron to hedge their fuel and power prices.

On the Continent, our power volumes increased to 50 million MWh in 2000 from 7 million MWh in 1999. We are transacting at all major country interconnections, benefiting from cross-border opportunities. We closed our first-ever transaction in France and are an active player in Germany and Switzerland. We are beginning to partner with utilities to offer comprehensive portfolio management services, such as our agreement to purchase and distribute power jointly with Swiss Citypower AG, which controls 19 percent of the Swiss electricity market.

EnronOnline

EnronOnline successfully leverages Enron's core market-making capabilities, benefiting both our customers and Enron. The web-based system makes it easier to do business with Enron. It also accelerates the growth of Enron's existing businesses and facilitates quick and efficient entry into new markets.

In Spain, electricity demand is growing faster than anywhere else in Europe, and there are limited import and export capabilities. Enron is responding to this opportunity by developing a 1,200-megawatt plant in Arcos, south of Seville, that should close financing in 2001.

Continental gas liquidity is just starting to increase. Our volumes grew to 472 million cubic feet per day (MMcf/d) in 2000 from 53 MMcf/d in 1999. While the market is in its early stages, Enron has managed to increase weekly transactions from about 5 to 100 over the course of a year. In October we initiated the first gas supply deal in Germany to the local utilities of Heidelberg, Tuebingen and Bensheim. We also are delivering natural gas to some large users in the Netherlands and France.

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We continue to set records in the Nordic region, where we are the largest power marketer. Electricity volumes increased nearly 150 percent to reach 77 million MWh in 2000 from 31 million MWh in 1999. Enron's Oslo office also is now the base of our European weather risk management business.

As more Nordic companies outsource energy supply and management, Enron's products and services — including advanced technology applications — are eagerly sought. In December Enron entered into a two-year portfolio management agreement with UPM-Kymmene Corp., one of the world's largest forest products companies. Enron will assist UPM-Kymmene in optimizing its Nordic power portfolio of approximately 14 terawatt hours.

Enron Japan

Enron Japan formally opened its Tokyo office in October 2000. Japan represents an enormous opportunity: Its electricity rates are the highest in the world, and electricity consumption is second only to the United States. We have attracted top talent to develop wholesale and joint venture possibilities, and have introduced our first product for large electricity users — three- to five-year contracts that will reduce electricity bills immediately by up to 10 percent the first year, with the possibility of further reductions in subsequent years. Our first contracts were signed in early 2001.

Through joint ventures with several Japanese companies, Enron is exploring merchant plant opportunities to support our market-making activities, including inside-the-fence power generation. Under consideration are a number of sites, which may be fueled by gas, liquefied natural gas or coal.

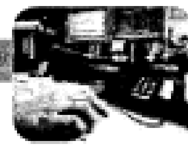
Enron Australia

Enron's market-making ability has been successfully extended to Australia, where Enron is a leading provider of logistical solutions in the country's power market. During 2000 we introduced weather risk management products in the region, offering temperature-based products for Sydney, Melbourne, Hong Kong, Tokyo and Osaka. The Sydney office also provides a strategic platform for the extension of Enron's coal, metals and broadband businesses, as well as providing support for Enron's operations in the Asia-Pacific region.

Extending to New Markets

Enron's durable business approach, which has driven our success in the natural gas and electricity markets, is eminently applicable to other markets and geographical regions. While we are remaining focused on increasing earnings and opportunities in gas and power, we also are extending Enron's method to large, fragmented industries and products, where intermediation can make markets more efficient and responsive to customer needs. We expect these new businesses to contribute to earnings in 2001.

Enron Metals was launched in July 2000 when Enron acquired the world's leading merchant of non-ferrous metals, MG plc. Together, MG and Enron are



MAKING MARKETS
Enron's networks of assets and contractual relationships allow us to make markets and offer real-time pricing for more than 1,200 products on EnronOnline. This tremendous market liquidity attracts customers and further increases Enron's volumes and market share.

CUSTOMER RELATIONSHIPS
EnronOnline provides customers with a more convenient way to discover prices and do business with Enron, which increases transaction volumes and attracts new customers. The system automatically taps into Enron's sophisticated customer-credit profiles to protect Enron from credit risk.

INFORMATION SYSTEMS
EnronOnline is fully integrated with Enron's proprietary information systems, which provide critical market information, process thousands of deals and help assess and manage market and other risks. As a result, Enron manages risks instantaneously even in the most volatile markets.

SCALABILITY
Enron's well-tuned back-office system, integrated with EnronOnline, has proven its ability to scale as Enron's total transactions have grown from an average of 650 a day at EnronOnline's November 1999 launch to an average of 7,900 a day by year-end 2000. As EnronOnline expands products and volumes, Enron's scalable back-office will continue to be a competitive advantage.

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a powerful team. Enron's financial resources and eCommerce abilities add a new dimension to MG's widespread physical merchant skills and excellent customer relationships. The early results are right on target, with physical volumes up 31 percent in 2000.

Enron Metals opens an additional door to large energy customers. Cominco Ltd., a zinc producer and an Enron Metals customer in Vancouver, British Columbia, worked with Enron to halt zinc production for six weeks and sell its power into the Northwestern power market, where it was needed. Enron North America protected Cominco by structuring a fixed-price swap to guarantee the sale price of the power, and Enron Metals arranged to supply a portion of the zinc required to fulfill Cominco's obligations. Cominco's profit from the deal exceeded the annual profit it makes from producing zinc.

Enron Credit is a new business with strong market potential. Enron has leveraged its internal risk management processes and systems to create a real-time, market-based online credit evaluation system. The idea is simple: Existing credit ratings and scoring mechanisms are not market-based and cannot respond in real time to credit events. This means creditors must figure out their credit risk exposure on their own. Enron Credit posts the cost of credit as a simple interest rate for more than 10,000 companies on its web site, www.enroncredit.com. Enron Credit also gives corporations the ability to hedge their credit risk via a bankruptcy product.

Coal intermediation moved to a new level in 2000. The industry has been radically affected by the worldwide deregulation of the electricity industry. Like natural-gas-fueled generation, coal-burning generators require flexible terms and risk-management protection. Enron is able to provide unrivaled logistical support. Our coal business has led us to participate in sea and land logistics as well.

Weather has never been better for us. Our weather risk management business is up about five-fold to 1,629 transactions in 2000 from 321 transactions the year before. As in all of our markets, we bring cross-commodity capabilities to our weather products. For instance, we closed a three-year precipitation transaction that provides financial compensation linked to natural gas prices if precipitation falls below a pre-determined minimum. The weather unit worked with several other Enron groups to transfer Enron's risk, ultimately transacting with 10 external companies in three markets (natural gas, weather products and insurance). The bundled end-product resulted in an effective hedge for the customer.

Crude oil. We now average crude deliveries of 7.5 TBtue/d to 240 customers in 46 countries. We have introduced the first-ever 24x7 commodity market of a West Texas Intermediate crude product on EnronOnline, allowing our customers to respond to market-changing events at any time, day or night. We also concluded our biggest physical jet fuel contract, providing 100,000 barrels for one

One Coal Contract Covers All Logistics

The process of sourcing and delivering coal to an electricity generator is a complicated process. Enron provides a single, comprehensive solution to manage all logistics and risk, whether the coal is sourced domestically or abroad. In some cases, we have reduced the customer's cost of coal by as much as 10 percent.

COAL PRICE AND SUPPLY RISKS
Enron allows generators to purchase coal at flexible terms, such as long-term fixed rates or a maximum price. Supply and price are assured because Enron has access to multiple sources all over the globe. Enron is on its way to becoming the world's largest wholesale coal merchant.

TRANSPORTATION RISKS
Imported coal travels by sea and land, and the consumer usually makes each arrangement separately and bears the risk if prices or capacity change. Enron delivers a complete logistical solution for its customers, managing both the process and risk as part of just a single contract for the coal. Enron also provides complete domestic logistics.

CURRENCY RISKS
Like oil, imported coal is denominated in U.S. dollars. A British generator, however, collects electricity payments in pounds sterling. When appropriate, Enron includes currency hedges in its contracts to protect customers if the value of the pound drops against the dollar.

year at the flexible and market-based prices that the customer needed.

LNG. Enron is establishing a liquefied natural gas (LNG) network to create merchant LNG opportunities and to bring more gas to areas of the world that need it. Our LNG-related assets in operation and development in the Caribbean and the Middle East form part of this network. We source surplus LNG from the Middle East and Asia and currently market it in the United States.

Forest Products. Enron has offered pulp, paper and lumber financial products for several years, and now we are marketing physical volumes. In 2000 we acquired Garden State Paper Co., which gives us access to 210,000 tons of newsprint a year and four recycling centers in key markets. In January 2001 we agreed to purchase a newsprint mill and related assets in Canada. With this acquisition, Enron will become the seventh-largest producer of newsprint in North America, giving us the physical liquidity necessary to quickly grow this business. Enron's Clickpaper.com™ is powered by the EnronOnline platform but is totally customized for the forest products industry. It offers more than 100 financial and physical products and features news and information tailored specifically to forest products industry customers.

Steel. In some markets, such as steel, we believe we can run our network with minimal assets. The industry currently suffers from overcapacity, but lacks a market mechanism to efficiently market the surplus. We will offer a core commodity baseline product that can be indexed against almost all other products in this $330 billion industry. The outlook is promising — we have transacted our first steel swap. This year we will build liquidity, improve pricing efficiency and gain contractual access to the physical product to provide comprehensive logistical support.

Enron Global Assets

Enron Global Assets manages and optimizes Enron's assets outside North America and Europe. Enron has a solid portfolio of asset-based businesses. However, with the higher returns available in the company's other businesses, we expect to divest some interests in a number of these assets. The remaining asset businesses will continue to focus on performance and complementing our market-making and services businesses.

Enron Wind Corp.

The economics of wind power are more promising than ever, creating significant growth for Enron Wind. Technological advancements and lower costs associated with today's larger, more efficient wind turbines have made wind power costs competitive with fossil fuel-generation for the first time. This cost competitiveness, together with government policies supporting renewable energy in most key markets and growing consumer demand for green energy, have fueled 30 percent annual growth over the past five years.

With focused efforts in the world's three key wind power markets — Germany, Spain and the United States — Enron Wind completed 2000 with revenues of approximately $460 million. Strong growth in both the United States and Europe will account for a projected sales increase of approximately 100 percent in 2001.

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ENRON ENERGY SERVICES

Enron Energy Services is the retail arm of Enron, serving business users of energy in commercial and industrial sectors. Our comprehensive energy outsourcing product has proven an exceptionally effective way for companies to reduce their costs, manage risks of energy price volatility, improve their energy infrastructure and focus resources on their core businesses.

Enron Energy Services recorded its first profitable quarter as expected at the end of 1999, and continued to grow rapidly through 2000, with increasing profits in all four quarters of 2000 and aggregate recurring income before interest and taxes (IBIT) of $103 million for the year. The value of our contracts in 2000 totaled more than $16 billion, increasing Enron Energy Services' cumulative contract value to more than $30 billion since late 1997.

This success reflects growing acceptance of Enron's energy outsourcing product — acceptance that has meant an increasing rate of new contracting. Our retail energy success in 2000 also reflects our strong emphasis on contract execution and implementation and on excellence in customer service. Additionally, 2000 was marked by increased activity in Europe — an untapped market for energy outsourcing.

We are positioned to dramatically increase our profitability in 2001. Retail energy earnings will be fueled by the rapid growth of our U.S. and European businesses and the strong execution and extension of existing contracts.

Market Volatility

The U.S. energy sector experienced unprecedented challenge and opportunity in 2000. In national terms, steady movement toward a functioning deregulated energy marketplace continues. More than half the country's population is scheduled to be able to choose their electricity supplier by 2004. The ongoing energy crisis in California has focused everyone's attention on the complexities of incomplete deregulation, the risks of unreliable supply and the costs of unmanaged energy demand. Enron provides commercial and industrial energy customers with the solutions they need, bringing reliability and price-risk management to a market otherwise fraught with uncertainty.

The volatility of energy prices across the country has heightened the value of energy management and increased the demand for retail services. With our series of capabilities — energy commodity and price risk management capabilities, energy asset management and capital solutions — we remain the only firm with the skill, experience, depth and versatility to provide a comprehensive solution to address uncertain, rapidly changing markets.

Customer Relationships

The core of Enron's retail business is developing long-term, multi-year relationships with our customers. The value at contract signing is only a part of the potential value that can be realized when satisfied customers seek to add additional Enron services to their contracts.

Of the $16.1 billion in total contract value signed in 2000, approximately $3 billion came from expansions of existing contract relationships. For example, in 1998, we signed a five-year, $250 million contract with World Color Press, which later merged with Quebecor Printing. In 2000, based on Quebecor World's satisfaction, the relationship was extended and expanded to a 10-year, $1 billion agreement including not only commodity supply, but also overall energy management, including the design and implementation of improvements in energy asset infrastructure in more than 60 facilities operated by Quebecor World.

We value our long-term customer relationships, and the health of these relationships can't be left to luck, instinct or vague impressions. Our Customer Satisfaction Program continually captures our performance against expectations and benchmarks those results. Further, it is designed to ensure identification and resolution — including prompt escalation to the executive level if needed — of any issue that might arise.

Measuring Performance

Companies can't improve what they can't measure. That's why Enron has developed a state-of-the-art Performance Measurement Center (PMC) that monitors, predicts and changes customer energy consumption. Powered by a flexible Internet-based link that connects customers' building controls to the PMC, and operated by a team of energy management professionals, the PMC is a unique resource, enabling genuinely proactive energy management.

Medium-size Business Market

In the first three years of U.S. operation, Enron Energy Services has been squarely focused on Fortune 1000 customers. But U.K.-based Enron Direct has successfully penetrated the immense medium-size business market, proving that we can sell energy to smaller enterprises in a truly open retail market.

Since gaining regulatory approval in February 1999 through the end of 2000, Enron Direct has acquired more than 130,000 gas and power customers, and continues to grow at a substantial rate. The profitability of these smaller accounts comes from Enron's long-term price risk management capability and Enron Direct's low-cost sales channels. Our high expectations for medium-size businesses are

SENSIBLE INVESTMENTS
PMC data identify opportunities to improve efficiency through equipment upgrades or through changes in processes, without adversely affecting a client's operations. The PMC's sophisticated modeling systems calculate a cost-benefit analysis for every potential investment in energy assets. This analysis includes a real-time correlation with the price of commodities — to help companies not only make decisions but also to show them that there are decisions to be made.

REDUCING PEAK DEMAND
The cost of energy varies widely over the course of the day. The PMC uses real-time pricing information, and the stream of data coming from the customer site, to automatically and remotely reduce customers' low-priority energy use when the price of energy is highest —ensuring that the customer gets maximum benefit for every dollar spent on energy.

DIAGNOSTIC MEASUREMENTS
Most energy users don't realize something is wrong until the energy bill comes, and then it is much too late. But with the Enron PMC, real-time monitoring means that unusual changes in energy demand are tracked instantaneously, enabling Enron and the customer to identify and address problems before energy costs get out of hand.

MINIMIZING DOWNTIME
When repairs are needed, PMC personnel can help control the costs of vendor calls and on-site repairs through diagnostic data, and through best-practice management of a network of thousands of service providers. We work with service providers to categorize and analyze the actual cost of repairs. With Enron's expertise and scale, we can improve response times, reduce downtime and cut the cost of repairs and maintenance.

reflected by the rapid expansion of the European operation. *Enron Directo* already is active in Madrid, Spain, and similar businesses will be launched in other countries as well.

It is our strong belief that Enron is uniquely positioned to benefit both in the United States and Europe from the world's steady shift toward deregulated energy markets. We will continue to provide sensible market solutions for the effective management of energy costs, and will continue to build a dynamic global retail business to drive company profits and sustain our reputation for innovation.

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ENRON BROADBAND SERVICES

Enron Broadband Services made excellent progress executing its business plan in 2000. The build-out of Enron's 18,000-mile global fiber network is near completion, bandwidth intermediation transaction volume is growing exponentially, and we are testing the first commercially sound premium content-on-demand service. Clearly, the Enron business model is working in the broadband market.

Enron Broadband Services' goals are to:

- Deploy the most open, efficient global broadband network, the Enron Intelligent Network.
- Be the world's largest marketer of bandwidth and network services.
- Be the world's largest provider of premium content delivery services.

The Enron Intelligent Network

We expect to be the first to provide broadband connectivity on a global basis through the Enron Intelligent Network (EIN). The EIN operates as a "network of networks," providing switching capacity between independent networks for low-cost scalability. We will continue to add pooling points, which physically interconnect third parties' networks and serve as reference points for bandwidth contracts. We currently operate 25 pooling points: 18 in the United States, and one each in Tokyo, London, Brussels, Amsterdam, Paris, Dusseldorf and Frankfurt. We expect to add at least 10 more in 2001.

EIN's embedded intelligence, provided by Enron's proprietary Broadband Operating System (BOS), gives Enron unique, powerful multi-layer network control. The Enron BOS enables the EIN to:

- Dynamically provision bandwidth in real time.
- Control quality and access to the network for Internet Service Providers.
- Control and monitor applications as they stream over the network to ensure quality and avoid congested routes.

The BOS automates the transaction process all the way from the initial request for capacity to provisioning, electronic billing and funds transfer. With the BOS, Enron has created the first scalable, fully integrated transaction processing platform for delivering bandwidth capacity.

Bandwidth Intermediation

We exceeded our expectations by delivering more than 72,000 terabytes of network services in 2000, demonstrating rapidly growing industry acceptance of our flexible services. We are creating the risk management building blocks to manage almost every element of the network in addition to bandwidth: dark fiber, circuits, Internet Protocol (IP) services (transporting data packets according to IP standards) and storage capacity.

To date we have transacted with 45 counterparties, including U.S. and international telecommunications carriers, marketers and resellers and network service providers. In 2001 we expect to deliver 570,000 terabytes as we grow both the breadth and the depth of our network and products. We offer 32 bandwidth-related products on EnronOnline.

Enron's ability to provide bandwidth-on-demand at specified service levels and guaranteed delivery enables customers to access capacity without necessarily building, buying or expanding their own networks. Our bundled intermediation package includes IP transport over land, under the sea, and via satellite, at both fixed and peak-usage terms. For example, we are working with i2 Technologies, a global provider of intelligent eBusiness solutions, to connect with customers in six cities, including four overseas. i2 has provisioned local-loop and long-haul capacity through Enron, and has low-cost access to our network's equipment as if it were its own, but it now has the flexibility to quickly add or discard capacity as day-to-day needs change.

Data storage is a $30 billion-per-year business, and we know customers would like to purchase it on an as-needed basis. In January 2001 we completed our first data storage transactions with a

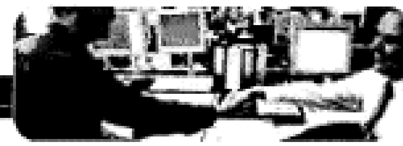
The Value of Bandwidth Intermediation

Enron's bandwidth intermediation business gives the broadband industry new tools — standard contracts, liquidity, price transparency, connectivity, quick provisioning and flexibility — to help industry participants optimize assets and opportunities.

leading provider of managed storage services, StorageNetworks, and a large retailer, Best Buy. Best Buy is buying off-site storage capacity to save money and gain flexibility to accommodate changing storage needs.

Content Services

In April 2000 Enron signed an agreement with a U.S. video rental retailer to deliver movies over the Enron Intelligent Network. The trial service is up and running in Seattle; Portland, Ore.; Salt Lake City and New York City. Additionally, we have established relationships with other high-visibility content providers. Over the next two or three years, we plan to deliver on-demand not only movies but sports, educational content, games, music and



CONNECTIVITY
Enron is facilitating network connectivity by establishing pooling points in major metropolitan areas to switch bandwidth from one independent network to another. The pooling points help optimize network capacity by creating common physical delivery points and access to multiple locations.

DYNAMIC PROVISIONING
Enron's pooling point infrastructure allows companies to provision bandwidth quickly, eliminating the long lead times associated with circuit provisioning in the past. Enhanced connectivity and dynamic provisioning allow bandwidth users to take advantage of bandwidth market opportunities on short notice.

NETWORK CONTROL
Within Enron's Broadband Operating System (BOS) lie several unique capabilities that monitor switching activity between networks and control the provisioning of circuits. The Enron BOS can measure performance in real time at every layer of the network and ensure quality of service and delivery.

SCALABILITY
The Enron Intelligent Network (EIN) has extensive reach throughout the continental United States and connects to Europe and Asia. With its broad connectivity, the EIN is designed to scale without the cost of building additional infrastructure. Leveraging the EnronOnline platform provides additional reach and gives customers a new, easy option for their bandwidth needs.

applications not yet imagined.

Market Innovator

Enron's innovative approach is as valuable in broadband as it is in energy. Our proven intermediation skills are creating new value for the industry and giving it a flexibility it has never enjoyed. We have combined our business model with readily available technologies to deliver premium content over the Enron Intelligent Network in a very compelling commercial model. We are not tied to any particular technology. We use the best solution at the best time for our customers, delivering the most reliable product at the lowest available cost in the marketplace.

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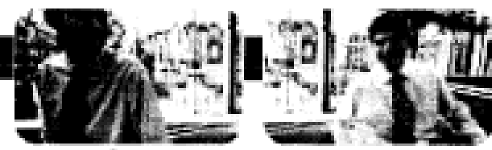
ENRON TRANSPORTATION SERVICES

The Gas Pipeline Group formally changed its name in September 2000 to Enron Transportation Services to emphasize its ability to deliver innovative solutions to its customers. These emerging services augment our core competency: operating interstate pipelines safely and efficiently. In 2000 we continued our record of strong returns with consistent earnings and cash flow. Income before interest and taxes reached $391 million, up from $380 million in 1999. Cash flow from operations rose to $415 million in 2000 from $370 million in 1999. Throughput remained relatively unchanged in 2000 at 9.13 billion cubic feet per day (Bcf/d), compared to 9.18 Bcf/d the previous year.

Together, our interstate pipelines span approximately 25,000 miles with a peak capacity of 9.8 Bcf/d. We transport 15 percent of U.S. natural gas demand. We connect to the major supply basins in the United States and Canada, and we continue to increase capacity from those basins to our major markets. We have added 840 million cubic feet per day (MMcf/d) over the past two years, and nearly 1 Bcf/d is scheduled to enter service in the next three years. At the same time, our expense per MMcf/d has declined by 26 percent from 1992 to today.

Enron Transportation Services pipelines have brought to market a variety of new products and services specifically tailored to address customer needs. Northern Natural Gas, for example, has used interruptible storage products that extend its capability to meet the growing demand for services to manage physical positions. Transwestern Pipeline Company is offering shippers increased service flexibility by accessing third-party storage. Across all pipelines, web-based applications have been introduced to allow customers to better manage transactions and allow the pipelines to maximize their capacity offerings. Northern Natural Gas, Transwestern Pipeline and Florida Gas Transmission began to sell available capacity on EnronOnline in 2000 to give customers the convenience of eCommerce transacting (see "Purchasing Capacity Through EnronOnline" on this page).



Purchasing Capacity Through EnronOnline

Enron Transportation Services has introduced several innovative customer services, including the use of EnronOnline. Northern Natural Gas, Transwestern Pipeline and Florida Gas Transmission are selling available firm and interruptible capacity on EnronOnline in addition to selling capacity through traditional methods. Customers already using EnronOnline to transact gas can now arrange transportation at the same time.

PRICE DISCOVERY
Knowledge helps customers make better decisions. Prices are fully transparent and instantly accessible, which allows buyers to know what their transportation costs will be when they are buying their gas.

OPTIMIZING THE ASSETS
When a pipeline is not totally subscribed, EnronOnline lets the market know it is available. Pipelines also can auction off highly desirable capacity by accepting sealed bids. EnronOnline gives Enron Transportation Services the ability to put more product in front of more of its customers than ever before.

Northern Natural Gas

Northern Natural Gas, Enron's largest pipeline, has approximately 16,500 miles of pipeline extending from the Permian Basin in Texas to the Great Lakes, providing extensive access to major utilities and industrials in the upper Midwest. The pipeline has market area peak capacity of 4.3 Bcf/d. It interconnects with major pipelines, including Great Lakes, Transwestern, El Paso, Northern Border and Trailblazer, to offer excellent northern, southern and western flow capabilities. Ninety-five percent of market area capacity is contracted through 2003.

Market area demand is expected to increase considerably with the development of approximately 2,000 megawatts of gas-fired generation over the next three years. The pipeline has developed innova-

02766

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tive and flexible services to meet the transportation, storage and balancing needs of power producers. It completed construction in October 2000 of a link to 445 megawatts of peaking power operated by Great River Energy in Minnesota. The link will transport up to 120 MMcf/d of gas.

Transwestern Pipeline

Transwestern operates approximately 2,500 miles of pipe with 1.7 Bcf/d of peak capacity. With pipeline originating in the San Juan, Permian and Anadarko Basins, Transwestern can move gas east to Texas or west to the California border. To respond to increased gas demand in California, Transwestern Pipeline added compressor facilities near Gallup, New Mexico, in May 2000 to increase mainline capacity by 140 MMcf/d to the California border. The new capacity is completely subscribed under long-term contracts. In 2000 the pipeline also added several major interconnects to tap into growing markets east of California.

The Transwestern system is fully subscribed for western deliveries through December 2005 and for eastern deliveries through December 2002. The system has the potential to quickly increase throughput capacity. An expansion project is expected to be filed this year and completed in 2002.

Florida Gas Transmission

Florida Gas Transmission serves the rapidly growing Florida peninsula and connects with 10 major pipelines. It has maintained a competitive position by staging expansions to keep pace with demand as it grows. With current peak capacity of 1.5 Bcf/d, Florida Gas Transmission will add 600 MMcf/d of capacity when its Phase IV and Phase V expansions are completed. The Fort Myers extension, part of a 200 MMcf/d Phase IV expansion, went into service on October 1, 2000, and the remainder is scheduled to go into service in May 2001. The 400-MMcf/d Phase V expansion has received preliminary approval from the Federal Energy Regulatory Commission and is expected to be completed in April 2002.

The 4,795-mile pipeline currently is evaluating supply connections to two proposed liquefied natural gas facilities.

Northern Border Partners, L.P.

Northern Border Partners, L.P. is a publicly traded partnership (NYSE: NBP), of which Enron is the largest general partner. Northern Border Partners owns a 70 percent general partner interest in Northern Border Pipeline, which extends 1,214 miles from the Canadian border in Montana to Illinois. The pipeline, a low-cost link between Canadian reserves and the Midwest market, has a peak capacity of 2.4 Bcf/d and is fully contracted under long-term agreements with an average term of six years. Its Project 2000 extension — 34 miles of pipe from Manhattan, Illinois, to a point near North Hayden, Indiana — will provide 544 MMcf/d to industrial markets in Indiana with a targeted in-service date of late 2001.

Late in 2000, Northern Border Pipeline settled its rate case, allowing it to switch from a cost-of-service tariff to a stated-rate tariff, which will provide rate certainty to customers, increase competitiveness and allow flexibility in services provided.

Northern Border Partners also owns interests in gathering systems in the Powder River and Wind River Basins in Wyoming, and recently signed a letter of intent to purchase Bear Paw LLC, which has extensive gathering and processing operations in the Powder River Basin and the Williston Basin. The partnership also owns Black Mesa Pipeline, a 273-mile coal-water slurry pipeline running from Kayenta, Arizona, to Mohave Power Station in Laughlin, Nevada.

Portland General Electric

The sale of Portland General Electric (PGE) to Sierra Pacific Resources has been delayed by the effect of recent events in California and Nevada on the buyer. In 2000 the Portland, Oregon-based electricity utility performed well in the face of regional wholesale price volatility. IBIT rose approximately 12 percent to $341 million. Total electricity sales reached 38.4 million megawatt-hours (MWh) compared to 31.9 million MWh in 1999. We will continue to drive performance while we pursue the utility's sale.

02767

FINANCIAL REVIEW

CONTENTS

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following review of the results of operations and financial condition of Enron Corp. and its subsidiaries and affiliates (Enron) should be read in conjunction with the Consolidated Financial Statements.

RESULTS OF OPERATIONS

Consolidated Net Income

Enron's net income for 2000 was $979 million compared to $893 million in 1999 and $703 million in 1998. Items impacting comparability are discussed in the respective segment results. Net income before items impacting comparability was $1,266 million, $957 million and $698 million, respectively, in 2000, 1999 and 1998. Enron's business is divided into five segments and Exploration and Production (Enron Oil & Gas Company) through August 16, 1999 (see Note 2 to the Consolidated Financial Statements). Enron's operating segments include:

Transportation and Distribution. Transportation and Distribution consists of Enron Transportation Services and Portland General. Transportation Services includes Enron's interstate natural gas pipelines, primarily Northern Natural Gas Company (Northern), Transwestern Pipeline Company (Transwestern), Enron's 50% interest in Florida Gas Transmission Company (Florida Gas) and Enron's interests in Northern Border Partners, L.P. and EOTT Energy Partners, L.P. (EOTT).

Wholesale Services. Wholesale Services includes Enron's wholesale businesses around the world. Wholesale Services operates in developed markets such as North America and Europe, as well as developing or newly deregulating markets including South America, India and Japan.

Retail Energy Services. Enron, through its subsidiary Enron Energy Services, LLC (Energy Services), is extending its energy expertise and capabilities to end-use retail customers in the industrial and commercial business sectors to manage their energy requirements and reduce their total energy costs.

Broadband Services. Enron's broadband services business (Broadband Services) provides customers with a single source for broadband services, including bandwidth intermediation and the delivery of premium content.

Corporate and Other. Corporate and Other includes Enron's investment in Azurix Corp. (Azurix), which provides water and wastewater services, results of Enron Renewable Energy Corp. (EREC), which develops and constructs wind-generated power projects, and the operations of Enron's methanol and MTBE plants as well as overall corporate activities of Enron.

Net income includes the following:

(In millions)	2000	1999	1998
After-tax results before items impacting comparability	$1,266	$ 957	$ 698
Items impacting comparability:[a]			
Charge to reflect impairment by Azurix	(326)	-	-
Gain on TNPC, Inc. (The New Power Company), net	39	-	-
Gains on sales of subsidiary stock	-	345	45
MTBE-related charges	-	(278)	(40)
Cumulative effect of accounting changes	-	(131)	-
Net income	$ 979	$ 893	$ 703

(a) Tax affected at 35%, except where a specific tax rate applied.

Diluted earnings per share of common stock were as follows:

	2000	1999	1998
Diluted earnings per share[a]:			
After-tax results before items impacting comparability	$ 1.47	$ 1.18	$ 1.00
Items impacting comparability:			
Charge to reflect impairment by Azurix	(0.40)	-	-
Gain on The New Power Company, net	0.05	-	-
Gains on sales of subsidiary stock	-	0.45	0.07
MTBE-related charges	-	(0.36)	(0.06)
Cumulative effect of accounting changes	-	(0.17)	-
Diluted earnings per share	$ 1.12	$ 1.10	$ 1.01

(a) Restated to reflect the two-for-one stock split effective August 13, 1999.

Income Before Interest, Minority Interests and Income Taxes

The following table presents income before interest, minority interests and income taxes (IBIT) for each of Enron's operating segments (see Note 20 to the Consolidated Financial Statements):

(In millions)	2000	1999	1998
Transportation and Distribution:			
Transportation Services	$ 391	$ 380	$ 351
Portland General	341	305	286
Wholesale Services	2,260	1,317	968
Retail Energy Services	165	(68)	(119)
Broadband Services	(60)	-	-
Exploration and Production	-	65	128
Corporate and Other	(615)	(4)	(32)
Income before interest, minority interests and taxes	$2,482	$1,995	$1,582

Transportation and Distribution

Transportation Services. The following table summarizes total volumes transported by each of Enron's interstate natural gas pipelines.

	2000	1999	1998
Total volumes transported (BBtu/d)[a]			
Northern Natural Gas	3,529	3,820	4,098
Transwestern Pipeline	1,657	1,462	1,608
Florida Gas Transmission	1,601	1,495	1,324
Northern Border Pipeline	2,443	2,405	1,770

(a) Billion British thermal units per day. Amounts reflect 100% of each entity's throughput volumes. Florida Gas and Northern Border Pipeline are unconsolidated equity affiliates.

02769

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Significant components of IBIT are as follows:

(In millions)	2000	1999	1998
Net revenues	$650	$626	$640
Operating expenses	280	264	276
Depreciation and amortization	67	66	70
Equity earnings	63	38	32
Other, net	25	46	25
Income before interest and taxes	$391	$380	$351

Net Revenues

Revenues, net of cost of sales, of Transportation Services increased $24 million (4%) during 2000 and declined $14 million (2%) during 1999 as compared to 1998. In 2000, Transportation Services' interstate pipelines produced strong financial results. The volumes transported by Transwestern increased 13 percent in 2000 as compared to 1999. Northern's 2000 gross margin was comparable to 1999 despite an 8 percent decline in volumes transported. Net revenues in 2000 were favorably impacted by transportation revenues from Transwestern's Gallup, New Mexico expansion and by sales from Northern's gas storage inventory. The decrease in net revenue in 1999 compared to 1998 was primarily due to the expiration, in October 1998, of certain transition cost recovery surcharges, partially offset by a Northern sale of gas storage inventory in 1999.

Operating Expenses

Operating expenses, including depreciation and amortization, of Transportation Services increased $17 million (5%) during 2000 primarily as a result of higher overhead costs related to information technology and employee benefits. Operating expenses decreased $16 million (5%) during 1999 primarily as a result of the expiration of certain transition cost recovery surcharges which had been recovered through revenues.

Equity Earnings

Equity in earnings of unconsolidated equity affiliates increased $25 million and $6 million in 2000 and 1999, respectively. The increase in equity earnings in 2000 as compared to 1999 primarily relates to Enron's investment in Florida Gas. The increase in earnings in 1999 as compared to 1998 was primarily a result of higher earnings from Northern Border Pipeline and EOTT.

Other, Net

Other, net decreased $21 million in 2000 as compared to 1999 after increasing $21 million in 1999 as compared to 1998. Included in 2000 were gains related to an energy commodity contract and the sale of compressor-related equipment, while the 1999 amount included interest income earned in connection with the financing of an acquisition by EOTT. The 1998 amount included gains from the sale of an interest in an equity investment, substantially offset by charges related to litigation.

Portland General. Portland General realized IBIT as follows:

(In millions)	2000	1999	1998
Revenues	$2,256	$1,379	$1,196
Purchased power and fuel	1,461	639	451
Operating expenses	321	304	295
Depreciation and amortization	211	181	183
Other, net	78	50	19
Income before interest and taxes	$ 341	$ 305	$ 286

Revenues, net of purchased power and fuel costs, increased $55 million in 2000 as compared to 1999. The increase is primarily the result of a significant increase in the price of power sold and an increase in wholesale sales, partially offset by higher purchased power and fuel costs. Operating expenses increased primarily due to increased plant maintenance costs related to periodic overhauls. Depreciation and amortization increased in 2000 primarily as a result of increased regulatory amortization. Other, net in 2000 included the impact of an Oregon Public Utility Commission (OPUC) order allowing certain deregulation costs to be deferred and recovered through rate cases, the settlement of litigation related to the Trojan nuclear power generating facility and gains on the sale of certain generation-related assets.

Revenues, net of purchased power and fuel costs, decreased $5 million in 1999 as compared to 1998. Revenues increased primarily as a result of an increase in the number of customers served by Portland General. Higher purchased power and fuel costs, which increased 42 percent in 1999, offset the increase in revenues. Other income, net increased $31 million in 1999 as compared to 1998 primarily as a result of a gain recognized on the sale of certain assets.

In 1999, Enron entered into an agreement to sell Portland General Electric Company to Sierra Pacific Resources. See Note 2 to the Consolidated Financial Statements.

Statistics for Portland General are as follows:

	2000	1999	1998
Electricity sales (thousand MWh)[a]			
Residential	7,433	7,404	7,101
Commercial	7,527	7,392	6,781
Industrial	4,912	4,463	3,562
Total retail	19,872	19,259	17,444
Wholesale	18,548	12,612	10,869
Total electricity sales	38,420	31,871	28,313
Resource mix			
Coal	11%	15%	16%
Combustion turbine	12	8	12
Hydro	6	9	9
Total generation	29	32	37
Firm purchases	63	57	56
Secondary purchases	8	11	7
Total resources	100%	100%	100%
Average variable power cost (Mills/KWh)[b]			
Generation	14.5	11.3	8.6
Firm purchases	34.9	23.2	17.3
Secondary purchases	123.6	19.7	23.6
Total average variable power cost	37.2	20.0	15.6
Retail customers (end of period, thousands)	725	719	704

(a) Thousand megawatt-hours.
(b) Mills (1/10 cent) per kilowatt-hour.

Outlook

Enron Transportation Services is expected to provide stable earnings and cash flows during 2001. The four major natural gas pipelines have strong competitive positions in their respective markets as a result of efficient operating practices, competitive rates and favorable market conditions. Enron Transportation Services expects to continue to pursue demand-driven expansion opportunities. Florida Gas expects to complete an expansion that will increase throughput by 198 million cubic feet per day (MMcf/d) by mid-2001. Florida Gas has received preliminary approval from the Federal Energy Regulatory Commission for an expansion of 428 MMcf/d, expected to be completed by early 2003, and is also pursuing an expansion of 150 MMcf/d that is expected to be completed in mid-2003. Transwestern completed an expansion of 140 MMcf/d in May 2000 and is pursuing an expansion of 50 MMcf/d that is expected to be completed in 2001 and an additional expansion of up to 150 MMcf/d that is expected to be completed in 2002. Northern Border Partners is evaluating the development of a 325 mile pipeline with a range of capacity from 375 MMcf/d to 500 MMcf/d to connect natural gas production in Wyoming to the Northern Border Pipeline in Montana.

In 2001, Portland General anticipates purchased power and fuel costs to remain at historically high levels. Portland General has submitted a request with the OPUC to recover the anticipated cost increase through a rate adjustment.

Wholesale Services

Enron builds its wholesale businesses through the creation of networks involving selective asset ownership, contractual access to third-party assets and market-making activities. Each market in which Wholesale Services operates utilizes these components in a slightly different manner and is at a different stage of development. This network strategy has enabled Wholesale Services to establish a leading position in its markets. Wholesale Services' activities are categorized into two business lines: (a) Commodity Sales and Services and (b) Assets and Investments. Activities may be integrated into a bundled product offering for Enron's customers.

Wholesale Services manages its portfolio of contracts and assets in order to maximize value, minimize the associated risks and provide overall liquidity. In doing so, Wholesale Services uses portfolio and risk management disciplines, including offsetting or hedging transactions, to manage exposures to market price movements (commodities, interest rates, foreign currencies and equities). Additionally, Wholesale Services manages its liquidity and exposure to third-party credit risk through monetization of its contract portfolio or third-party insurance contracts. Wholesale Services also sells interests in certain investments and other assets to improve liquidity and overall return, the timing of which is dependent on market conditions and management's expectations of the investment's value.

The following table reflects IBIT for each business line:

(In millions)	2000	1999	1998
Commodity sales and services	$1,630	$ 628	$411
Assets and investments	889	850	709
Unallocated expenses	(259)	(161)	(152)
Income before interest, minority interests and taxes	$2,260	$1,317	$968

The following discussion analyzes the contributions to IBIT for each business line.

Commodity Sales and Services. Wholesale Services provides reliable commodity delivery and predictable pricing to its customers through forwards and other contracts. This market-making activity includes the purchase, sale, marketing and delivery of natural gas, electricity, liquids and other commodities, as well as the management of Wholesale Services' own portfolio of contracts. Contracts associated with this activity are accounted for using the mark-to-market method of accounting. See Note 1 to the Consolidated Financial Statements. Wholesale Services' market-making activity is facilitated through a network of capabilities including selective asset ownership. Accordingly, certain assets involved in the delivery of these services are included in this business (such as intrastate natural gas pipelines, gas storage facilities and certain electric generation assets).

Wholesale Services markets, transports and provides energy commodities as reflected in the following table (including intercompany amounts):

	2000	1999	1998
Physical volumes (BBtue/d)[a][b]			
Gas:			
United States	17,674	8,982	7,418
Canada	6,359	4,398	3,486
Europe and Other	3,637	1,572	1,251
	27,670	14,952	12,155
Transportation volumes	649	575	559
Total gas volumes	28,319	15,527	12,714
Crude oil and Liquids	6,088	6,160	3,570
Electricity[c]	17,308	10,742	11,024
Total physical volumes (BBtue/d)	51,715	32,429	27,308
Electricity volumes (thousand MWh)			
United States	578,787	380,518	401,843
Europe and Other	54,670	11,576	529
Total	633,457	392,094	402,372
Financial settlements (notional, BBtue/d)	196,148	99,337	75,266

(a) Billion British thermal units equivalent per day.
(b) Includes third-party transactions by Enron Energy Services.
(c) Represents electricity volumes, converted to BBtue/d.

Earnings from commodity sales and services increased $1.0 billion (160%) in 2000 as compared to 1999. Increased profits from North American gas and power marketing operations, European power marketing operations as well as the value of new businesses, such as pulp and paper, contributed to the earnings growth of Enron's commodity sales and services business. Continued market leadership in terms of volumes transacted, significant increases in natural gas prices and price volatility in both the gas and power markets were the key contributors to increased profits in the gas and power intermediation businesses. In late 1999, Wholesale Services launched an Internet-based eCommerce system, EnronOnline, which allows wholesale customers to view Enron's real time pricing and to complete commodity transactions with Enron as principal, with no direct interaction. In its first full year of operation, EnronOnline positively impacted wholesale volumes, which increased 59 percent over 1999 levels.

Earnings from commodity sales and services increased $217 million (53%) in 1999 as compared to 1998, reflecting strong results from the intermediation businesses in both North America and Europe, which include delivery of energy commodities and associated risk management products. Wholesale Services also successfully managed its overall portfolio of contracts, particularly in minimizing credit exposures utilizing third-party contracts. New product offerings in coal and pulp and paper markets also added favorably to the results.

Assets and Investments. Enron's Wholesale businesses make investments in various energy and certain related assets as a part of its network strategy. Wholesale Services either purchases the asset from a third party or develops and constructs the asset. In most cases, Wholesale Services operates and manages such assets. Earnings from these investments principally result from operations of the assets or sales of ownership interests.

Additionally, Wholesale Services invests in debt and equity securities of energy and technology-related businesses, which may also utilize Wholesale Services' products and services. With these merchant investments, Enron's influence is much more limited relative to assets Enron develops or constructs. Earnings from these activities, which are accounted for on a fair value basis and are included in revenues, result from changes in the market value of the securities. Wholesale Services uses risk management disciplines, including hedging transactions, to manage the impact of market price movements on its merchant investments. See Note 4 to the Consolidated Financial Statements for a summary of these investments.

Earnings from assets and investments increased $39 million (5%) in 2000 as compared to 1999 as a result of an increase in the value of Wholesale Services' merchant investments, partially offset by lower gains from sales of energy assets. Earnings from asset operations were comparable to 1999 levels. Earnings from merchant investments were positively impacted by power-related and energy investments, partially offset by the decline in value of technology-related and certain energy-intensive industry investments. Gains on sales of energy assets in 2000 included the monetization of certain European energy operations.

Earnings from assets and investments increased $141 million (20%) in 1999 as compared to 1998. During 1999, earnings from Wholesale Services' energy-related assets increased, reflecting the operation of the Dabhol Power Plant in India, ownership in Elektro Eletricidade e Serviços S.A. (Elektro), a Brazilian electric utility, and assets in various other developing markets. Wholesale Services' merchant investments increased in value during the year due to the expansion into certain technology-related investments, partially offset by a decline in the value of certain energy investments. In addition, Wholesale Services' 1999 earnings increased due to development and construction activities, while gains on sales of energy assets declined.

Unallocated Expenses. Net unallocated expenses such as systems expenses and performance-related costs increased in 2000 due to growth of Wholesale Services' existing businesses and continued expansion into new markets.

Outlook

In 2000, Wholesale Services reinforced its leading positions in the natural gas and power markets in both North America and Europe. In the coming year, Wholesale Services plans to continue to expand and refine its existing energy networks and to extend its proven business model to new markets and industries.

In 2001, Wholesale Services plans to continue to fine-tune its already successful existing energy networks. In North America, Enron expects to complete the sale of five of its peaking power plants located in the Midwest and its intrastate natural gas pipeline. In each case, market conditions, such as increased liquidity, have diminished the need to own physical assets. For energy networks in other geographical areas where liquidity may be an issue, Enron will evaluate whether its existing network will benefit from additional physical assets. The existing networks in North America and Europe should continue to provide opportunities for sustained volume growth and increased profits.

The combination of knowledge gained in building networks in key energy markets and the application of new technology, such as EnronOnline, is expected to provide the basis to extend Wholesale Services' business model to new markets and industries. In key international markets, where deregulation is underway, Enron plans to build energy networks by using the optimum combination of acquiring or constructing physical assets and securing contractual access to third-party assets. Enron also plans to replicate its business model to new industrial markets such as metals, pulp, paper and lumber, coal and steel. Enron expects to use its eCommerce platform, EnronOnline, to accelerate the penetration into these industries.

Earnings from Wholesale Services are dependent on the origination and completion of transactions, some of which are individually significant and which are impacted by market conditions, the regulatory environment and customer relationships. Wholesale Services' transactions have historically been based on a diverse product portfolio, providing a solid base of earnings. Enron's strengths, including its ability to identify and respond to customer needs, access to extensive physical assets and its integrated product offerings, are important drivers of the expected continued earnings growth. In addition, significant earnings are expected from Wholesale Services' commodity portfolio and investments, which are subject to market fluctuations. External factors, such as the amount of volatility in market prices, impact the earnings opportunity associated with Wholesale Services' business. Risk related to these activities is managed using naturally offsetting transactions and hedge transactions. The effectiveness of Enron's risk management activities can have a material impact on future earnings. See "Financial Risk Management" for a discussion of market risk related to Wholesale Services.

Retail Energy Services

Energy Services sells or manages the delivery of natural gas, electricity, liquids and other commodities to industrial and commercial customers located in North America and Europe. Energy Services also provides outsourcing solutions to customers for full energy management. This integrated product includes the management of commodity delivery, energy information and energy assets, and price risk management activities. The commodity portion of the contracts associated with this business are accounted for under the mark-to-market method of accounting. See Note 1 to the Consolidated Financial Statements.

(In millions)	2000	1999	1998
Revenues	$4,615	$1,807	$1,072
Cost of sales	4,028	1,551	955
Operating expenses	449	308	210
Depreciation and amortization	38	29	31
Equity losses	(60)	-	(2)
Other, net	63	13	7
IBIT before items impacting comparability	103	(68)	(119)
Items impacting comparability:			
Gain on The New Power Company stock issuance	121	-	-
Retail Energy Services charges	(59)	-	-
Income (loss) before interest, minority interests and taxes	$ 165	$ (68)	$ (119)

Operating Results

Revenues and gross margin increased $2,808 million and $331 million, respectively, in 2000 compared to 1999, primarily resulting from execution of commitments on its existing customer base, long-term energy contracts originated in 2000 and the increase in the value of Energy Services' contract portfolio. Operating expenses increased as a result of costs incurred in building the capabilities to deliver services on existing customer contracts and in building Energy Services' outsourcing business in Europe. Other, net in 2000 consisted primarily of gains associated with the securitization of non-merchant equity instruments. Equity losses reflect Energy Services' portion of losses of The New Power Company.

Items impacting comparability in 2000 included a pre-tax gain of $121 million related to the issuance of common stock by The New Power Company and a charge of $59 million related to the write-off of certain information technology and other costs. The New Power Company, which is approximately 45 percent owned by Enron, was formed to provide electricity and natural gas to residential and small commercial customers in deregulated energy markets in the United States.

Outlook

During 2001, Energy Services anticipates continued growth in the demand for retail energy outsourcing solutions. Energy Services will deliver these services to its existing customers, while continuing to expand its commercial and industrial customer base for total energy outsourcing. Energy Services also plans to continue integrating its service delivery capabilities, extend its business model to related markets and offer new products.

Broadband Services

In implementing Enron's network strategy, Broadband Services is constructing the Enron Intelligent Network, a nationwide fiber-optic network that consists of both fiber deployed by Enron and acquired capacity on non-Enron networks and is managed by Enron's Broadband Operating System software. Enron is extending its market-making and risk management skills from its energy business to develop the bandwidth intermediation business to help customers manage unexpected fluctuation in the price, supply and demand of bandwidth. Enron's bandwidth-on-demand platform allows delivery of high-bandwidth media-rich content such as video streaming, high capacity data transport and video conferencing. Broadband Services also makes investments in companies with related technologies and with the potential for capital appreciation. Earnings from these merchant investments, which are accounted for on a fair value basis and are included in revenues, result from changes in the market value of the securities. Broadband Services uses risk management disciplines, including hedging transactions, to manage the impact of market price movements on its merchant investments. Broadband Services also sells interests in certain investments and other assets to improve liquidity and overall return, the timing of which is dependent on market conditions and management's expectations of the investment's value.

The components of Broadband Services' businesses include the development and construction of the Enron Intelligent Network, sales of excess fiber and software, bandwidth intermediation and the delivery of content. Significant components of Broadband Services' results are as follows:

(In millions)	2000
Gross margin	$318
Operating expenses	305
Depreciation and amortization	77
Other, net	4
Loss before interest, minority interests and taxes	$ (60)

Broadband Services recognized a loss before interest, minority interests and taxes of $60 million in 2000. Gross margin included earnings from sales of excess fiber capacity, a significant increase in the market value of Broadband Services' merchant investments and the monetization of a portion of Enron's broadband content delivery platform. Expenses incurred during the period include expenses related to building the business and depreciation and amortization.

Outlook

Broadband Services is extending Enron's proven business model to the communications industry. In 2001, Enron expects to further develop the Enron Intelligent Network, a global broadband network with broad connectivity potential to both buyers and sellers of bandwidth through Enron's pooling points. In addition, Enron expects to further deploy its proprietary Broadband Operating System across the Enron Intelligent Network, enabling Enron to manage bandwidth capacity independent of owning the underlying fiber. Broadband Services expects its intermediation transaction level to increase significantly in 2001 as more market participants connect to the pooling points and transact with Enron to manage their bandwidth needs. The availability of Enron's bandwidth intermediation products and prices on EnronOnline are expected to favorably impact the volume of transactions. In 2001, Broadband Services expects to continue to expand the commercial roll-out of its content service offerings including video-on-demand. Enron expects the volume of content delivered over its network to increase as more content delivery contracts are signed and as more distribution partner locations are connected.

Corporate and Other

Significant components of Corporate and Other's IBIT are as follows:

(In millions)	2000	1999	1998
IBIT before items impacting comparability	$(289)	$ (17)	$ 7
Items impacting comparability:			
Charge to reflect impairment by Azurix	(326)	-	-
Gains on exchange and sales of Enron Oil & Gas Company (EOG) stock	-	454	22
Charge to reflect impairment of MTBE assets and losses on contracted MTBE production	-	(441)	(61)
Loss before interest, minority interests and taxes	$(615)	$ (4)	$(32)

Results for Corporate and Other in 2000 reflect operating losses from Enron's investment in Azurix (excluding the impairments discussed below) and increased information technology, employee compensation and corporate-wide expenses.

Results for Corporate and Other in 1999 were impacted by higher corporate expenses, partially offset by increased earnings from EREC resulting from increased sales volumes from its German manufacturing subsidiary and from the completion and sale of certain domestic wind projects. Enron also recognized higher earnings related to Azurix. Results in 1998 were favorably impacted by increases in the market value of certain corporate-managed financial instruments, partially offset by higher corporate expenses.

Items impacting comparability in 2000 included a $326 million charge reflecting Enron's portion of impairments recorded by Azurix related to assets in Argentina. Items impacting comparability in 1999 included a pre-tax gain of $454 million on the exchange and sale of Enron's interest in EOG (see Note 2 to the Consolidated Financial Statements) and a $441 million pre-tax charge for the impairment of its MTBE assets (see Note 17 to the Consolidated Financial Statements).

During 1998, Enron recognized a pre-tax gain of $22 million on the delivery of 10.5 million shares of EOG stock held by Enron as repayment of mandatorily exchangeable debt. Enron also recorded a $61 million charge to reflect losses on contracted MTBE production.

Interest and Related Charges, Net

Interest and related charges, net of interest capitalized which totaled $38 million, $54 million and $66 million for 2000, 1999 and 1998, respectively, increased to $838 million in 2000 from $656 million in 1999 and $550 million in 1998. The increase in 2000 as compared to 1999 was primarily a result of increased long-term debt levels, increased average short-term borrowings, short-term debt assumed as a result of the acquisition of MG plc and higher interest rates in the U.S. The increase was partially offset by the replacement of debt related to a Brazilian subsidiary with lower interest rate debt.

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The increase in 1999 as compared to 1998 was primarily due to debt issuances and debt related to a Brazilian subsidiary, partially offset by a decrease in debt related to EOG following the sale and exchange of Enron's interests in August 1999. See Note 2 to the Consolidated Financial Statements.

Minority Interests

Minority interests include the following:

(In millions)	2000	1999	1998
Elektro [(a)]	$ 33	$ 39	$ -
Majority-owned limited liability company and limited partnerships	105	71	-
Enron Oil & Gas Company	-	2	24
Other	16	23	53
Total	$154	$135	$77

(a) Relates to the respective parents of Elektro, which had minority shareholders in 2000 and 1999. See Note 8 to the Consolidated Financial Statements.

Minority interests include Elektro beginning January 1, 1999, a majority-owned limited liability company and majority-owned limited partnerships since their formation during 1998 through 2000 and EOG until the exchange and sale of Enron's interests in August 1999 (see Note 2 to the Consolidated Financial Statements).

Income Tax Expense

Income tax expense increased in 2000 as compared to 1999 primarily as a result of increased earnings, decreased equity earnings and decreased tax benefits related to the foreign tax rate differential, partially offset by an increase in the differences between the book and tax basis of certain assets and stock sales.

Income tax expense decreased in 1999 compared to 1998 primarily as a result of increased equity earnings, tax benefits related to the foreign tax rate differential and the audit settlement related to Monthly Income Preferred Shares, partially offset by increased earnings.

Cumulative Effect of Accounting Changes

In 1999, Enron recorded an after-tax charge of $131 million to reflect the initial adoption (as of January 1, 1999) of two new accounting pronouncements, the AICPA Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities," and the Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The 1999 charge was primarily related to the adoption of SOP 98-5.

NEW ACCOUNTING PRONOUNCEMENTS

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value through earnings, with special accounting allowed for certain qualifying hedges. Enron will adopt SFAS No. 133 as of January 1, 2001. Due to the adoption of SFAS No. 133, Enron will recognize an after-tax non-cash loss of approximately $5 million in earnings and an after-tax non-cash gain in "Other Comprehensive Income," a component of shareholders' equity, of approximately $22 million from the cumulative effect of a change in accounting principle. Enron will also reclassify $532 million from "Long-Term Debt" to "Other Liabilities" due to the adoption.

The total impact of Enron's adoption of SFAS No. 133 on earnings and on "Other Comprehensive Income" is dependent upon certain pending interpretations, which are currently under consideration, including those related to "normal purchases and normal sales" and inflation escalators included in certain contract payment provisions. The interpretations of these issues, and others, are currently under consideration by the FASB. While the ultimate conclusions reached on interpretations being considered by the FASB could impact the effects of Enron's adoption of SFAS No. 133, Enron does not believe that such conclusions would have a material effect on its current estimate of the impact of adoption.

FINANCIAL CONDITION

Cash Flows

(In millions)	2000	1999	1998
Cash provided by (used in):			
Operating activities	$ 4,779	$ 1,228	$ 1,640
Investing activities	(4,264)	(3,507)	(3,965)
Financing activities	571	2,456	2,266

Net cash provided by operating activities increased $3,551 million in 2000, primarily reflecting decreases in working capital, positive operating results and a receipt of cash associated with the assumption of a contractual obligation. Net cash provided by operating activities decreased $412 million in 1999, primarily reflecting increases in working capital and net assets from price risk management activities, partially offset by increased earnings and higher proceeds from sales of merchant assets and investments. The 1998 amount reflects positive operating cash flow from Enron's major business segments, proceeds from sales of interests in energy-related merchant assets and cash from timing and other changes related to Enron's commodity portfolio, partially offset by new investments in merchant assets and investments.

Net cash used in investing activities primarily reflects capital expenditures and equity investments, which total $3,314 million in 2000, $3,085 million in 1999 and $3,564 million in 1998, and cash used for business acquisitions. See "Capital Expenditures and Equity Investments" below and see Note 2 to the Consolidated Financial Statements for cash used for business acquisitions. Partially offsetting these uses of cash were proceeds from sales of non-merchant assets, including certain equity instruments by Energy Services and an international power project, which totaled $494 million in 2000. Proceeds from non-merchant asset sales were $294 million in 1999 and $239 million in 1998.

Cash provided by financing activities in 2000 included proceeds from the issuance of subsidiary equity and the issuance of common stock related to employee benefit plans, partially offset by payments of dividends. Cash provided by financing activities in 1999 included proceeds from the net issuance of short- and long-term debt, the issuance of common stock and the issuance of subsidiary equity, partially offset by payments of dividends. Cash provided by financing activities in 1998 included proceeds from the net issuance of short- and long-term debt, the issuance of common stock and the sale of a minority interest in a subsidiary, partially offset by payments of dividends.

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Capital Expenditures and Equity Investments

Capital expenditures by operating segment are as follows:

(In millions)	2001 Estimate	2000	1999	1998
Transportation and Distribution	$ 140	$ 270	$ 316	$ 310
Wholesale Services	570	1,280	1,216	706
Retail Energy Services	50	70	64	75
Broadband Services	700	436	-	-
Exploration and Production	-	-	226	690
Corporate and Other	40	325	541	124
Total	$1,500	$2,381	$2,363	$1,905

Capital expenditures increased $18 million in 2000 and $458 million in 1999 as compared to the previous year. Capital expenditures in 2000 primarily relate to construction of power plants to extend Wholesale Services' network and fiber optic network infrastructure for Broadband Services. During 1999, Wholesale Services expenditures increased due primarily to construction of domestic and international power plants. The 1999 increase in Corporate and Other reflects the purchase of certain previously leased MTBE-related assets.

Cash used for investments in equity affiliates by the operating segments is as follows:

(In millions)	2000	1999	1998
Transportation and Distribution	$ 1	$ -	$ 27
Wholesale Services	911	712	703
Corporate and Other	21	10	929
Total	$933	$722	$1,659

Equity investments in 2000 relate primarily to capital invested for the ongoing construction, by a joint venture, of a power plant in India as well as other international investments. Equity investments in 1999 relate primarily to an investment in a joint venture that holds gas distribution and related businesses in South Korea and the power plant project in India.

The level of spending for capital expenditures and equity investments will vary depending upon conditions in the energy and broadband markets, related economic conditions and identified opportunities. Management expects that the capital spending program will be funded by a combination of internally generated funds, proceeds from dispositions of selected assets and short- and long-term borrowings.

Working Capital

At December 31, 2000, Enron had working capital of $2.0 billion. If a working capital deficit should occur, Enron has credit facilities in place to fund working capital requirements. At December 31, 2000, those credit lines provided for up to $4.2 billion of committed and uncommitted credit, of which $290 million was outstanding. Certain of the credit agreements contain prefunding covenants. However, such covenants are not expected to restrict Enron's access to funds under these agreements. In addition, Enron sells commercial paper and has agreements to sell trade accounts receivable, thus providing financing to meet seasonal working capital needs. Management believes that the sources of funding described above are sufficient to meet short- and long-term liquidity needs not met by cash flows from operations.

CAPITALIZATION

Total capitalization at December 31, 2000 was $25.0 billion. Debt as a percentage of total capitalization increased to 40.9 percent at December 31, 2000 as compared to 38.5 percent at December 31, 1999. The increase in the ratio primarily reflects increased debt levels and the impact on total equity of the decline in the value of the British pound sterling. This was partially offset by the issuances, in 2000, of Enron common stock and the contribution of common shares (see Note 16 to the Consolidated Financial Statements). The issuances of Enron common stock primarily related to the acquisition of a minority shareholder's interest in Enron Energy Services, LLC and the exercise of employee stock options.

Enron is a party to certain financial contracts which contain provisions for early settlement in the event of a significant market price decline in which Enron's common stock falls below certain levels (prices ranging from $28.20 to $55.00 per share) or if the credit ratings for Enron's unsecured, senior long-term debt obligations fall below investment grade. The impact of this early settlement could include the issuance of additional shares of Enron common stock.

Enron's senior unsecured long-term debt is currently rated BBB+ by Standard & Poor's Corporation and Fitch IBCA and Baa1 by Moody's Investor Service. Enron's continued investment grade status is critical to the success of its wholesale businesses as well as its ability to maintain adequate liquidity. Enron's management believes it will be able to maintain its credit rating.

Financial Risk Management

Wholesale Services offers price risk management services primarily related to commodities associated with the energy sector (natural gas, electricity, crude oil and natural gas liquids). Energy Services and Broadband Services also offer price risk management services to their customers. These services are provided through a variety of financial instruments including forward contracts, which may involve physical delivery, swap agreements, which may require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for the commodity, options and other contractual arrangements. Interest rate risks and foreign currency risks associated with the fair value of Wholesale Services' commodities portfolio are managed using a variety of financial instruments, including financial futures, swaps and options.

On a much more limited basis, Enron's other businesses also enter into financial instruments such as forwards, swaps and other contracts primarily for the purpose of hedging the impact of market fluctuations on assets, liabilities, production or other contractual commitments. Changes in the market value of these hedge transactions are deferred until the gain or loss is recognized on the hedged item.

Enron manages market risk on a portfolio basis, subject to parameters established by its Board of Directors. Market risks are monitored by an independent risk control group operating separately from the units that create or actively manage these risk exposures to ensure compliance with Enron's stated risk management policies.

Market Risk

The use of financial instruments by Enron's businesses may expose Enron to market and credit risks resulting from adverse changes in commodity and equity prices, interest rates and foreign exchange rates. For Enron's businesses, the major market risks are discussed below:

Commodity Price Risk. Commodity price risk is a consequence of providing price risk management services to customers. As discussed above, Enron actively manages this risk on a portfolio basis to ensure compliance with Enron's stated risk management policies.

Interest Rate Risk. Interest rate risk is also a consequence of providing price risk management services to customers and having variable rate debt obligations, as changing interest rates impact the discounted value of future cash flows. Enron utilizes forwards, futures, swaps and options to manage its interest rate risk.

Foreign Currency Exchange Rate Risk. Foreign currency exchange rate risk is the result of Enron's international operations and price risk management services provided to its worldwide customer base. The primary purpose of Enron's foreign currency hedging activities is to protect against the volatility associated with foreign currency purchase and sale transactions. Enron primarily utilizes forward exchange contracts, futures and purchased options to manage Enron's risk profile.

Equity Risk. Equity risk arises from Enron's participation in investments. Enron generally manages this risk by hedging specific investments using futures, forwards, swaps and options.

Enron evaluates, measures and manages the market risk in its investments on a daily basis utilizing value at risk and other methodologies. The quantification of market risk using value at risk provides a consistent measure of risk across diverse markets and products. The use of these methodologies requires a number of key assumptions including the selection of a confidence level for expected losses, the holding period for liquidation and the treatment of risks outside the value at risk methodologies, including liquidity risk and event risk. Value at risk represents an estimate of reasonably possible net losses in earnings that would be recognized on its investments assuming hypothetical movements in future market rates and no change in positions. Value at risk is not necessarily indicative of actual results which may occur.

Value at Risk

Enron has performed an entity-wide value at risk analysis of virtually all of Enron's financial instruments, including price risk management activities and merchant investments. Value at risk incorporates numerous variables that could impact the fair value of Enron's investments, including commodity prices, interest rates, foreign exchange rates, equity prices and associated volatilities, as well as correlation within and across these variables. Enron estimates value at risk for commodity, interest rate and foreign exchange exposures using a model based on Monte Carlo simulation of delta/gamma positions which captures a significant portion of the exposure related to option positions. The value at risk for equity exposure discussed above is based on J.P. Morgan's RiskMetrics™ approach. Both value at risk methods utilize a one-day holding period and a 95% confidence level. Cross-commodity correlations are used as appropriate.

The use of value at risk models allows management to aggregate risks across the company, compare risk on a consistent basis and identify the drivers of risk. Because of the inherent limitations to value at risk, including the use of delta/gamma approximations to value options, subjectivity in the choice of liquidation period and reliance on historical data to calibrate the models, Enron relies on value at risk as only one component in its risk control process. In addition to using value at risk measures, Enron performs regular stress and scenario analyses to estimate the economic impact of sudden market moves on the value of its portfolios. The results of the stress testing, along with the professional judgment of experienced business and risk managers, are used to supplement the value at risk methodology and capture additional market-related risks, including volatility, liquidity and event, concentration and correlation risks.

The following table illustrates the value at risk for each component of market risk:

	December 31,		Year ended December 31, 2000		
(In millions)	2000	1999	Average[a]	High Valuation[a]	Low Valuation[a]
Trading Market Risk:					
Commodity price[b]	$66	$21	$50	$81	$23
Interest rate	-	-	-	-	-
Foreign currency exchange rate	-	-	-	-	-
Equity[c]	59	26	45	59	36
Non-Trading Market Risk[d]:					
Commodity price	2	1	2	5	2
Interest rate	-	2	1	2	-
Foreign currency exchange rate	8	4	8	10	4
Equity	7	3	6	7	5

(a) The average value presents a twelve month average of the month-end values. The high and low valuations for each market risk component represent the highest and lowest month-end value during 2000.

(b) In 2000, increased natural gas prices combined with increased price volatility in power and gas markets caused Enron's value at risk to increase significantly.

(c) Enron's equity trading market risk primarily relates to merchant investments (see Note 4 to the Consolidated Financial Statements). In 2000, the value at risk model utilized for equity trading market risk was refined to more closely correlate with the valuation methodologies used for merchant activities.

(d) Includes only the risk related to the financial instruments that serve as hedges and does not include the related underlying hedged item.

Accounting Policies

Accounting policies for price risk management and hedging activities are described in Note 1 to the Consolidated Financial Statements.

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Information Regarding Forward-Looking Statements

This Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts contained in this document are forward-looking statements. Forward-looking statements include, but are not limited to, statements relating to expansion opportunities for the Transportation Services, extension of Enron's business model to new markets and industries, demand in the market for broadband services and high bandwidth applications, transaction volumes in the U.S. power market, commencement of commercial operations of new power plants and pipeline projects, completion of the sale of certain assets and growth in the demand for retail energy outsourcing solutions. When used in this document, the words "anticipate," "believe," "estimate," "expects," "intend," "may," "project," "plan," "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Although Enron believes that its expectations reflected in these forward-looking statements are based on reasonable assumptions, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include success in marketing natural gas and power to wholesale customers; the ability of Enron to penetrate new retail natural gas and electricity markets (including energy outsourcing markets) in the United States and foreign jurisdictions; development of Enron's broadband network and customer demand for intermediation and content services; the timing, extent and market effects of deregulation of energy markets in the United States, including the current energy market conditions in California, and in foreign jurisdictions; other regulatory developments in the United States and in foreign countries, including tax legislation and regulations; political developments in foreign countries; the extent of efforts by governments to privatize natural gas and electric utilities and other industries; the timing and extent of changes in commodity prices for crude oil, natural gas, electricity, foreign currency and interest rates; the extent of success in acquiring oil and gas properties and in discovering, developing, producing and marketing reserves; the timing and success of Enron's efforts to develop international power, pipeline and other infrastructure projects; the effectiveness of Enron's risk management activities; the ability of counterparties to financial risk management instruments and other contracts with Enron to meet their financial commitments to Enron; and Enron's ability to access the capital markets and equity markets during the periods covered by the forward-looking statements, which will depend on general market conditions and Enron's ability to maintain the credit ratings for its unsecured senior long-term debt obligations.

Management's Responsibility for Financial Reporting

The following financial statements of Enron Corp. and subsidiaries (collectively, Enron) were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and necessarily include some amounts that are based on the best estimates and judgments of management.

The system of internal controls of Enron is designed to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition. This system is augmented by written policies and guidelines and the careful selection and training of qualified personnel. It should be recognized, however, that there are inherent limitations in the effectiveness of any system of internal control. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the preparation of reliable financial statements and safeguarding of assets. Further, because of changes in conditions, internal control system effectiveness may vary over time.

Enron assessed its internal control system as of December 31, 2000, 1999 and 1998, relative to current standards of control criteria. Based upon this assessment, management believes that its system of internal controls was adequate during the periods to provide reasonable assurance as to the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition.

Arthur Andersen LLP was engaged to audit the financial statements of Enron and issue reports thereon. Their audits included developing an overall understanding of Enron's accounting systems, procedures and internal controls and conducting tests and other auditing procedures sufficient to support their opinion on the financial statements. Arthur Andersen LLP was also engaged to examine and report on management's assertion about the effectiveness of Enron's system of internal controls. The Reports of Independent Public Accountants appear in this Annual Report.

The adequacy of Enron's financial controls and the accounting principles employed in financial reporting are under the general oversight of the Audit Committee of Enron Corp.'s Board of Directors. No member of this committee is an officer or employee of Enron. The independent public accountants have direct access to the Audit Committee, and they meet with the committee from time to time, with and without financial management present, to discuss accounting, auditing and financial reporting matters.

Reports Of Independent Public Accountants

To the Shareholders and Board of Directors of Enron Corp.:

We have examined management's assertion that the system of internal control of Enron Corp. (an Oregon corporation) and subsidiaries as of December 31, 2000, 1999 and 1998 was adequate to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition, included in the accompanying report on Management's Responsibility for Financial Reporting. Management is responsible for maintaining effective internal control over the reliability of financial statements and the protection of assets against unauthorized acquisition, use or disposition. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examinations were made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the system of internal control, testing and evaluating the design and operating effectiveness of the system of internal control and such other procedures as we considered necessary in the circumstances. We believe that our examinations provide a reasonable basis for our opinion.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the system of internal control to future periods are subject to the risk that the system of internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the system of internal control of Enron Corp. and its subsidiaries as of December 31, 2000, 1999 and 1998 was adequate to provide reasonable assurance as to the reliability of financial statements and the protection of assets from unauthorized acquisition, use or disposition is fairly stated, in all material respects, based upon current standards of control criteria.

Arthur Andersen LLP

Houston, Texas
February 23, 2001

To the Shareholders and Board of Directors of Enron Corp.:

We have audited the accompanying consolidated balance sheet of Enron Corp. (an Oregon corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of Enron Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Enron Corp. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 18 to the consolidated financial statements, Enron Corp. and subsidiaries changed its method of accounting for costs of start-up activities and its method of accounting for certain contracts involved in energy trading and risk management activities in the first quarter of 1999.

Arthur Andersen LLP

Houston, Texas
February 23, 2001

Enron Corp. and Subsidiaries Consolidated Income Statement

(In millions, except per share amounts)	Year ended December 31, 2000	1999	1998
Revenues			
Natural gas and other products	$ 50,500	$19,536	$13,276
Electricity	33,823	15,238	13,939
Metals	9,234	-	-
Other	7,232	5,338	4,045
Total revenues	100,789	40,112	31,260
Costs and Expenses			
Cost of gas, electricity, metals and other products	94,517	34,761	26,381
Operating expenses	3,184	3,045	2,473
Depreciation, depletion and amortization	855	870	827
Taxes, other than income taxes	280	193	201
Impairment of long-lived assets	-	441	-
Total costs and expenses	98,836	39,310	29,882
Operating Income	1,953	802	1,378
Other Income and Deductions			
Equity in earnings of unconsolidated equity affiliates	87	309	97
Gains on sales of non-merchant assets	146	541	56
Gains on the issuance of stock by TNPC, Inc.	121	-	-
Interest income	212	162	88
Other income, net	(37)	181	(37)
Income Before Interest, Minority Interests and Income Taxes	2,482	1,995	1,582
Interest and related charges, net	838	656	550
Dividends on company-obligated preferred securities of subsidiaries	77	76	77
Minority interests	154	135	77
Income tax expense	434	104	175
Net income before cumulative effect of accounting changes	979	1,024	703
Cumulative effect of accounting changes, net of tax	-	(131)	-
Net Income	979	893	703
Preferred stock dividends	83	66	17
Earnings on Common Stock	$ 896	$ 827	$ 686
Earnings Per Share of Common Stock			
Basic			
Before cumulative effect of accounting changes	$ 1.22	$ 1.36	$ 1.07
Cumulative effect of accounting changes	-	(0.19)	-
Basic earnings per share	$ 1.22	$ 1.17	$ 1.07
Diluted			
Before cumulative effect of accounting changes	$ 1.12	$ 1.27	$ 1.01
Cumulative effect of accounting changes	-	(0.17)	-
Diluted earnings per share	$ 1.12	$ 1.10	$ 1.01
Average Number of Common Shares Used in Computation			
Basic	736	705	642
Diluted	814	769	695

Enron Corp. and Subsidiaries Consolidated Statement of Comprehensive Income

(In millions)	Year ended December 31, 2000	1999	1998
Net Income	$ 979	$ 893	$ 703
Other comprehensive income:			
Foreign currency translation adjustment and other	(307)	(579)	(14)
Total Comprehensive Income	$ 672	$ 314	$ 689

The accompanying notes are an integral part of these consolidated financial statements.

Enron Corp. and Subsidiaries Consolidated Balance Sheet

(In millions, except shares) December 31,	2000	1999
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,374	$ 288
Trade receivables (net of allowance for doubtful accounts of $133 and $40, respectively)	10,396	3,030
Other receivables	1,874	518
Assets from price risk management activities	12,018	2,205
Inventories	953	598
Deposits	2,433	81
Other	1,333	535
Total current assets	30,381	7,255
Investments and Other Assets		
Investments in and advances to unconsolidated equity affiliates	5,294	5,036
Assets from price risk management activities	8,988	2,929
Goodwill	3,638	2,799
Other	5,459	4,681
Total investments and other assets	23,379	15,445
Property, Plant and Equipment, at cost		
Natural gas transmission	6,916	6,948
Electric generation and distribution	4,766	3,552
Fiber-optic network and equipment	839	379
Construction in progress	682	1,120
Other	2,256	1,913
	15,459	13,912
Less accumulated depreciation, depletion and amortization	3,716	3,231
Property, plant and equipment, net	11,743	10,681
Total Assets	$65,503	$33,381

The accompanying notes are an integral part of these consolidated financial statements.

02780

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December 31,	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 9,777	$ 2,154
Liabilities from price risk management activities	10,495	1,836
Short-term debt	1,679	1,001
Customers' deposits	4,277	44
Other	2,178	1,724
Total current liabilities	28,406	6,759
Long-Term Debt	8,550	7,151
Deferred Credits and Other Liabilities		
Deferred income taxes	1,644	1,894
Liabilities from price risk management activities	9,423	2,990
Other	2,692	1,587
Total deferred credits and other liabilities	13,759	6,471
Commitments and Contingencies (Notes 13, 14 and 15)		
Minority Interests	2,414	2,430
Company-Obligated Preferred Securities of Subsidiaries	904	1,000
Shareholders' Equity		
Second preferred stock, cumulative, no par value, 1,370,000 shares authorized, 1,240,933 shares and 1,296,184 shares issued, respectively	124	130
Mandatorily Convertible Junior Preferred Stock, Series B, no par value, 250,000 shares issued	1,000	1,000
Common stock, no par value, 1,200,000,000 shares authorized, 752,205,112 shares and 716,865,081 shares issued, respectively	8,348	6,637
Retained earnings	3,226	2,698
Accumulated other comprehensive income	(1,048)	(741)
Common stock held in treasury, 577,066 shares and 1,337,714 shares, respectively	(32)	(49)
Restricted stock and other	(148)	(105)
Total shareholders' equity	11,470	9,570
Total Liabilities and Shareholders' Equity	$65,503	$33,381

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Enron Corp. and Subsidiaries Consolidated Statement of Cash Flows

(In millions)	Year ended December 31, 2000	1999	1998
Cash Flows From Operating Activities			
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 979	$ 893	$ 703
Cumulative effect of accounting changes	-	131	-
Depreciation, depletion and amortization	855	870	827
Impairment of long-lived assets (including equity investments)	326	441	-
Deferred income taxes	207	21	87
Gains on sales of non-merchant assets	(146)	(541)	(82)
Changes in components of working capital	1,769	(1,000)	(233)
Net assets from price risk management activities	(763)	(395)	350
Merchant assets and investments:			
Realized gains on sales	(104)	(756)	(628)
Proceeds from sales	1,838	2,217	1,434
Additions and unrealized gains	(1,295)	(827)	(721)
Other operating activities	1,113	174	(97)
Net Cash Provided by Operating Activities	4,779	1,228	1,640
Cash Flows From Investing Activities			
Capital expenditures	(2,381)	(2,363)	(1,905)
Equity investments	(933)	(722)	(1,659)
Proceeds from sales of non-merchant assets	494	294	239
Acquisition of subsidiary stock	(485)	-	(180)
Business acquisitions, net of cash acquired (see Note 2)	(777)	(311)	(104)
Other investing activities	(182)	(405)	(356)
Net Cash Used in Investing Activities	(4,264)	(3,507)	(3,965)
Cash Flows From Financing Activities			
Issuance of long-term debt	3,994	1,776	1,903
Repayment of long-term debt	(2,337)	(1,837)	(870)
Net increase (decrease) in short-term borrowings	(1,595)	1,565	(158)
Net issuance (redemption) of company-obligated preferred securities of subsidiaries	(96)	-	8
Issuance of common stock	307	852	867
Issuance of subsidiary equity	500	568	828
Dividends paid	(523)	(467)	(414)
Net disposition of treasury stock	327	139	13
Other financing activities	(6)	(140)	89
Net Cash Provided by Financing Activities	571	2,456	2,266
Increase (Decrease) in Cash and Cash Equivalents	1,086	177	(59)
Cash and Cash Equivalents, Beginning of Year	288	111	170
Cash and Cash Equivalents, End of Year	$ 1,374	$ 288	$ 111
Changes in Components of Working Capital			
Receivables	$(8,203)	$ (662)	$(1,055)
Inventories	1,336	(133)	(372)
Payables	7,167	(246)	433
Other	1,469	41	761
Total	$ 1,769	$(1,000)	$ (233)

The accompanying notes are an integral part of these consolidated financial statements.

02782

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Enron Corp. and Subsidiaries Consolidated Statement of Changes in Shareholders' Equity

(In millions, except per share amounts; shares in thousands)	2000		1999		1998	
	Shares	Amount	Shares	Amount	Shares	Amount
Cumulative Second Preferred Convertible Stock						
Balance, beginning of year	1,296	$ 130	1,320	$ 132	1,338	$ 134
Exchange of convertible preferred stock for common stock	(55)	(6)	(24)	(2)	(18)	(2)
Balance, end of year	1,241	$ 124	1,296	$ 130	1,320	$ 132
Mandatorily Convertible Junior Preferred Stock, Series B						
Balance, beginning of year	250	$ 1,000	-	$ -	-	$ -
Issuances	-	-	250	1,000	-	-
Balance, end of year	250	$ 1,000	250	$1,000	-	$ -
Common Stock						
Balance, beginning of year	716,865	$ 6,637	671,094	$5,117	636,594	$4,224
Exchange of convertible preferred stock for common stock	1,509	6	465	(1)	-	(7)
Issuances related to benefit and dividend reinvestment plans	28,100	966	10,054	258	-	45
Sales of common stock	-	-	27,600	839	34,500	836
Issuances of common stock in business acquisitions (see Note 2)	5,731	409	7,652	250	-	-
Other	-	330	-	174	-	19
Balance, end of year	752,205	$ 8,348	716,865	$6,637	671,094	$5,117
Retained Earnings						
Balance, beginning of year		$ 2,698		$2,226		$1,852
Net income		979		893		703
Cash dividends						
Common stock ($0.5000, $0.5000 and $0.4812 per share in 2000, 1999 and 1998, respectively)		(368)		(355)		(312)
Cumulative Second Preferred Convertible Stock ($13.652, $13.652 and $13.1402 per share in 2000, 1999 and 1998, respectively)		(17)		(17)		(17)
Series A and B Preferred Stock		(66)		(49)		-
Balance, end of year		$ 3,226		$2,698		$2,226
Accumulated Other Comprehensive Income						
Balance, beginning of year		$ (741)		$ (162)		$ (148)
Translation adjustments and other		(307)		(579)		(14)
Balance, end of year		$ (1,048)		$ (741)		$ (162)
Treasury Stock						
Balance, beginning of year	(1,338)	$ (49)	(9,334)	$ (195)	(14,102)	$ (269)
Shares acquired	(3,114)	(234)	(1,845)	(71)	(2,236)	(61)
Exchange of convertible preferred stock for common stock	-	-	181	4	486	9
Issuances related to benefit and dividend reinvestment plans	3,875	251	9,660	213	6,426	124
Issuances of treasury stock in business acquisitions	-	-	-	-	92	2
Balance, end of year	(577)	$ (32)	(1,338)	$ (49)	(9,334)	$ (195)
Restricted Stock and Other						
Balance, beginning of year		$ (105)		$ (70)		$ (175)
Issuances related to benefit and dividend reinvestment plans		(43)		(35)		105
Balance, end of year		$ (148)		$ (105)		$ (70)
Total Shareholders' Equity		$11,470		$9,570		$7,048

The accompanying notes are an integral part of these consolidated financial statements.

02783

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Enron Corp. and Subsidiaries Notes to the Consolidated Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy and Use of Estimates

The accounting and financial reporting policies of Enron Corp. and its subsidiaries conform to generally accepted accounting principles and prevailing industry practices. The consolidated financial statements include the accounts of all subsidiaries controlled by Enron Corp. after the elimination of significant intercompany accounts and transactions.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

"Enron" is used from time to time herein as a collective reference to Enron Corp. and its subsidiaries and affiliates. The businesses of Enron are conducted by its subsidiaries and affiliates whose operations are managed by their respective officers.

Cash Equivalents

Enron records as cash equivalents all highly liquid short-term investments with original maturities of three months or less.

Inventories

Inventories consist primarily of commodities, priced at market as such inventories are used in trading activities.

Depreciation, Depletion and Amortization

The provision for depreciation and amortization with respect to operations other than oil and gas producing activities is computed using the straight-line or regulatorily mandated method, based on estimated economic lives. Composite depreciation rates are applied to functional groups of property having similar economic characteristics. The cost of utility property units retired, other than land, is charged to accumulated depreciation.

Provisions for depreciation, depletion and amortization of proved oil and gas properties are calculated using the units-of-production method.

Income Taxes

Enron accounts for income taxes using an asset and liability approach under which deferred assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases (see Note 5).

Earnings Per Share

Basic earnings per share is computed based upon the weighted-average number of common shares outstanding during the periods. Diluted earnings per share is computed based upon the weighted-average number of common shares outstanding plus the assumed issuance of common shares for all potentially dilutive securities. All share and per share amounts have been adjusted to reflect the August 13, 1999 two-for-one stock split. See Note 11 for a reconciliation of the basic and diluted earnings per share computations.

Accounting for Price Risk Management

Enron engages in price risk management activities for both trading and non-trading purposes. Instruments utilized in connection with trading activities are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, swaps, options, energy transportation contracts utilized for trading activities and other instruments with third parties are reflected at fair value and are shown as "Assets and Liabilities from Price Risk Management Activities" in the Consolidated Balance Sheet. These activities also include the commodity risk management component embedded in energy outsourcing contracts. Unrealized gains and losses from newly originated contracts, contract restructurings and the impact of price movements are recognized as "Other Revenues." Changes in the assets and liabilities from price risk management activities result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlement relative to the receipt of cash for certain contracts. The market prices used to value these transactions reflect management's best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments.

Financial instruments are also utilized for non-trading purposes to hedge the impact of market fluctuations on assets, liabilities, production and other contractual commitments. Hedge accounting is utilized in non-trading activities when there is a high degree of correlation between price movements in the derivative and the item designated as being hedged. In instances where the anticipated correlation of price movements does not occur, hedge accounting is terminated and future changes in the value of the financial instruments are recognized as gains or losses. If the hedged item is sold, the value of the financial instrument is recognized in income. Gains and losses on financial instruments used for hedging purposes are recognized in the Consolidated Income Statement in the same manner as the hedged item.

The cash flow impact of financial instruments is reflected as cash flows from operating activities in the Consolidated Statement of Cash Flows. See Note 3 for further discussion of Enron's price risk management activities.

Accounting for Development Activity

Development costs related to projects, including costs of feasibility studies, bid preparation, permitting, licensing and contract negotiation, are expensed as incurred until the project is estimated to be probable. At that time, such costs are capitalized or expensed as incurred, based on the nature of the costs incurred. Capitalized development costs may be recovered through reimbursements from joint venture partners or other third parties, or classified as part of the investment and recovered through the cash flows from that project. Accumulated capitalized project development costs are otherwise expensed in the period that management determines it is probable that the costs will not be recovered.

Environmental Expenditures

Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate based on the nature of the costs incurred. Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated.

Computer Software

Direct costs of materials and services consumed in developing or obtaining software, including payroll and payroll-related costs for employees who are directly associated with and who devote time to the software project are capitalized. Costs may begin to be capitalized once the application development stage has begun. All other costs are expensed as incurred. Enron amortizes the costs on a straight-line basis over the useful life of the software. Impairment is evaluated based on changes in the expected usefulness of the software. At December 31, 2000 and 1999, Enron has capitalized, net of amortization, $381 million and $240 million, respectively, of software costs covering numerous systems, including trading and settlement, accounting, billing, and upgrades.

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are accounted for by the equity method, except for certain investments resulting from Enron's merchant investment activities which are included at market value in "Other Investments" in the Consolidated Balance Sheet. See Notes 4 and 9. Where acquired assets are accounted for under the equity method based on temporary control, earnings or losses are recognized only for the portion of the investment to be retained.

Sale of Subsidiary Stock

Enron accounts for the issuance of stock by its subsidiaries in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) 51. SAB 51 allows for Enron to recognize a gain in the amount that the offering price per share of a subsidiary's stock exceeds Enron's carrying amount per share.

Foreign Currency Translation

For international subsidiaries, asset and liability accounts are translated at year-end rates of exchange and revenue and expenses are translated at average exchange rates prevailing during the year. For subsidiaries whose functional currency is deemed to be other than the U.S. dollar, translation adjustments are included as a separate component of other comprehensive income and shareholders' equity. Currency transaction gains and losses are recorded in income.

During 1999, the exchange rate for the Brazilian real to the U.S. dollar declined, resulting in a non-cash foreign currency translation adjustment reducing the value of Enron's assets and shareholders' equity by approximately $600 million.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for prior years to conform with the current presentation.

2 BUSINESS ACQUISITIONS AND DISPOSITIONS

In 2000, Enron, through a wholly-owned subsidiary, acquired all of the outstanding common shares of MG plc, a leading independent international metals market-making business that provides financial and marketing services to the global metals industry, for $413 million in cash and assumed debt of approximately $1.6 billion.

In addition, Enron made other acquisitions including a technology-related company, a facility maintenance company and all minority shareholders' interests in Enron Energy Services, LLC and Enron Renewable Energy Corp. Enron issued 5.7 million shares of Enron common stock, contributed common stock and warrants of an unconsolidated equity affiliate and paid cash in these transactions.

On August 16, 1999, Enron exchanged approximately 62.3 million shares (approximately 75%) of the Enron Oil & Gas Company (EOG) common stock it held for all of the stock of EOGI-India, Inc., a subsidiary of EOG. Also in August 1999, Enron received net proceeds of approximately $190 million for the sale of 8.5 million shares of EOG common stock in a public offering and issued approximately $255 million of public debt that is exchangeable in July 2002 into approximately 11.5 million shares of EOG common stock. As a result of the share exchange and share sale, Enron recorded a pre-tax gain of $454 million ($345 million after tax, or $0.45 per diluted share) in 1999. As of August 16, 1999, EOG is no longer included in Enron's consolidated financial statements. EOGI-India, Inc. is included in the consolidated financial statements within the Wholesale Services segment following the exchange and sale. Enron accounts for its oil and gas exploration and production activities under the successful efforts method of accounting.

In August 1998, Enron, through a wholly-owned subsidiary, completed the acquisition of a controlling interest in Elektro Eletricidade e Serviços S.A. (Elektro) for approximately $1.3 billion. Elektro was initially accounted for using the equity method based on temporary control. In 1999, after the acquisition of additional interests, Elektro was consolidated by Enron.

Additionally, during 1999 and 1998, Enron acquired generation, natural gas distribution, renewable energy, telecommunications and energy management businesses for cash, Enron and subsidiary stock and notes.

Enron has accounted for these acquisitions using the purchase method of accounting as of the effective date of each transaction. Accordingly, the purchase price of each transaction has been allocated based upon the estimated fair value of the assets and liabilities acquired as of the acquisition date, with the excess reflected as goodwill in the Consolidated Balance Sheet. This and all other goodwill is being amortized on a straight-line basis over 5 to 40 years.

Assets acquired, liabilities assumed and consideration paid as a result of businesses acquired were as follows:

(In millions)	2000	1999	1998[a]
Fair value of assets acquired,			
other than cash	$ 2,641	$ 376	$ 269
Goodwill	963	(71)	94
Fair value of liabilities assumed	(2,418)	6	(259)
Common stock of Enron issued and			
equity of an unconsolidated			
equity affiliate contributed	(409)	-	-
Net cash paid	$ 777	$ 311	$ 104

(a) Excludes amounts related to the 1998 acquisition of Elektro.

On November 8, 1999, Enron announced that it had entered into an agreement to sell Enron's wholly-owned electric utility subsidiary, Portland General Electric Company (PGE), to Sierra Pacific Resources for $2.1 billion. Sierra Pacific Resources will also assume approximately $1 billion in PGE debt and preferred stock. The transaction has been delayed by the effect of recent events in California and Nevada on the buyer. Enron's carrying amount of PGE as of December 31, 2000 was approximately $1.6 billion. Income before interest, minority interest and income taxes for PGE was $338 million, $298 million and $284 million for 2000, 1999 and 1998, respectively.

3 PRICE RISK MANAGEMENT ACTIVITIES AND FINANCIAL INSTRUMENTS

Trading Activities

Enron offers price risk management services to wholesale, commercial and industrial customers through a variety of financial and other instruments including forward contracts involving physical delivery, swap agreements, which require payments to (or receipt of payments from) counterparties based on the differential between a fixed and variable price for the commodity, options and other contractual arrangements. Interest rate risks and foreign currency risks associated with the fair value of the commodity portfolio are managed using a variety of financial instruments, including financial futures.

Notional Amounts and Terms. The notional amounts and terms of these instruments at December 31, 2000 are shown below (dollars in millions):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Commodities[a]			
Natural gas	7,331	6,910	23
Crude oil and liquids	3,513	1,990	6
Electricity	2,424	2,388	24
Metals, coal and pulp and paper	368	413	9
Bandwidth	167	325	11
Financial products			
Interest rate[b]	$4,732	$3,977	29
Foreign currency	$ 79	$ 465	22
Equity investments[c]	$2,998	$3,768	13

(a) *Natural gas, crude oil and liquids and electricity volumes are in TBtue; metals, coal and pulp and paper volumes are in millions of metric tonnes; and bandwidth volumes are in thousands of terabytes.*

(b) *The interest rate fixed price receiver includes the net notional dollar value of the interest rate sensitive component of the combined commodity portfolio. The remaining interest rate fixed price receiver and the entire interest rate fixed price payor represent the notional contract amount of a portfolio of various financial instruments used to hedge the net present value of the commodity portfolio. For a given unit of price protection, different financial instruments require different notional amounts.*

(c) *Excludes derivatives on Enron common stock. See Notes 10 and 11.*

Enron also has sales and purchase commitments associated with commodity contracts based on market prices totaling 8,169 TBtue, with terms extending up to 16 years, and 7.2 million metric tonnes, with terms extending up to 5 years.

Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Enron's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time in response to the company's price risk management needs to the extent available in the market.

The volumetric weighted average maturity of Enron's fixed price portfolio as of December 31, 2000 was approximately 1.5 years.

Fair Value. The fair value as of December 31, 2000 and the average fair value of instruments related to price risk management activities held during the year are set forth below:

	Fair Value as of 12/31/00		Average Fair Value for the Year Ended 12/31/00[a]	
(In millions)	Assets	Liabilities	Assets	Liabilities
Natural gas	$10,270	$ 9,342	$ 5,525	$ 5,114
Crude oil and liquids	1,549	3,574	1,402	2,745
Electricity	7,335	5,396	3,453	1,613
Other commodities	1,509	1,311	988	757
Equity investments	795	295	492	280
Total	$21,458	$19,918	$11,860	$10,509

(a) *Computed using the ending balance at each month-end.*

The income before interest, taxes and certain unallocated expenses arising from price risk management activities for 2000 was $1,899 million.

Securitizations. From time to time, Enron sells interests in certain of its financial assets. Some of these sales are completed in securitizations, in which Enron concurrently enters into swaps associated with the underlying assets which limits the risks assumed by the purchaser. Such swaps are adjusted to fair value using quoted market prices, if available, or estimated fair value based on management's best estimate of the present value of future cash flow. These swaps are included in Price Risk Management activities above as equity investments. During 2000, gains from sales representing securitizations were $381 million and proceeds were $2,379 million ($545 million of the proceeds related to sales to Whitewing Associates, L.P. (Whitewing)). See Notes 4 and 9. Purchases of securitized merchant financial assets totaled $1,184 million during 2000. Amounts primarily related to equity interests.

Credit Risk. In conjunction with the valuation of its financial instruments, Enron provides reserves for credit risks associated with such activity. Credit risk relates to the risk of loss that Enron would incur as a result of nonperformance by counterparties pursuant to the terms of their contractual obligations. Enron maintains credit policies with regard to its counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential counterparties' financial condition (including credit rating), collateral requirements under certain circumstances and the use of standardized agreements which allow for the netting of positive and negative exposures associated with a single counterparty. Enron also minimizes this credit exposure using monetization of its contract portfolio or third-party insurance contracts.

02786

The counterparties associated with assets from price risk management activities as of December 31, 2000 and 1999 are summarized as follows:

	2000		1999	
(In millions)	Investment Grade[a]	Total	Investment Grade[a]	Total
Gas and electric utilities	$ 5,050	$ 5,327	$1,461	$1,510
Energy marketers	4,677	6,124	544	768
Financial institutions	4,145	4,917	1,016	1,273
Independent power producers	672	791	471	641
Oil and gas producers	1,308	2,804	379	688
Industrials	607	1,138	336	524
Other	256	357	59	67
Total	$16,715	21,458	$4,266	5,471
Credit and other reserves		(452)		(337)
Assets from price risk management activities[b]		$21,006[c]		$5,134

(a) *"Investment Grade" is primarily determined using publicly available credit ratings along with consideration of cash, standby letters of credit, parent company guarantees and property interests, including oil and gas reserves. Included in "Investment Grade" are counterparties with a minimum Standard & Poor's or Moody's rating of BBB- or Baa3, respectively.*

(b) *One and two customers' exposures, respectively, at December 31, 2000 and 1999 comprise greater than 5% of Assets From Price Risk Management Activities and are included above as Investment Grade.*

(c) *At December 31, 2000, Enron held collateral of approximately $5.5 billion, which consists substantially of cash deposits shown as "Customers' Deposits" on the balance sheet.*

This concentration of counterparties may impact Enron's overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. Based on Enron's policies, its exposures and its credit reserves, Enron does not anticipate a materially adverse effect on financial position or results of operations as a result of counterparty nonperformance.

During 2000, the California power market was significantly impacted by the increase in wholesale power prices. California customer rates are currently frozen, requiring the utilities to finance the majority of their power purchases. If wholesale prices remain at the current levels and no regulatory relief or legislative assistance is obtained, certain California utilities may need to seek bankruptcy protection. During 2000, Enron entered into wholesale power transactions with California utilities, including their nonregulated power marketing affiliates. Enron has provided credit reserves related to such activities based on Enron's net position with each California utility. Due to the uncertainties surrounding the California power situation, management cannot predict the ultimate outcome but believes these matters will not have a material adverse impact on Enron's financial condition.

Non-Trading Activities

Enron also enters into financial instruments such as swaps and other contracts primarily for the purpose of hedging the impact of market fluctuations on assets, liabilities, production or other contractual commitments.

Energy Commodity Price Swaps. At December 31, 2000, Enron was a party to energy commodity price swaps covering 18.6 TBtu, 29.9 TBtu and 0.5 TBtu of natural gas for the years 2001, 2002 and 2003, respectively, and 0.3 million barrels of crude oil for the year 2001.

Interest Rate Swaps. At December 31, 2000, Enron had entered into interest rate swap agreements with an aggregate notional principal amount of $1.0 billion to manage interest rate exposure. These swap agreements are scheduled to terminate $0.4 billion in 2001 and $0.6 billion in the period 2002 through 2010.

Foreign Currency Contracts. At December 31, 2000, foreign currency contracts with a notional principal amount of $1.4 billion were outstanding. These contracts will expire $1.0 billion in 2001 and $0.4 billion in the period 2002 through 2006.

Equity Contracts. At December 31, 2000, Enron had entered into Enron common stock swaps, with an aggregate notional amount of $121 million, to hedge certain incentive-based compensation plans. Such contracts will expire in 2001.

Credit Risk. While notional amounts are used to express the volume of various financial instruments, the amounts potentially subject to credit risk, in the event of nonperformance by the third parties, are substantially smaller. Forwards, futures and other contracts are entered into with counterparties who are equivalent to investment grade. Accordingly, Enron does not anticipate any material impact to its financial position or results of operations as a result of nonperformance by the third parties on financial instruments related to non-trading activities.

Financial Instruments

The carrying amounts and estimated fair values of Enron's financial instruments, excluding trading activities, at December 31, 2000 and 1999 were as follows:

	2000		1999	
(In millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Short- and long-term debt (Note 7)	$10,229	$10,217	$8,152	$8,108
Company-obligated preferred securities of subsidiaries (Note 10)	904	920	1,000	937
Energy commodity price swaps	-	68	-	(3)
Interest rate swaps	-	1	-	(55)
Foreign currency contracts	-	94	-	-
Equity contracts	15	15	4	4

Enron uses the following methods and assumptions in estimating fair values: (a) short- and long-term debt - the carrying amount of variable-rate debt approximates fair value, the fair value of marketable debt is based on quoted market prices and the fair value of other debt is based on the discounted present value of cash flows using Enron's current borrowing rates; (b) company-obligated preferred securities of subsidiaries - the fair value is based on quoted market prices, where available, or based on the discounted present value of cash flows using Enron's current borrowing rates if not publicly traded; and (c) energy commodity price swaps, interest rate swaps, foreign currency contracts and equity contracts - estimated fair values have been determined using available market data and valuation methodologies. Judgment is necessarily required in interpreting market data and the use of different market assumptions or estimation methodologies may affect the estimated fair value amounts.

The fair market value of cash and cash equivalents, trade and other receivables, accounts payable and investments accounted for at fair value are not materially different from their carrying amounts.

Guarantees of liabilities of unconsolidated entities and residual value guarantees have no carrying value and fair values which are not readily determinable (see Note 15).

4 MERCHANT ACTIVITIES

An analysis of the composition of Enron's merchant investments and energy assets at December 31, 2000 and 1999 is as follows:

	December 31,	
(In millions)	2000	1999
Merchant investments[(a)]		
Energy	$137	$ 516
Energy-intensive industries	63	218
Technology-related	99	11
Other	302	341
	601	1,086
Merchant assets[(b)]		
Independent power plants	53	152
Natural gas transportation	36	35
	89	187
Total	$690	$1,273

(a) Investments are recorded at fair value in "Other Assets" with changes in fair value reflected in "Other Revenues."
(b) Amounts represent Enron's investment in unconsolidated equity affiliates with operating earnings reflected in "Equity in Earnings of Unconsolidated Equity Affiliates."

Enron provides capital primarily to energy and technology-related businesses seeking debt or equity financing. The merchant investments made by Enron and certain of its unconsolidated affiliates (see Note 9) are carried at fair value and include public and private equity, government securities with maturities of more than 90 days, debt and interests in limited partnerships. The valuation methodologies utilize market values of publicly-traded securities, independent appraisals and cash flow analyses.

Also included in Enron's wholesale business are investments in merchant assets such as power plants and natural gas pipelines, primarily held through equity method investments. Some of these assets were developed, constructed and operated by Enron. The merchant assets are not expected to be long-term, integrated components of Enron's energy networks.

For the years ended December 31, 2000, 1999 and 1998, respectively, pre-tax gains from sales of merchant assets and investments totaling $104 million, $756 million and $628 million are included in "Other Revenues," and proceeds were $1,838 million, $2,217 million and $1,434 million.

5 INCOME TAXES

The components of income before income taxes are as follows:

(In millions)	2000	1999	1998
United States	$ 640	$ 357	$197
Foreign	773	771	681
	$1,413	$1,128	$878

Total income tax expense is summarized as follows:

(In millions)	2000	1999	1998
Payable currently			
Federal	$112	$ 29	$ 30
State	22	6	8
Foreign	93	48	50
	227	83	88
Payment deferred			
Federal	13	(159)	(14)
State	14	23	11
Foreign	180	157	90
	207	21	87
Total income tax expense[(a)]	$434	$104	$175

(a) See Note 11 for tax benefits related to stock options exercised by employees reflected in shareholders' equity.

The differences between taxes computed at the U.S. federal statutory tax rate and Enron's effective income tax rate are as follows:

	2000	1999	1998
Statutory federal income tax provision	35.0%	35.0%	35.0%
Net state income taxes	2.5	1.8	1.7
Foreign tax rate differential	(2.4)	(7.0)	0.8
Equity earnings	5.3	(10.1)	(4.3)
Basis and stock sale differences	(11.9)	(10.8)	(14.2)
Goodwill amortization	1.6	1.6	2.0
Audit settlement related to Monthly Income Preferred Shares	-	(1.8)	-
Other	0.6	0.5	(1.0)
	30.7%	9.2%	20.0%

The principal components of Enron's net deferred income tax liability are as follows:

	December 31,	
(In millions)	2000	1999
Deferred income tax assets		
Alternative minimum tax credit carryforward	$ 254	$ 220
Net operating loss carryforward	369	1,302
Other	189	188
	812	1,710
Deferred income tax liabilities		
Depreciation, depletion and amortization	1,813	1,807
Price risk management activities	(182)	1,133
Other	963	782
	2,594	3,722
Net deferred income tax liabilities[(a)]	$1,782	$2,012

(a) Includes $138 million and $118 million in other current liabilities for 2000 and 1999, respectively.

Enron has an alternative minimum tax (AMT) credit carryforward of approximately $254 million which can be used to offset regular income taxes payable in future years. The AMT credit has an indefinite carryforward period.

Enron has a net operating loss carryforward applicable to U.S. subsidiaries of approximately $65 million, which will begin to expire in 2011. Enron has a net operating loss carryforward applicable to non-U.S. subsidiaries of approximately $1.2 billion, of which $1.0 billion can be carried forward indefinitely. The remaining $200 million expires between the years 2001 and 2010. Deferred tax assets have been recognized on the $65 million domestic loss and $1.0 billion of the foreign losses.

U.S. and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted to the U.S. Foreign subsidiaries' cumulative undistributed earnings of approximately $1.8 billion are considered to be permanently reinvested outside the U.S. and, accordingly, no U.S. income taxes have been provided thereon. In the event of a distribution of those earnings in the form of dividends, Enron may be subject to both foreign withholding taxes and U.S. income taxes net of allowable foreign tax credits.

6 SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes and interest expense, including fees incurred on sales of accounts receivable, is as follows:

(In millions)	2000	1999	1998
Income taxes (net of refunds)	$ 62	$ 51	$ 73
Interest (net of amounts capitalized)	834	678	585

Non-Cash Activity

In 2000, Enron acquired all minority shareholders' interests in Enron Energy Services, LLC and other businesses with Enron common stock. See Note 2.

In 2000 and 1999, Enron entered into various transactions with related parties, which resulted in an exchange of assets and an increase in common stock of $171 million in 2000. See Note 16.

In 2000, a partnership in which Enron was a limited partner made a liquidating distribution to Enron resulting in a non-cash increase in current assets of $220 million, a decrease of $20 million in non-current assets and an increase in current liabilities of $160 million.

During 2000 and 1999, Enron received the rights to specific third-party fiber-optic cable in exchange for the rights on specific fiber-optic cable held for sale by Enron. These exchanges resulted in non-cash increases in assets of $69 million and $111 million, respectively.

During 1999, Enron issued approximately 7.6 million shares of common stock in connection with the acquisition, by an unconsolidated equity affiliate, of interests in three power plants in New Jersey.

In December 1998, Enron extinguished its 6.25% Exchangeable Notes with 10.5 million shares of EOG common stock.

7 CREDIT FACILITIES AND DEBT

Enron has credit facilities with domestic and foreign banks which provide for an aggregate of $1.4 billion in long-term committed credit, of which $150 million relates to Portland General, and $2.4 billion in short-term committed credit. Expiration dates of the committed facilities range from February 2001 to May 2005. Interest rates on borrowings are based upon the London Interbank Offered Rate, certificate of deposit rates or other short-term interest rates. Certain credit facilities contain covenants which must be met to borrow funds. Such debt covenants are not anticipated to materially restrict Enron's ability to borrow funds under such facilities. Compensating balances are not required, but Enron is required to pay a commitment or facility fee. At December 31, 2000, $290 million was outstanding under these facilities.

Enron has also entered into agreements which provide for uncommitted lines of credit totaling $420 million at December 31, 2000. The uncommitted lines have no stated expiration dates. Neither compensating balances nor commitment fees are required, as borrowings under the uncommitted credit lines are available subject to agreement by the participating banks. At December 31, 2000, no amounts were outstanding under the uncommitted lines.

In addition to borrowing from banks on a short-term basis, Enron and certain of its subsidiaries sell commercial paper to provide financing for various corporate purposes. As of December 31, 2000 and 1999, short-term borrowings of $15 million and $330 million, respectively, and long-term debt due within one year of $1,303 million and $670 million, respectively, have been reclassified as long-term debt based upon the availability of committed credit facilities with expiration dates exceeding one year and management's intent to maintain such amounts in excess of one year. Weighted average interest rates on short-term debt outstanding at December 31, 2000 and 1999 were 6.9% and 6.4%, respectively.

Detailed information on long-term debt is as follows:

	December 31,	
(In millions)	2000	1999
Enron Corp.		
Senior debentures		
6.75% to 8.25% due 2006 to 2012	$ 282	$ 318
Notes payable[a]		
7.00% exchangeable notes due 2002	532	239
6.40% to 9.88% due 2001 to 2028	4,416	4,114
Floating rate notes due 2000 to 2005	92	79
Other	242	34
Northern Natural Gas Company		
Notes payable		
6.75% to 7.00% due 2005 to 2011	500	500
Transwestern Pipeline Company		
Notes payable		
9.20% due 2004	11	15
Portland General		
First mortgage bonds		
6.47% to 9.46% due 2000 to 2023	328	373
Pollution control bonds		
Various rates due 2010 to 2033	200	200
Other	282	129
Other	414	204
Amount reclassified from short-term debt	1,318	1,000
Unamortized debt discount and premium	(47)	(54)
Total long-term debt	$8,550	$7,151

(a) Includes debt denominated in foreign currencies of approximately $885 million and $525 million, respectively, at December 31, 2000 and 1999. Enron has entered into derivative transactions to hedge interest rate and foreign currency exchange fluctuations associated with such debt. See Note 3.

The indenture securing Portland General's First Mortgage Bonds constitutes a direct first mortgage lien on substantially all electric utility property and franchises, other than expressly excepted property.

The aggregate annual maturities of long-term debt outstanding at December 31, 2000 were $2,112 million, $750 million, $852 million, $646 million and $1,592 million for 2001 through 2005, respectively.

In February 2001, Enron issued $1.25 billion zero coupon convertible senior notes that mature in 2021. The notes carry a 2.125 percent yield to maturity with an aggregate face value of $1.9 billion and may be converted, upon certain contingencies being met, into Enron common stock at an initial conversion premium of 45 percent.

8 MINORITY INTERESTS

Enron's minority interests at December 31, 2000 and 1999 include the following:

(In millions)	2000	1999
Majority-owned limited liability company and limited partnerships	$1,759	$1,773
Elektro[a]	462	475
Other	193	182
	$2,414	$2,430

(a) Relates to the respective parents of Elektro, which had minority shareholders in 2000 and 1999.

Enron has formed separate limited partnerships and a limited liability company with third-party investors for various purposes. These entities are included in Enron's consolidated financial statements, with the third-party investors' interests reflected in "Minority Interests" in the Consolidated Balance Sheet.

In October 2000, Enron contributed approximately $1.0 billion of net assets to a wholly-owned limited liability company. A third party contributed $500 million for a preferred membership

02789

interest in the limited liability company. The contribution by the third party was invested in highly liquid investment grade securities (including Enron notes) and short-term receivables. At December 31, 2000, the majority-owned limited liability company held net assets of $1.0 billion.

During 1999, third-party investors contributed cash and merchant investments totaling $1.0 billion to Enron-sponsored entities to invest in highly liquid investment grade securities (including Enron notes) and short-term receivables. The merchant investments, totaling $500 million, were sold prior to December 31, 1999. During 2000, Enron acquired a portion of the minority shareholder's interest for $485 million.

In 1998, Enron formed a wholly-owned limited partnership for the purpose of holding $1.6 billion of assets contributed by Enron. That partnership contributed $850 million of assets and a third party contributed $750 million to a second newly-formed limited partnership. The assets held by the wholly-owned limited partnership represent collateral for a $750 million note receivable held by the second limited partnership. In 2000 and 1999, the wholly-owned and second limited partnerships sold assets valued at approximately $152 million and $460 million, respectively, and invested the proceeds in Enron notes.

Absent certain defaults or other specified events, Enron has the option to acquire the minority holders' interests in these partnerships. Enron has the option to acquire the minority holder's interest in the limited liability company after November 2002. If Enron does not acquire the minority holders' interests before December 2004 through May 2009, or earlier upon certain specified events, the minority interest holders may cause the entities to liquidate their assets and dissolve.

In 2000, as part of a restructuring, Jacaré Electrical Distribution Trust (Jacaré) sold a 47 percent interest in Enron Brazil Power Holdings V Ltd, a subsidiary that holds its investment in Elektro, to Whitewing for approximately $460 million. See Note 9. The proceeds were used to acquire the original minority shareholder's interest in Jacaré.

In 2000, Enron acquired all minority shareholders' interests in Enron Energy Services, LLC and Enron Renewable Energy Corp. See Note 2.

9 UNCONSOLIDATED EQUITY AFFILIATES

Enron's investment in and advances to unconsolidated affiliates which are accounted for by the equity method is as follows:

(In millions)	Net Voting Interest[a]	December 31, 2000	December 31, 1999
Azurix Corp.	34%	$ 325	$ 762
Bridgeline Holdings	40%	229	-
Citrus Corp.	50%	530	480
Dabhol Power Company	50%	693	466
Joint Energy Development Investments L.P. (JEDI)[b]	50%	399	211
Joint Energy Development Investments II L.P. (JEDI II)[b]	50%	220	162
SK – Enron Co. Ltd.	50%	258	269
Transportadora de Gas del Sur S.A.	35%	479	452
Whitewing Associates, L.P.[b]	50%	558	662
Other		1,603	1,572
		$5,294[c]	$5,036[c]

(a) Certain investments have income sharing ratios which differ from Enron's voting interests.
(b) JEDI and JEDI II account for their investments at fair value. Whitewing accounts for certain of its investments at fair value. These affiliates held fair value investments totaling $1,823 million and $1,128 million, respectively at December 31, 2000 and 1999.
(c) At December 31, 2000 and 1999, the unamortized excess of Enron's investment in unconsolidated affiliates was $182 million and $179 million, respectively which is being amortized over the expected lives of the investments.

Enron's equity in earnings (losses) of unconsolidated equity affiliates is as follows:

(In millions)	2000	1999	1998
Azurix Corp.[a]	$(428)	$ 23	$ 6
Citrus Corp.	50	25	23
Dabhol Power Company	51	30	-
Joint Energy Development Investments L.P.	197	11	(45)
Joint Energy Development Investments II, L.P.	58	92	(4)
TNPC, Inc. (The New Power Company)	(60)	-	-
Transportadora de Gas del Sur S.A.	38	32	36
Whitewing Associates, L.P.	58	9	-
Other	123	87	81
	$ 87	$309	$ 97

(a) During the fourth quarter of 2000, Azurix Corp. (Azurix) impaired the carrying value of its Argentine assets, resulting in a charge of approximately $470 million. Enron's portion of the charge was $326 million.

Summarized combined financial information of Enron's unconsolidated affiliates is presented below:

(In millions)	December 31, 2000	December 31, 1999
Balance sheet		
Current assets[a]	$ 5,884	$ 3,168
Property, plant and equipment, net	14,786	14,356
Other noncurrent assets	13,485	9,459
Current liabilities[a]	4,739	4,401
Long-term debt[a]	9,717	8,486
Other noncurrent liabilities	6,148	2,402
Owners' equity	13,551	11,694

(a) Includes $410 million and $227 million receivable from Enron and $302 million and $84 million payable to Enron at December 31, 2000 and 1999, respectively.

(In millions)	2000	1999	1998
Income statement[a]			
Operating revenues	$15,903	$11,568	$8,508
Operating expenses	14,710	9,449	7,244
Net income	586	1,857	142
Distributions paid to Enron	137	482	87

(a) Enron recognized revenues from transactions with unconsolidated equity affiliates of $510 million in 2000, $674 million in 1999 and $563 million in 1998.

In 2000 and 1999, Enron sold approximately $632 million and $192 million, respectively, of merchant investments and other assets to Whitewing. Enron recognized no gains or losses in connection with these transactions. Additionally, in 2000, ECT Merchant Investments Corp., a wholly-owned Enron subsidiary, contributed two pools of merchant investments to a limited partnership that is a subsidiary of Enron. Subsequent to the contributions, the partnership issued partnership interests representing 100% of the beneficial, economic interests in the two asset pools, and such interests were sold for a total of $545 million to a limited liability company that is a subsidiary of Whitewing. See Note 3. These entities are separate legal entities from Enron and have separate assets and liabilities. In 2000 and 1999, the Related Party, as described in Note 16, contributed $33 million and $15 million, respectively, of equity to Whitewing. In 2000, Whitewing contributed $7.1 million to a partnership formed by Enron, Whitewing and a third party. Subsequently, Enron sold a portion of its interest in the partnership through a securitization. See Note 3.

In 2000, The New Power Company sold warrants convertible into common stock of The New Power Company for $50 million to the Related Party (described in Note 16).

From time to time, Enron has entered into various administrative service, management, construction, supply and operating

02790

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agreements with its unconsolidated equity affiliates. Enron's management believes that its existing agreements and transactions are reasonable compared to those which could have been obtained from third parties.

10 PREFERRED STOCK

Preferred Stock

Enron has authorized 16,500,000 shares of preferred stock, no par value. At December 31, 2000, Enron had outstanding 1,240,933 shares of Cumulative Second Preferred Convertible Stock (the Convertible Preferred Stock), no par value. The Convertible Preferred Stock pays dividends at an amount equal to the higher of $10.50 per share or the equivalent dividend that would be paid if shares of the Convertible Preferred Stock were converted to common stock. Each share of the Convertible Preferred Stock is convertible at any time at the option of the holder thereof into 27.304 shares of Enron's common stock, subject to certain adjustments. The Convertible Preferred Stock is currently subject to redemption at Enron's option at a price of $100 per share plus accrued dividends. During 2000, 1999 and 1998, 55,251 shares, 23,664 shares and 17,797 shares, respectively, of the Convertible Preferred Stock were converted into common stock.

In 1999, all outstanding shares of Series A Preferred Stock held by Whitewing were exchanged for 250,000 shares of Enron Mandatorily Convertible Junior Preferred Stock, Series B (Series B Preferred Stock). Also in 1999, Enron entered into a Share Settlement Agreement under which Enron could be obligated, under certain circumstances, to deliver additional shares of common stock or Series B Preferred Stock to Whitewing for the amount that the market price of the converted Enron common shares is less than $28 per share. In 2000, Enron increased the strike price in the Share Settlement Agreement to $48.55 per share in exchange for an additional capital contribution in Whitewing by third-party investors. The number of shares of Series B Preferred Stock authorized equals the number of shares necessary to satisfy Enron's obligation under the Share Settlement Agreement. Absent certain defaults or other specified events, Enron has the option to acquire the third-party investors' interests. If Enron does not acquire the third-party investors' interests before January 2003, or earlier upon certain specified events, Whitewing may liquidate its assets and dissolve. At December 31, 2000, Enron had outstanding 250,000 shares of Series B Preferred Stock with a liquidation value of $1.0 billion. The Series B Preferred Stock pays semi-annual cash dividends at an annual rate of 6.50%. Each share of Series B Preferred Stock is mandatorily convertible into 200 shares of Enron common stock on January 15, 2003 or earlier upon the occurrence of certain events.

In connection with the 1998 financial restructuring (yielding proceeds of approximately $1.2 billion) of Enron's investment in Azurix, Enron committed to cause the sale of Enron convertible preferred stock, if certain debt obligations of the related entity which acquired an interest in Azurix, are defaulted upon, or in certain events, including, among other things, Enron's credit ratings fall below specified levels. If the sale of the convertible preferred stock is not sufficient to retire such obligations, Enron would be liable for the shortfall. Such obligations will mature in December 2001. The number of common shares issuable upon conversion is based on future common stock prices.

Company-Obligated Preferred Securities of Subsidiaries

Summarized information for Enron's company-obligated preferred securities of subsidiaries is as follows:

(In millions, except per share amounts and shares)	December 31, 2000	1999	Liquidation Value Per Share
Enron Capital LLC			
8% Cumulative Guaranteed Monthly Income Preferred Shares (8,550,000 shares)[a]	$214	$ 214	$ 25
Enron Capital Trust I			
8.3% Trust Originated Preferred Securities (8,000,000 preferred securities)[a]	200	200	25
Enron Capital Trust II			
8 1/8% Trust Originated Preferred Securities (6,000,000 preferred securities)[a]	150	150	25
Enron Capital Trust III			
Adjustable-Rate Capital Trust Securities (200,000 preferred securities)	-	200	1,000
LNG Power II L.L.C.			
6.74% Preference Units (105,000 shares)[b]	105	-	1,000
Enron Equity Corp.			
8.57% Preferred Stock (880 shares)[a]	88	88	100,000
7.39% Preferred Stock (150 shares)[a][c]	15	15	100,000
Enron Capital Resources, L.P.			
9% Cumulative Preferred Securities, Series A (3,000,000 preferred securities)[a]	75	75	25
Other	57	58	
	$904	$1,000	

(a) Redeemable under certain circumstances after specified dates.
(b) Initial rate is 6.74% increasing to 7.79%.
(c) Mandatorily redeemable in 2006.

02791

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11 COMMON STOCK

Earnings Per Share

The computation of basic and diluted earnings per share is as follows:

(In millions, except per share amounts)	Year Ended December 31, 2000	1999	1998
Numerator:			
Basic			
Income before cumulative effect of accounting changes	$ 979	$1,024	$ 703
Preferred stock dividends:			
Second Preferred Stock	(17)	(17)	(17)
Series A Preferred Stock	-	(30)	-
Series B Preferred Stock	(66)	(19)	-
Income available to common shareholders before cumulative effect of accounting changes	896	958	686
Cumulative effect of accounting changes	-	(131)	-
Income available to common shareholders	$ 896	$ 827	$ 686
Diluted			
Income available to common shareholders before cumulative effect of accounting changes	$ 896	$ 958	$ 686
Effect of assumed conversion of dilutive securities[(a)]:			
Second Preferred Stock	17	17	17
Income before cumulative effect of accounting changes	913	975	703
Cumulative effect of accounting changes	-	(131)	-
Income available to common shareholders after assumed conversions	$ 913	$ 844	$ 703
Denominator:			
Denominator for basic earnings per share - weighted-average shares	736	705	642
Effect of dilutive securities:			
Preferred stock	35	36	36
Stock options	43	28	17
Dilutive potential common shares	78	64	53
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	814	769	695
Basic earnings per share:			
Before cumulative effect of accounting changes	$1.22	$ 1.36	$1.07
Cumulative effect of accounting changes	-	(0.19)	-
Basic earnings per share	$1.22	$ 1.17	$1.07
Diluted earnings per share:			
Before cumulative effect of accounting changes	$1.12	$ 1.27	$1.01
Cumulative effect of accounting changes	-	(0.17)	-
Diluted earnings per share	$1.12	$ 1.10	$1.01

(a) The Series A Preferred Stock and the Series B Preferred Stock were not included in the calculation of diluted earnings per share because conversion of these shares would be antidilutive.

Derivative Instruments

At December 31, 2000, Enron had derivative instruments (excluding amounts disclosed in Note 10) on 54.8 million shares of Enron common stock, of which approximately 12 million shares are with JEDI and 22.5 million are with related parties (see Note 16), at an average price of $67.92 per share on which Enron was a fixed price payor. Shares potentially deliverable to counterparties under the contracts are assumed to be outstanding in calculating diluted earnings per share unless they are antidilutive. At December 31, 2000, there were outstanding non-employee options to purchase 6.4 million shares of Enron common stock at an exercise price of $19.59 per share.

Stock Option Plans

Enron applies Accounting Principles Board (APB) Opinion 25 and related interpretations in accounting for its stock option plans. In accordance with APB Opinion 25, no compensation expense has been recognized for the fixed stock option plans. Compensation expense charged against income for the restricted stock plan for 2000, 1999 and 1998 was $220 million, $131 million and $58 million, respectively. Had compensation cost for Enron's stock option compensation plans been determined based on the fair value at the grant dates for awards under those plans, Enron's net income and earnings per share would have been $886 million ($1.09 per share basic, $1.01 per share diluted) in 2000, $827 million ($1.08 per share basic, $1.01 per share diluted) in 1999 and $674 million ($1.02 per share basic, $0.97 per share diluted) in 1998.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions for grants in 2000, 1999 and 1998, respectively: (i) dividend yield of 2.4%, 2.4% and 2.5%; (ii) expected volatility of 22.3%, 20.0% and 18.3%; (iii) risk-free interest rates of 5.8%, 5.6% and 5.0%; and (iv) expected lives of 3.2 years, 3.7 years and 3.8 years.

Enron has four fixed option plans (the Plans) under which options for shares of Enron's common stock have been or may be granted to officers, employees and non-employee members of the Board of Directors. Options granted may be either incentive stock options or nonqualified stock options and are granted at not less than the fair market value of the stock at the time of grant. Under the Plans, Enron may grant options with a maximum term of 10 years. Options vest under varying schedules.

02792

Summarized information for Enron's Plans is as follows:

(Shares in thousands)	2000 Shares	2000 Weighted Average Exercise Price	1999 Shares	1999 Weighted Average Exercise Price	1998 Shares	1998 Weighted Average Exercise Price
Outstanding,						
beginning of year	93,531	$26.74	79,604	$19.60	78,858	$17.89
Granted	39,167	70.02	35,118	37.49	15,702	24.99
Exercised[a]	(32,235)	24.43	(19,705)	18.08	(13,072)	15.70
Forfeited	(4,358)	35.68	(1,465)	24.51	(1,498)	19.77
Expired	(42)	23.75	(21)	18.79	(386)	19.76
Outstanding, end of year	96,063	$44.24	93,531	$26.74	79,604	$19.60
Exercisable, end of year	46,755	$29.85	52,803	$22.56	45,942	$18.16
Available for grant, end of year[b]	22,066		24,864		10,498	
Weighted average fair value of options granted		$13.35		$ 7.24		$ 4.20

(a) In 2000, Enron recorded tax benefits related to stock options exercised by employees of approximately $390 million reflected in shareholders' equity.
(b) Includes up to 20,707,969 shares, 22,140,962 shares and 10,497,670 shares as of December 31, 2000, 1999 and 1998, respectively, which may be issued either as restricted stock or pursuant to stock options.

The following table summarizes information about stock options outstanding at December 31, 2000 (shares in thousands):

Range of Exercise Prices	Options Outstanding: Number Outstanding at 12/31/00	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Exercisable at 12/31/00	Options Exercisable: Weighted Average Exercise Price
$ 6.88 to $ 20.00	15,368	4.7	$16.72	14,001	$16.54
20.06 to 34.81	24,091	6.8	24.79	18,304	24.13
35.03 to 47.31	21,520	6.8	40.52	8,731	40.27
50.48 to 69.00	13,965	6.5	60.18	4,072	61.81
71.06 to 86.63	21,119	5.6	79.69	1,647	72.36
	96,063	6.2	$44.24	46,755	$29.85

Restricted Stock Plan

Under Enron's Restricted Stock Plan, participants may be granted stock without cost to the participant. The shares granted under this plan vest to the participants at various times ranging from immediate vesting to vesting at the end of a five-year period. Upon vesting, the shares are released to the participants. The following summarizes shares of restricted stock under this plan:

(Shares in thousands)	2000	1999	1998
Outstanding, beginning of year	6,781	6,034	5,074
Granted	2,243	2,672	2,122
Released to participants	(2,201)	(1,702)	(1,064)
Forfeited	(1,444)	(223)	(98)
Outstanding, end of year	5,379	6,781	6,034
Available for grant, end of year	20,708	22,141	10,498
Weighted average fair value of restricted stock granted	$67.69	$37.38	$23.70

12 PENSION AND OTHER BENEFITS

Enron maintains a retirement plan (the Enron Plan) which is a noncontributory defined benefit plan covering substantially all employees in the United States and certain employees in foreign countries. The benefit accrual is in the form of a cash balance of 5% of annual base pay.

Portland General has a noncontributory defined benefit pension plan (the Portland General Plan) covering substantially all of its employees. Benefits under the Portland General Plan are based on years of service, final average pay and covered compensation.

Enron Facility Services has a noncontributory defined benefit pension plan (the EFS Plan) covering substantially all of its employees. Benefits under the EFS Plan are based on years of service, final average pay and covered compensation.

Enron also maintains a noncontributory employee stock ownership plan (ESOP) which covers all eligible employees. Allocations to individual employees' retirement accounts within the ESOP offset a portion of benefits earned under the Enron Plan. All shares included in the ESOP have been allocated to the employee accounts. At December 31, 2000 and 1999, 12,600,271 shares and 17,241,731 shares, respectively, of Enron common stock were held by the ESOP, a portion of which may be used to offset benefits under the Enron Plan.

Assets of the Enron Plan, the Portland General Plan and the EFS Plan are comprised primarily of equity securities, fixed income securities and temporary cash investments. It is Enron's policy to fund all pension costs accrued to the extent required by federal tax regulations.

Enron provides certain postretirement medical, life insurance and dental benefits to eligible employees and their eligible dependents. Benefits are provided under the provisions of contributory defined dollar benefit plans. Enron is currently funding that portion of its obligations under these postretirement benefit plans which are expected to be recoverable through rates by its regulated pipelines and electric utility operations.

Enron accrues these postretirement benefit costs over the service lives of the employees expected to be eligible to receive such benefits. Enron is amortizing the transition obligation which existed at January 1, 1993 over a period of approximately 19 years.

The following table sets forth information related to changes in the benefit obligations, changes in plan assets, a reconciliation of the funded status of the plans and components of the expense recognized related to Enron's pension and other postretirement plans:

02793

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(in millions)	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Change in benefit obligation				
Benefit obligation, beginning of year	$708	$687	$120	$134
Service cost	33	32	2	2
Interest cost	53	49	10	9
Plan participants' contributions	-	-	4	3
Plan amendments	-	6	-	-
Actuarial loss (gain)	9	(51)	10	(12)
Acquisitions and divestitures	-	36	-	-
Effect of curtailment and settlements [a]	(2)	(8)	-	-
Benefits paid	(55)	(43)	(22)	(16)
Benefit obligation, end of year	$746	$708	$124	$120
Change in plan assets				
Fair value of plan assets, beginning of year [b]	$853	$774	$ 68	$ 60
Actual return on plan assets	41	80	(4)	7
Acquisitions and divestitures	-	37	-	-
Employer contribution	19	5	7	6
Plan participants' contributions	-	-	4	3
Benefits paid	(55)	(43)	(11)	(8)
Fair value of plan assets, end of year [b]	$858	$853	$ 64	$ 68
Reconciliation of funded status, end of year				
Funded status, end of year	$112	$145	$ (60)	$ (52)
Unrecognized transition obligation (asset)	(6)	(13)	44	48
Unrecognized prior service cost	25	32	12	14
Unrecognized net actuarial loss (gain)	55	11	(17)	(29)
Prepaid (accrued) benefit cost	$186	$175	$ (21)	$ (19)
Weighted-average assumptions at December 31				
Discount rate	7.75%	7.75%	7.75%	7.75%
Expected return on plan assets (pre-tax)	(c)	(c)	(d)	(d)
Rate of compensation increase	(e)	(e)	(e)	(e)
Components of net periodic benefit cost				
Service cost	$ 33	$ 32	$ 2	$ 2
Interest cost	53	49	10	9
Expected return on plan assets	(76)	(70)	(4)	(4)
Amortization of transition obligation (asset)	(6)	(6)	4	4
Amortization of prior service cost	5	5	1	1
Recognized net actuarial loss (gain)	-	3	(1)	-
Effect of curtailment and settlements [a]	-	(6)	-	6
Net periodic benefit cost	$ 10	$ 7	$ 12	$ 18

(a) Represents one-time nonrecurring events including the exchange and sale of EOG (see Note 2) and certain employees ceasing participation in the Portland General Plan as a result of union negotiations.

(b) Includes plan assets of the ESOP of $116 million and $127 million at December 31, 2000 and 1999, respectively.

(c) Long-term rate of return on assets is assumed to be 10.5% for the Enron Plan, 9.0% for the Portland General Plan and 9.5% for the EFS Plan.

(d) Long-term rate of return on assets is assumed to be 7.5% for the Enron assets and 9.5% for the Portland General assets.

(e) Rate of compensation increase is assumed to be 4.0% for the Enron Plan, 4.0% to 9.5% for the Portland General Plan and 5.0% for the EFS Plan.

Included in the above amounts are the unfunded obligations for the supplemental executive retirement plans. At both December 31, 2000 and 1999, the projected benefit obligation for these unfunded plans was $56 million and the fair value of assets was $1 million.

The measurement date of the Enron Plan and the ESOP is September 30, and the measurement date of the Portland General Plan, the EFS Plan and the postretirement benefit plans is December 31. The funded status as of the valuation date of the Enron Plan, the Portland General Plan, the ESOP and the postretirement benefit plans reconciles with the amount detailed above which is included in "Other Assets" on the Consolidated Balance Sheet.

For measurement purposes, 6% and 10% annual rates of increase in the per capita cost of covered health care benefits were assumed for the period 2000 to 2001 for the Enron and Portland General postretirement plans, respectively. The rates were assumed to decrease to 5% by 2002 and 2010 for the Enron and Portland General postretirement plans, respectively. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

(In millions)	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$0.4	$(0.3)
Effect on postretirement benefit obligation	$4.4	$(3.8)

Additionally, certain Enron subsidiaries maintain various incentive based compensation plans for which participants may receive a combination of cash or stock options, based upon the achievement of certain performance goals.

13 RATES AND REGULATORY ISSUES

Rates and regulatory issues related to certain of Enron's natural gas pipelines and its electric utility operations are subject to final determination by various regulatory agencies. The domestic interstate pipeline operations are regulated by the Federal Energy Regulatory Commission (FERC) and the electric utility operations are regulated by the FERC and the Oregon Public Utility Commission (OPUC). As a result, these operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," which recognizes the economic effects of regulation and, accordingly, Enron has recorded regulatory assets and liabilities related to such operations.

The regulated pipelines operations' net regulatory assets were $290 million and $250 million at December 31, 2000 and 1999, respectively, and are expected to be recovered over varying time periods.

The electric utility operations' net regulatory assets were $450 million and $494 million at December 31, 2000 and 1999, respectively. Based on rates in place at December 31, 2000, Enron estimates that it will collect substantially all of its regulatory assets within the next 11 years.

Pipeline Operations

On April 16, 1999, Northern Natural Gas Company (Northern) filed an uncontested Stipulation and Agreement of Settlement (Settlement) with the FERC and an order approving the Settlement was issued by the FERC on June 18, 1999. The rates effectuated by Northern on November 1, 1999 remain in effect. On May 1, 2000, Northern filed to implement an optional volumetric firm throughput service. An order approving such service was issued November 8, 2000 with effectiveness November 1, 2000; a rehearing request is pending. On November 1, 2000, Northern filed to increase its rates for the recovery of return and taxes on its System Levelized Account.

On November 22, 2000, the FERC issued an order approving the rates, subject to refund.

On November 1, 2000, Transwestern Pipeline Company implemented a rate escalation of settled transportation rates in accordance with its May 1995 global settlement, as amended in May 1996. On August 23, 1999, Transwestern filed for a new service, Enhanced Firm Backhaul. An order by the FERC was issued February 23, 2000, approving the service.

Electric Utility Operations

On October 2, 2000 PGE filed a restructuring plan with the OPUC that implements the provisions of the State Senate Bill SB1149, signed into law in July 1999. The new law provides industrial and commercial customers of investor-owned utilities in the state direct access to competing energy suppliers by October 1, 2001. As filed, PGE's plan also proposes an increase in base rates, with new tariffs effective on October 1, 2001. PGE is a 67.5% owner of the Trojan Nuclear Plant (Trojan). In September 2000, PGE entered into an agreement with the OPUC related to Trojan. See Note 14. At December 31, 2000, PGE's regulatory asset related to recovery of Trojan decommissioning costs from customers was $190 million.

Enron believes, based upon its experience to date and after considering appropriate reserves that have been established, that the ultimate resolution of pending regulatory matters will not have a material impact on Enron's financial position or results of operations.

14 LITIGATION AND OTHER CONTINGENCIES

Enron is a party to various claims and litigation, the significant items of which are discussed below. Although no assurances can be given, Enron believes, based on its experience to date and after considering appropriate reserves that have been established, that the ultimate resolution of such items, individually or in the aggregate, will not have a material adverse impact on Enron's financial position or results of operations.

Litigation

In 1995, several parties (the Plaintiffs) filed suit in Harris County District Court in Houston, Texas, against Intratex Gas Company (Intratex), Houston Pipe Line Company and Panhandle Gas Company (collectively, the Enron Defendants), each of which is a wholly-owned subsidiary of Enron. The Plaintiffs were either sellers or royalty owners under numerous gas purchase contracts with Intratex, many of which have terminated. Early in 1996, the case was severed by the Court into two matters to be tried (or otherwise resolved) separately. In the first matter, the Plaintiffs alleged that the Enron Defendants committed fraud and negligent misrepresentation in connection with the "Panhandle program," a special marketing program established in the early 1980s. This case was tried in October 1995 and resulted in a verdict for the Enron Defendants. In the second matter, the Plaintiffs allege that the Enron Defendants violated state regulatory requirements and certain gas purchase contracts by failing to take the Plaintiffs' gas ratably with other producers' gas at certain times between 1978 and 1988. The trial court certified a class action with respect to ratability claims. On March 9, 2000, the Texas Supreme Court ruled that the trial court's class certification was improper and remanded the case to the trial court. The Enron Defendants deny the Plaintiffs' claims and have asserted various affirmative defenses, including the statute of limitations. The Enron Defendants believe that they have strong legal and factual defenses, and intend to vigorously contest the claims. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

On November 21, 1996, an explosion occurred in or around the Humberto Vidal Building in San Juan, Puerto Rico. The explosion resulted in fatalities, bodily injuries and damage to the building and surrounding property. San Juan Gas Company, Inc. (San Juan Gas), an Enron affiliate, operated a propane/air distribution system in the vicinity, but did not provide service to the building. Enron, San Juan Gas, four affiliates and their insurance carriers were named as defendants, along with several third parties, including The Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Telephone Company, Heath Consultants Incorporated, Humberto Vidal, Inc. and their insurance carriers, in numerous lawsuits filed in U.S. District Court for the District of Puerto Rico and the Superior Court of Puerto Rico. These suits seek damages for wrongful death, personal injury, business interruption and property damage allegedly caused by the explosion. After nearly four years without determining the cause of the explosion, all parties have agreed not to litigate further that issue, but to move these suits toward settlements or trials to determine whether each plaintiff was injured as a result of the explosion and, if so, the lawful damages attributable to such injury. The defendants have agreed on a fund for settlements or final awards. Numerous claims have been settled. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

Trojan Investment Recovery

In early 1993, PGE ceased commercial operation of the Trojan nuclear power generating facility. The OPUC granted PGE, through a general rate order, recovery of, and a return on, 87 percent of its remaining investment in Trojan.

The OPUC's general rate order related to Trojan has been subject to litigation in various state courts, including rulings by the Oregon Court of Appeals and petitions to the Oregon Supreme Court filed by parties opposed to the OPUC's order, including the Utility Reform Project (URP) and the Citizens Utility Board (CUB).

In August 2000, PGE entered into agreements with CUB and the staff of the OPUC to settle the litigation related to PGE's recovery of its investment in the Trojan plant. Under the agreements, CUB agreed to withdraw from the litigation and to support the settlement as the means to resolve the Trojan litigation. The OPUC approved the accounting and ratemaking elements of the settlement on September 29, 2000. As a result of these approvals, PGE's investment in Trojan is no longer included in rates charged to customers, either through a return on or a return of that investment. Collection of ongoing decommissioning costs at Trojan is not affected by the settlement agreements or the September 29, 2000 OPUC order. With CUB's withdrawal, URP is the one remaining significant adverse party in the litigation. URP has indicated that it plans to continue to challenge the OPUC order allowing PGE recovery of its investment in Trojan.

Enron cannot predict the outcome of these actions. Although no assurances can be given, Enron believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position or results of operations.

Environmental Matters

Enron is subject to extensive federal, state and local environmental laws and regulations. These laws and regulations require expenditures in connection with the construction of new facilities, the operation of existing facilities and for remediation at various operating sites. The implementation of the Clean Air Act Amendments is expected to result in increased operating expenses. These increased operating expenses are not expected to have a material impact on Enron's financial position or results of operations.

Enron's natural gas pipeline companies conduct soil and groundwater remediation on a number of their facilities. Enron does not expect to incur material expenditures in connection with soil and groundwater remediation.

15 COMMITMENTS

Firm Transportation Obligations

Enron has firm transportation agreements with various joint venture and other pipelines. Under these agreements, Enron must make specified minimum payments each month. At December 31, 2000, the estimated aggregate amounts of such required future payments were $91 million, $88 million, $89 million, $85 million and $77 million for 2001 through 2005, respectively, and $447 million for later years.

The costs recognized under firm transportation agreements, including commodity charges on actual quantities shipped, totaled $68 million, $55 million and $30 million in 2000, 1999 and 1998, respectively.

Other Commitments

Enron leases property, operating facilities and equipment under various operating leases, certain of which contain renewal and purchase options and residual value guarantees. Future commitments related to these items at December 31, 2000 were $123 million, $98 million, $69 million, $66 million and $49 million for 2001 through 2005, respectively, and $359 million for later years. Guarantees under the leases total $556 million at December 31, 2000.

Total rent expense incurred during 2000, 1999 and 1998 was $143 million, $143 million and $147 million, respectively.

Enron has entered into two development agreements whereby Enron is required to manage construction of a certain number of power projects on behalf of third-party owners. Under one development agreement, where construction is expected to be completed on or before March 31, 2004, Enron has agreed to enter into power offtake agreements for varying portions of the offtake from each facility. Under both development agreements, Enron maintains purchase options, which may be assigned to a third party. In addition to the purchase option under the other development agreement, Enron maintains lease options on the power projects. If upon completion, which is expected to occur on or before August 31, 2002, Enron has failed to exercise one of its options, Enron may participate in the remarketing of the power projects which Enron has guaranteed the recovery of 89.9 percent of certain project costs, of which approximately $140 million has been incurred through December 31, 2000.

Enron guarantees the performance of certain of its unconsolidated equity affiliates in connection with letters of credit issued on behalf of those entities. At December 31, 2000, a total of $264 million of such guarantees were outstanding, including $103 million on behalf of EOTT Energy Partners, L.P. (EOTT). In addition, Enron is a guarantor on certain liabilities of unconsolidated equity affiliates and other companies totaling approximately $1,863 million at December 31, 2000, including $538 million related to EOTT trade obligations. The EOTT letters of credit and guarantees of trade obligations are secured by the assets of EOTT. Enron has also guaranteed $386 million in lease obligations for which it has been indemnified by an "Investment Grade" company. Management does not consider it likely that Enron would be required to perform or otherwise incur any losses associated with the above guarantees. In addition, certain commitments have been made related to capital expenditures and equity investments planned in 2001.

On December 15, 2000, Enron announced that it had entered into an agreement with Azurix under which the holders of Azurix's approximately 39 million publicly traded shares would receive cash of $8.375 in exchange for each share. The agreement, which is subject to the approval of Azurix shareholders, is expected to close in early 2001.

16 RELATED PARTY TRANSACTIONS

In 2000 and 1999, Enron entered into transactions with limited partnerships (the Related Party) whose general partner's managing member is a senior officer of Enron. The limited partners of the Related Party are unrelated to Enron. Management believes that the terms of the transactions with the Related Party were reasonable compared to those which could have been negotiated with unrelated third parties.

In 2000, Enron entered into transactions with the Related Party to hedge certain merchant investments and other assets. As part of the transactions, Enron (i) contributed to newly-formed entities (the Entities) assets valued at approximately $1.2 billion, including $150 million in Enron notes payable, 3.7 million restricted shares of outstanding Enron common stock and the right to receive up to 18.0 million shares of outstanding Enron common stock in March 2003 (subject to certain conditions) and (ii) transferred to the Entities assets valued at approximately $309 million, including a $50 million note payable and an investment in an entity that indirectly holds warrants convertible into common stock of an Enron equity method investee. In return, Enron received economic interests in the Entities, $309 million in notes receivable, of which $259 million is recorded at Enron's carryover basis of zero, and a special distribution from the Entities in the form of $1.2 billion in notes receivable, subject to changes in the principal for amounts payable by Enron in connection with the execution of additional derivative instruments. Cash in these Entities of $172.6 million is invested in Enron demand notes. In addition, Enron paid $123 million to purchase share-settled options from the Entities on 21.7 million shares of Enron common stock. The Entities paid Enron $10.7 million to terminate the share-settled options on 14.6 million shares of Enron common stock outstanding. In late 2000, Enron entered into share-settled collar arrangements with the Entities on 15.4 million shares of Enron common stock. Such arrangements will be accounted for as equity transactions when settled.

In 2000, Enron entered into derivative transactions with the Entities with a combined notional amount of approximately $2.1 billion to hedge certain merchant investments and other assets. Enron's notes receivable balance was reduced by $36 million as a result of premiums owed on derivative transactions. Enron recognized revenues of approximately $500 million related to the subsequent change in the market value of these derivatives, which offset market value changes of certain merchant investments and price risk management activities. In addition, Enron recognized $44.5 million and $14.1 million of interest income and interest expense, respectively, on the notes receivable from and payable to the Entities.

In 1999, Enron entered into a series of transactions involving a third party and the Related Party. The effect of the transactions was (i) Enron and the third party amended certain forward contracts to purchase shares of Enron common stock, resulting in Enron having forward contracts to purchase Enron common shares at the market price on that day, (ii) the Related Party received 6.8 million shares of Enron common stock subject to certain restrictions and (iii) Enron received a note receivable, which

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was repaid in December 1999, and certain financial instruments hedging an investment held by Enron. Enron recorded the assets received and equity issued at estimated fair value. In connection with the transactions, the Related Party agreed that the senior officer of Enron would have no pecuniary interest in such Enron common shares and would be restricted from voting on matters related to such shares. In 2000, Enron and the Related Party entered into an agreement to terminate certain financial instruments that had been entered into during 1999. In connection with this agreement, Enron received approximately 3.1 million shares of Enron common stock held by the Related Party. A put option, which was originally entered into in the first quarter of 2000 and gave the Related Party the right to sell shares of Enron common stock to Enron at a strike price of $71.31 per share, was terminated under this agreement. In return, Enron paid approximately $26.8 million to the Related Party.

In 2000, Enron sold a portion of its dark fiber inventory to the Related Party in exchange for $30 million cash and a $70 million note receivable that was subsequently repaid. Enron recognized gross margin of $67 million on the sale.

In 2000, the Related Party acquired, through securitizations, approximately $35 million of merchant investments from Enron. In addition, Enron and the Related Party formed partnerships in which Enron contributed cash and assets and the Related Party contributed $17.5 million in cash. Subsequently, Enron sold a portion of its interest in the partnership through securitizations. See Note 3. Also, Enron contributed a put option to a trust in which the Related Party and Whitewing hold equity and debt interests. At December 31, 2000, the fair value of the put option was a $36 million loss to Enron.

In 1999, the Related Party acquired approximately $371 million of merchant assets and investments and other assets from Enron. Enron recognized pre-tax gains of approximately $16 million related to these transactions. The Related Party also entered into an agreement to acquire Enron's interests in an unconsolidated equity affiliate for approximately $34 million.

17 ASSET IMPAIRMENT

In 1999, continued significant changes in state and federal rules regarding the use of MTBE as a gasoline additive have significantly impacted Enron's view of the future prospects for this business. As a result, Enron completed a reevaluation of its position and strategy with respect to its operated MTBE assets which resulted in (i) the purchase of certain previously-leased MTBE related assets, under provisions within the lease, in order to facilitate future actions, including the potential disposal of such assets and (ii) a review of all MTBE-related assets for impairment considering the recent adverse changes and their impact on recoverability. Based on this review and disposal discussions with market participants, in 1999, Enron recorded a $441 million pre-tax charge for the impairment of its MTBE-related assets.

18 ACCOUNTING PRONOUNCEMENTS

Cumulative Effect of Accounting Changes

In 1999, Enron recorded an after-tax charge of $131 million to reflect the initial adoption (as of January 1, 1999) of two new accounting pronouncements, the AICPA Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities" and the Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The 1999 charge was primarily related to the adoption of SOP 98-5.

Recently Issued Accounting Pronouncements

In 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was subsequently amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 must be applied to all derivative instruments and certain derivative instruments embedded in hybrid instruments and requires that such instruments be recorded in the balance sheet either as an asset or liability measured at its fair value through earnings, with special accounting allowed for certain qualifying hedges. Enron will adopt SFAS No. 133 as of January 1, 2001. Due to the adoption of SFAS No. 133, Enron will recognize an after-tax non-cash loss of approximately $5 million in earnings and an after-tax non-cash gain in "Other Comprehensive Income," a component of shareholders' equity, of approximately $22 million from the cumulative effect of a change in accounting principle. Enron will also reclassify $532 million from "Long-Term Debt" to "Other Liabilities" due to the adoption.

The total impact of Enron's adoption of SFAS No. 133 on earnings and on "Other Comprehensive Income" is dependent upon certain pending interpretations, which are currently under consideration, including those related to "normal purchases and normal sales" and inflation escalators included in certain contract payment provisions. The interpretations of these issues, and others, are currently under consideration by the FASB. While the ultimate conclusions reached on interpretations being considered by the FASB could impact the effects of Enron's adoption of SFAS No. 133, Enron does not believe that such conclusions would have a material effect on its current estimate of the impact of adoption.

02797

19 QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is as follows:

(In millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year[(a)]
2000					
Revenues	$13,145	$16,886	$30,007	$40,751	$100,789
Income before interest, minority interests and income taxes	624	609	666	583	2,482
Net income	338	289	292	60	979
Earnings per share:					
Basic	$ 0.44	$ 0.37	$ 0.37	$ 0.05	$ 1.22
Diluted	0.40	0.34	0.34	0.05	1.12
1999					
Revenues	$ 7,632	$ 9,672	$11,835	$10,973	$ 40,112
Income before interest, minority interests and income taxes	533	469	520	473	1,995
Net income	122	222	290	259	893
Earnings per share:					
Basic	$ 0.17	$ 0.29	$ 0.38	$ 0.33	$ 1.17
Diluted	0.16	0.27	0.35	0.31	1.10

(a) The sum of earnings per share for the four quarters may not equal earnings per share for the total year due to changes in the average number of common shares outstanding.

20 GEOGRAPHIC AND BUSINESS SEGMENT INFORMATION

Enron's business is divided into operating segments, defined as components of an enterprise about which financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment. Enron's chief operating decision-making group is the Office of the Chairman.

Enron's chief operating decision-making group evaluates performance and allocates resources based on income before interest, minority interests and income taxes (IBIT) as well as on net income. Certain costs related to company-wide functions are allocated to each segment. However, interest on corporate debt is primarily maintained at Corporate and is not allocated to the segments. Therefore, management believes that IBIT is the dominant measurement of segment profits consistent with Enron's consolidated financial statements. The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 1.

Beginning in 2000, Enron's communications business is being managed as a separate operating segment named Broadband Services and therefore, based on criteria set by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," is reported separately.

Enron has divided its operations into the following reportable segments, based on similarities in economic characteristics, products and services, types of customers, methods of distributions and regulatory environment.

Transportation and Distribution – Regulated industries. Interstate transmission of natural gas. Management and operation of pipelines. Electric utility operations.

Wholesale Services – Energy commodity sales and services, risk management products and financial services to wholesale customers. Development, acquisition and operation of power plants, natural gas pipelines and other energy-related assets.

Retail Energy Services – Sales of natural gas and electricity directly to end-use customers, particularly in the commercial and industrial sectors, including the outsourcing of energy-related activities.

Broadband Services – Construction and management of a nationwide fiber optic network, the marketing and management of bandwidth and the delivery of high-bandwidth content.

Exploration and Production – Natural gas and crude oil exploration and production primarily in the United States, Canada, Trinidad and India until August 16, 1999. See Note 2.

Corporate and Other – Includes operation of water and renewable energy businesses as well as clean fuels plants.

Financial information by geographic and business segment follows for each of the three years in the period ended December 31, 2000.

Geographic Segments

(In millions)	Year Ended December 31, 2000	1999	1998
Operating revenues from unaffiliated customers			
United States	$ 77,891	$30,176	$25,247
Foreign	22,898	9,936	6,013
	$100,789	$40,112	$31,260
Income before interest, minority interests and income taxes			
United States	$ 2,131	$ 1,273	$ 1,008
Foreign	351	722	574
	$ 2,482	$ 1,995	$ 1,582
Long-lived assets			
United States	$ 10,899	$ 8,286	$ 9,382
Foreign	844	2,395	1,275
	$ 11,743	$10,681	$10,657

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Business Segments

(In millions)	Transportation and Distribution	Wholesale Services	Retail Energy Services	Broadband Services	Corporate and Other[d]	Total
2000						
Unaffiliated revenues[a]	$2,742	$93,278	$3,824	$ 408	$ 537	$100,789
Intersegment revenues[b]	213	1,628	791	-	(2,632)	-
Total revenues	2,955	94,906	4,615	408	(2,095)	100,789
Depreciation, depletion and amortization	278	343	38	77	119	855
Operating income (loss)	565	1,668	58	(64)	(274)	1,953
Equity in earnings of unconsolidated equity affiliates	65	486	(60)	1	(405)	87
Gains on sales of assets and investments	25	9	74	-	38	146
Gain on the issuance of stock by TNPC, Inc.	-	-	121	-	-	121
Interest income	6	171	5	3	27	212
Other income, net	71	(74)	(33)	-	(1)	(37)
Income (loss) before interest, minority interests and income taxes	732	2,260	165	(60)	(615)	2,482
Capital expenditures	270	1,280	70	436	325	2,381
Identifiable assets	7,509	43,920	4,266	1,313	3,201	60,209
Investments in and advances to unconsolidated equity affiliates	774	4,014	104	24	378	5,294
Total assets	$8,283	$47,934	$4,370	$1,337	$ 3,579	$ 65,503

(In millions)	Transportation and Distribution	Wholesale Services	Retail Energy Services	Exploration and Production[c]	Corporate and Other[d]	Total
1999						
Unaffiliated revenues[a]	$2,013	$35,501	$1,518	$ 429	$ 651	$ 40,112
Intersegment revenues[b]	19	786	289	97	(1,191)	-
Total revenues	2,032	36,287	1,807	526	(540)	40,112
Depreciation, depletion and amortization	247	294	29	213	87	870
Operating income (loss)	551	889	(81)	66	(623)	802
Equity in earnings of unconsolidated equity affiliates	50	237	-	-	22	309
Gains on sales of assets and investments	19	11	-	-	511	541
Interest income	20	126	5	-	11	162
Other income, net	45	54	8	(1)	75	181
Income (loss) before interest, minority interests and income taxes	685	1,317	(68)	65	(4)	1,995
Capital expenditures	316	1,216	64	226	541	2,363
Identifiable assets	7,148	18,501	956	-	1,740	28,345
Investments in and advances to unconsolidated equity affiliates	811	2,684	-	-	1,541	5,036
Total assets	$7,959	$21,185	$ 956	$ -	$ 3,281	$ 33,381
1998						
Unaffiliated revenues[a]	$1,833	$27,220	$1,072	$ 750	$ 385	$ 31,260
Intersegment revenues[b]	16	505	-	134	(655)	-
Total revenues	1,849	27,725	1,072	884	(270)	31,260
Depreciation, depletion and amortization	253	195	31	315	33	827
Operating income (loss)	562	880	(124)	133	(73)	1,378
Equity in earnings of unconsolidated equity affiliates	33	42	(2)	-	24	97
Gains on sales of assets and investments	31	4	-	-	21	56
Interest income	9	67	-	1	11	88
Other income, net	2	(25)	7	(6)	(15)	(37)
Income (loss) before interest, minority interests and income taxes	637	968	(119)	128	(32)	1,582
Capital expenditures	310	706	75	690	124	1,905
Identifiable assets	6,955	12,205	747	3,001	2,009	24,917
Investments in and advances to unconsolidated equity affiliates	661	2,632	-	-	1,140	4,433
Total assets	$7,616	$14,837	$ 747	$3,001	$ 3,149	$ 29,350

(a) Unaffiliated revenues include sales to unconsolidated equity affiliates.
(b) Intersegment sales are made at prices comparable to those received from unaffiliated customers and in some instances are affected by regulatory considerations.
(c) Reflects results through August 16, 1999. See Note 2.
(d) Includes consolidating eliminations.

02799

Selected Financial and Credit Information (Unaudited)

The following review of the credit characteristics of Enron Corp. and its subsidiaries and affiliates should be read in conjunction with the Consolidated Financial Statements. The credit information that follows represents management's calculation of certain key credit ratios of Enron.

(In millions)	2000	1999	Source
Total Obligations			
Balance sheet debt (short- and long-term)	$10,229	$ 8,152	Balance Sheet
Items added to liability profile:			
Guarantees [(a)]	213	180	Note 15
Residual value guarantees of synthetic leases	556	715	Note 15
Net liability from price risk management activities [(b)]	-	-	Balance Sheet
Debt exchangeable for EOG Resources, Inc. shares [(c)]	(532)	(239)	Note 7
Debt of unconsolidated equity affiliates [(d)]	-	-	Note 9
Firm transportation obligations [(e)]	-	-	Note 15
Total Obligations	$10,466	$ 8,808	
Shareholders' Equity and Certain Other Items			
Shareholders' Equity	$11,470	$ 9,570	Balance Sheet
Items added to shareholders' equity:			
Minority interests	2,414	2,430	Balance Sheet, Note 8
Company-obligated preferred securities of subsidiaries	904	1,000	Balance Sheet, Note 10
Total Shareholders' Equity and Certain Other Items	$14,788	$13,000	
Funds Flow from Operations			
Net cash provided by operating activities	$ 4,779	$ 1,228	Cash Flow Statement
Changes in working capital	1,769	(1,000)	Cash Flow Statement
Funds Flow from Operations	$ 3,010	$ 2,228	
Interest and Estimated Lease Interest Expense			
Interest incurred	$ 876	$ 710	
Capitalized interest	(38)	(54)	Management's Discussion and Analysis
Interest and Related Charges, net	$ 838	$ 656	Income Statement
Estimated Lease Interest Expense [(f)]	$ 106	$ 124	
Adjusted Earnings for Credit Analysis			
Income before interest, minority interests and income taxes	$ 2,482	$ 1,995	Income Statement
Adjustments to IBIT:			
Gain on sales of non-merchant assets	(146)	(541)	Cash Flow Statement
Impairment of long-lived assets (including equity investments)	326	441	Cash Flow Statement
Distributions in excess of (less than) earnings of unconsolidated equity affiliates	(276)	173	Note 9
Estimated lease interest expense [(f)]	106	124	
Total Adjusted Earnings for Credit Analysis	$ 2,492	$ 2,192	
Key Credit Ratios			
Funds flow interest coverage [(g)]	4.07	3.67	
Pretax interest coverage [(h)]	2.54	2.63	
Funds flow from operations/Total obligations	28.8%	25.3%	
Total obligations/Total obligations plus Total shareholders' equity and certain other items	41.4%	40.4%	
Debt/Total Capital [(i)]	40.9%	38.5%	

(a) Management estimates Enron's risk adjusted exposure on uncollateralized guarantees is approximately 10% of the total nominal value of the guarantees issued.
(b) Excess of price risk management liabilities over price risk management assets.
(c) Enron expects to extinguish this obligation by delivering shares of EOG Resources, Inc. stock.
(d) Debt of unconsolidated equity affiliates is non-recourse and therefore is excluded from Enron's obligations.
(e) Firm transportation obligations are excluded, as contracted capacity has market value.
(f) Management estimates Enron's lease interest expense for the year based on the average minimum lease payment or commitment (excluding principal repayments and other items).
(g) Calculated as funds flow from operations plus interest incurred and estimated lease interest expense, divided by interest incurred and estimated lease interest expense.
(h) Calculated as total adjusted earnings divided by interest incurred and estimated lease interest expense.
(i) Total capital includes debt, minority interests, company-obligated preferred securities of subsidiaries and shareholders' equity.

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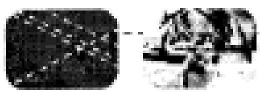

OUR VALUES

Communication
We have an obligation to communicate. Here, we take the time to talk with one another... and to listen. We believe that information is meant to move and that information moves people.

Respect
We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment.

Integrity
We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

Excellence
We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

Board of Directors

ROBERT A. BELFER
New York, New York
Chairman, Belco Oil & Gas Corp.

NORMAN P. BLAKE, JR.
Colorado Springs, Colorado
Chairman, President and CEO,
Comdisco, Inc., and Former CEO
and Secretary General, United States
Olympic Committee

RONNIE C. CHAN
Hong Kong
Chairman, Hang Lung Group

JOHN H. DUNCAN
Houston, Texas
Former Chairman of the Executive
Committee of Gulf & Western Industries, Inc.

WENDY L. GRAMM
Washington, D.C.
Director of the Regulatory Studies
Program of the Mercatus Center at
George Mason University
Former Chairman, U.S. Commodity Futures
Trading Commission

KEN L. HARRISON
Portland, Oregon
Former Chairman and CEO, Portland
General Electric Company

ROBERT K. JAEDICKE
Stanford, California
Professor of Accounting (Emeritus) and
Former Dean, Graduate School of Business,
Stanford University

KENNETH L. LAY
Houston, Texas
Chairman, Enron Corp.

CHARLES A. LEMAISTRE
San Antonio, Texas
President Emeritus, University of Texas
M.D. Anderson Cancer Center

JOHN MENDELSOHN
Houston, Texas
President, University of Texas
M.D. Anderson Cancer Center

JEROME J. MEYER
Wilsonville, Oregon
Chairman, Tektronix, Inc.

PAULO V. FERRAZ PEREIRA
Rio de Janeiro, Brazil
Executive Vice President of Group Bozano
Former President and COO, Meridional
Financial Group, and Former President and
CEO, State Bank of Rio de Janeiro, Brazil

FRANK SAVAGE
Stamford, Connecticut
Chairman, Alliance Capital Management
International (a division of Alliance Capital
Management L.P.)

JEFFREY K. SKILLING
Houston, Texas
President and CEO, Enron Corp.

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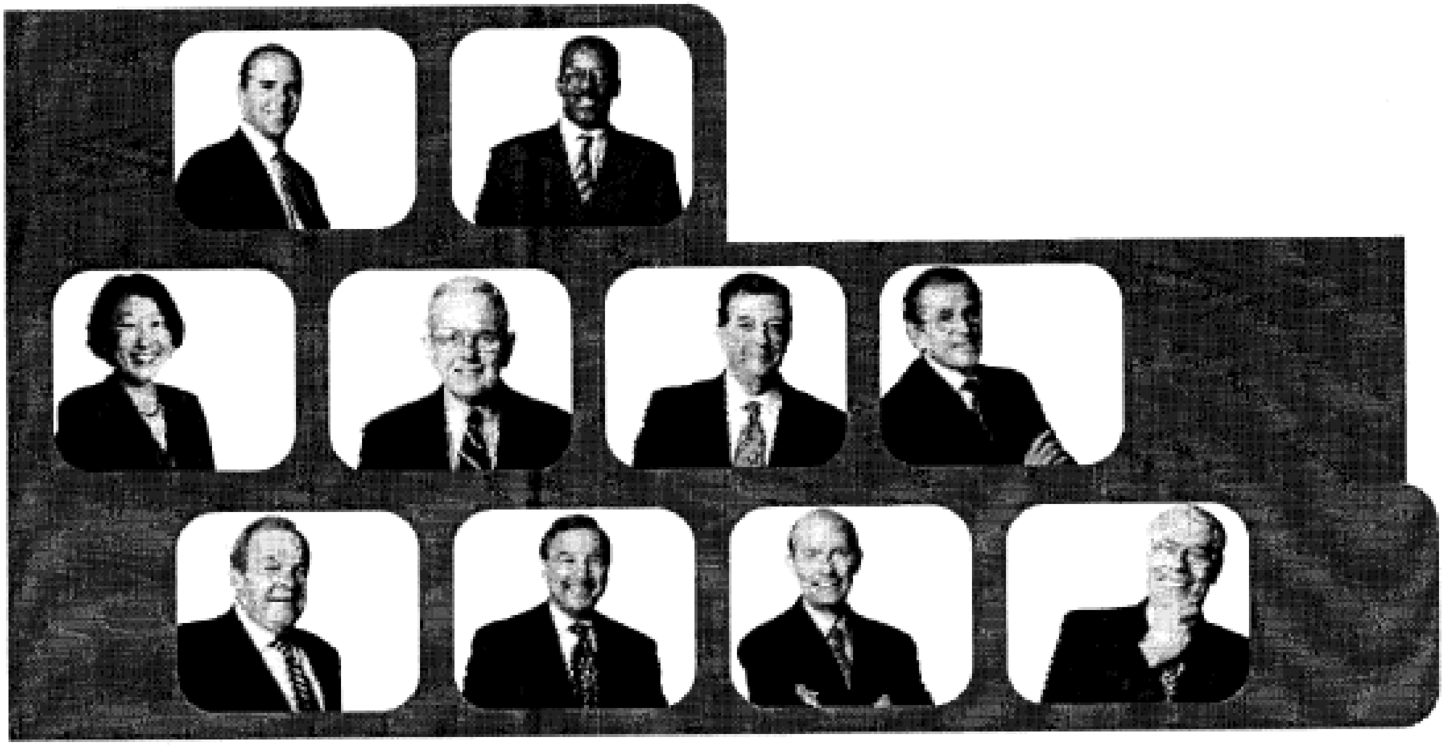

JOHN A. URQUHART (F)
Fairfield, Connecticut
Senior Advisor to the Chairman, Enron Corp., President, John A. Urquhart Associates, and Former Senior Vice President of Industrial and Power Systems, General Electric Company

JOHN WAKEHAM (E, A)
London, England
Former U.K. Secretary of State for Energy and Leader of the Houses of Lords and Commons

HERBERT S. WINOKUR, JR. (E, F*)
Greenwich, Connecticut
President, Winokur Holdings, Inc., and Former Senior Executive Vice President, Penn Central Corporation

FROM LEFT TO RIGHT:
Top row: John Mendelsohn, Jeffrey K. Skilling and Frank Savage
Middle row: Charles A. LeMaistre, Ronnie C. Chan, Herbert S. Winokur, Jr., Kenneth L. Lay, Wendy L. Gramm, Robert K. Jaedicke, John Wakeham and Robert A. Belfer
Bottom row: John H. Duncan, Paulo V. Ferraz Pereira, John A. Urquhart, Norman P. Blake, Jr., Ken L. Harrison and Jerome J. Meyer

(E) Executive Committee
(A) Audit Committee
(F) Finance Committee
(C) Compensation Committee
(N) Nominating Committee
* Denotes Chairman

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Enron Corporate Policy Committee

KEN LAY
Chairman, Enron

JEFF SKILLING
President and Chief Executive Officer, Enron

CLIFF BAXTER
Vice Chairman &
Chief Strategic Officer, Enron

RICK CAUSEY
Executive Vice President &
Chief Accounting Officer, Enron

DAVE DELAINEY
Chairman & CEO,
Enron Energy Services

JIM DERRICK
Executive Vice President &
General Counsel, Enron

ANDY FASTOW
Executive Vice President &
Chief Financial Officer, Enron

MARK FREVERT
Chairman & CEO,
Enron Wholesale Services

KEVIN HANNON
Chief Operating Officer,
Enron Broadband Services

STAN HORTON
Chairman & CEO,
Enron Transportation Services

STEVE KEAN
Executive Vice President &
Chief of Staff, Enron

LOU PAI
Chairman & CEO,
Enron Xcelerator

KEN RICE
Chairman & CEO,
Enron Broadband Services

JOHN SHERRIFF
President & CEO,
Enron Europe

GREG WHALLEY
President & COO,
Enron Wholesale Services

Shareholder Information

TRANSFER AGENT, REGISTRAR, DIVIDEND PAYING AND REINVESTMENT PLAN AGENT (DIRECTSERVICE PROGRAM)
First Chicago Trust Company
c/o EquiServe
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 519-3111
(201) 324-1225
TDD: (201) 222-4955
For direct deposit of dividends only, call:
(800) 870-2340
Internet address:
http://www.equiserve.com

2000 ANNUAL REPORT
This Annual Report and the statements contained herein are submitted for the general information of the shareholders of Enron Corp. and are not intended for use in connection with or to induce the sale or purchase of securities.

ADDITIONAL INFORMATION
Enron Corp.'s Annual Report to shareholders and Form 10-K report to the Securities and Exchange Commission are available upon request on Enron's Internet address http://www.enron.com For information regarding specific shareholder questions, write or call the Transfer Agent.

Financial analysts and investors who need additional information should contact:
Enron Corp.
Investor Relations Dept.
P.O. Box 1188, Suite 4926B
Houston, TX 77251-1188
(713) 853-3956
Enron's Internet address:
http://www.enron.com

ANNUAL MEETING OF SHAREHOLDERS
The Annual Meeting of Shareholders will be held in Houston, Texas, in the LaSalle Ballroom of the Doubletree Hotel at Allen Center, 400 Dallas Street, on Tuesday, May 1, 2001, at 10 a.m. Information with respect to this meeting is contained in the Proxy Statement sent with this Annual Report to holders of record of Enron Corp.'s Common Stock and the Cumulative Second Preferred Convertible Stock on March 2, 2001. The 2000 Annual Report is not to be considered a part of the proxy soliciting material.

DIVIDEND REINVESTMENT
The Transfer Agent offers holders of Enron Corp. Common Stock the opportunity to reinvest part or all of their dividends in the purchase of additional shares of Common Stock by participating in the DirectSERVICE Program for Shareholders of Enron Corp. This program gives almost everyone the opportunity to purchase additional shares of Common Stock without paying a brokerage commission. Anyone wishing to participate in the program may, upon timely application, reinvest some, all, or none of the cash dividends paid on their Common Stock, or make optional cash payments of as little as $25, after an initial investment of $250 for new shareholders, with a limit of $120,000 per calendar year. Direct requests for further information to:
DirectSERVICE Program for Shareholders of Enron Corp.
c/o First Chicago Trust Company
c/o EquiServe
P.O. Box 2598
Jersey City, NJ 07303-2598
Shareholders may call: (800) 519-3111
Non-shareholders requests for program materials:
(800) 662-7662
Internet address:
http://www.equiserve.com
TDD: (201) 222-4955

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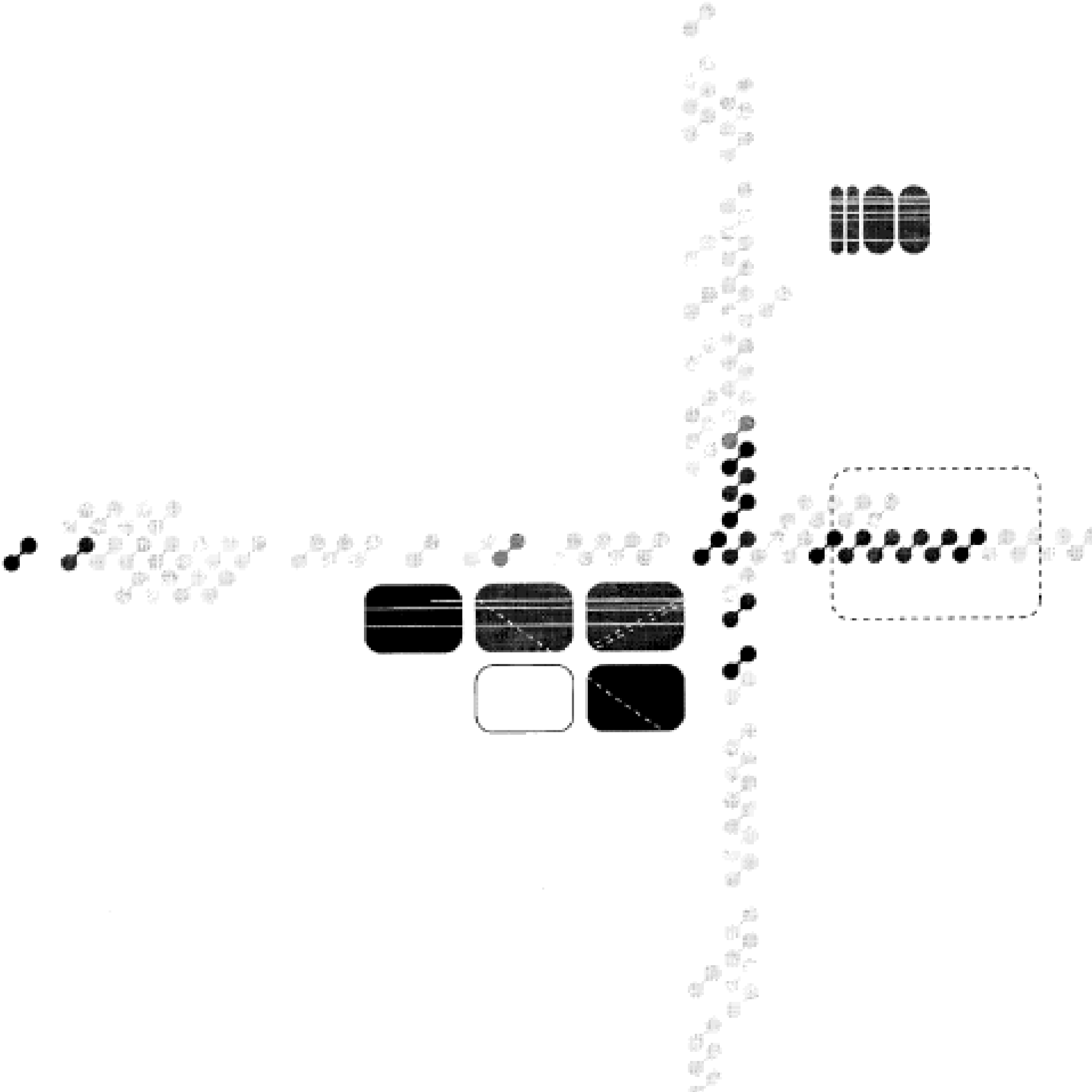

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Enron Annual Report 2000

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1400 Smith Street
Houston, Texas 77002-7361
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Carleton, Norman

From: Bair, Sheila
Sent: Tuesday, January 08, 2002 4:06 PM
To: Carleton, Norman
Subject: RE: PWG's Report on OTC Derivatives and the CEA

thanks

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 2:51 PM
To: Bair, Sheila
Cc: Roseboro, Brian; Bitsberger, Timothy; Wiedman, Mark; Gross, Jared; Schultheiss, Heidilynne; Nickoloff, Peter
Subject: PWG's Report on OTC Derivatives and the CEA

Sheila,

[(b)(5)]

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Carleton, Norman

From: Bair, Sheila
Sent: Tuesday, January 08, 2002 5:24 PM
To: Carleton, Norman
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

Sheila

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:14 PM
To: Bair, Sheila
Cc: Smith, Amy; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

Sheila,

[(b)(5)]

Norman

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01300000001420

Carleton, Norman

From: Bair, Sheila
Sent: Tuesday, January 08, 2002 5:56 PM
To: Carleton, Norman
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:44 PM
To: Bair, Sheila
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

Norman

-----Original Message-----
From: Bair, Sheila
Sent: Tuesday, January 08, 2002 5:24 PM
To: Carleton, Norman
Subject: RE: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

[(b)(5)]

Sheila

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, January 08, 2002 5:14 PM
To: Bair, Sheila
Cc: Smith, Amy; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidilynne; Whaley, Jean; Wiedman, Mark
Subject: CFTC's Exemption for Certain Contracts Involving Energy Products (April 20, 1993)

Sheila,

[(b)(5)]

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[(b)(5)]

Norman

Carleton, Norman

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

[(b)(5)]

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

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ISSUE AND DISCUSSION

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CONCLUSION

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Attachments

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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 unequaled 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.

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"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 Horner, 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 slowand 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.

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.

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.

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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.

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.

Carleton, Norman

From: Schultheiss, Heidilynne
Sent: Thursday, January 03, 2002 3:45 PM
To: Carleton, Norman
Subject: Draft Memo on Enron and Post Articles

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enronfma.doc

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DRAFT
January 3, 2002

TO: Norman Carleton
Director
Office of Federal Finance Policy Analysis

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

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

BACKGROUND

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ISSUE AND DISCUSSION

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CONCLUSION

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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 unequaled 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 Horner, 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.

02832

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 slowand 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.

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.

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.

02837

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.

Carleton, Norman

From: Schultheiss, Heidilynne
Sent: Thursday, December 20, 2001 1:04 PM
To: Carleton, Norman
Subject: CHRONOLOGY OF ENRON EVENTS

enronmemo.doc

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November 27, 2001

TO: Norman Carleton
Office Director
Office of Federal Finance Policy Analysis

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

SUBJECT: Chronology of Enron Events and Recent Financial Turmoil

Background

The stock and debt prices and credit ratings on Enron Corp. fell precipitously following the disclosure of a third quarter loss, possible accounting irregularities, questionable related party arrangements with company officers, and an SEC formal investigation in October 2001. The following chronology of events preceding and through the recent financial turmoil at Enron summarizes publicly available imperfect information for a company renowned for its opacity and reluctance to disclose information. It was compiled from an assortment of public sources whose accuracy and completeness cannot be independently verified, and thus must be evaluated cautiously in that context.

Pre-Turmoil Enron Chronology

Enron was formed in July 1985 as a result of the merger of two troubled gas pipeline firms, Houston Natural Gas and InterNorth of Omaha, Nebraska, creating an interstate natural gas pipeline company. Enron first became involved in derivatives transactions in 1989, when GasBank, the precursor to the North American and European wholesale trading business, was launched and Enron began trading natural gas commodities. Following the deregulation of the U.S. natural gas industry, the market revised its methods of contracting for gas in the wholesale market. GasBank allowed producers and wholesale buyers to purchase firm gas supplies and hedge the price risk of the new spot market simultaneously. Enron subsequently transformed itself from a natural gas pipeline company into a more diversified energy company, specializing in electricity, water, and bandwidth telecommunication markets, as well as risk transference/derivatives markets. In 1999, Enron launched EnronOnline, the first global web-based commodity trading site, and Enron subsequently became the world's largest e-commerce company. In 2001 it was estimated that 25 percent of OTC energy contracts were transacted by or through Enron.

In 1990, Andrew Fastow, who would later become its controversial CFO, joined Enron. At least as early as 1993, Enron was creating arrangements that allowed it to bring in outside equity and borrow large sums for asset purchases without revelation on its balance sheet. It is thought that Enron was attempting to restrain its debt load in order to maintain its credit rating and sustain its tremendous growth. One such arrangement involved CALPERS.

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In 1997, Andrew Fastow became Enron's CFO. At least as early as 1997, Enron was establishing "related party arrangements" or "employee-related entities." One such arrangement was the "Chewco" entity run by Michael Kopper, former Managing Director of Enron North America.

In December 1999, Andrew Fastow, with the approval of the Enron board, created and managed two limited partnerships related to Enron, LJM Cayman LP and the larger LJM2 Co-Investment LP, possibly with Kopper. Their purpose ostensibly was to "hedge certain merchant assets and transactions and the fluctuating values of its growing portfolio of assets" (of more than $100 million), and to enter into "share-settled costless collar arrangements" and "derivative instruments, including swaps, puts, and collars, which eliminated the contingent nature of existing restricted forward contracts." LJM raised only $16 million, but LJM2 raised at least $200 million. Investors included CSFB, Wachovia, GE Capital, and The Arkansas Teachers Fund.

Enron reportedly had been strapped for cash and sought to entice outside investors to strengthen its balance sheet. The related party arrangements reportedly involved Enron assets, millions of shares of Enron stock contributed to the structured finance vehicle, and notes receivable issued by partnership-related entities to Enron. The LJM2 offering document stated that Mr. Fastow would receive an annual management fee as much as 2 percent, and would be eligible for profit participation over its ten-year life. The undisclosed general partner was obligated to invest at least 1 percent of the aggregate capital commitments. Subsequent reports speculated that the arrangements may have been created to retain Mr. Fastow after the exodus of executives who cashed out large profits on stock options.

In 1999, Enron filed a statement with the SEC that disclosed the Fastow partnership arrangements, although it was largely overlooked by analysts as they remained exuberantly optimistic about Enron and its phenomenal growth and earnings prospects. Around this time, Enron Treasurer Jeffrey McMahon complained to Enron President Jeffrey Skilling regarding what he perceived to be Mr. Fastow's conflict of interest. Mr. McMahon was reassigned as head of the industrial markets group.

In January 2000, Enron remained a favorite company of market analysts. It was named "The Most Innovative Company in America" for the fifth consecutive year and was ranked number 24 among the "100 Best Companies to Work for in America" in *Fortune* surveys. However, in June 2000, *The Economist* challenged Enron to refute allegations of arrogance, aggressiveness, opacity, and borderline legality. Enron's reply was viewed by the publication and markets as nonresponsive.

In September 2000, LJM2 invested $30 million in the "Raptor III" investment, which involved LJM2 writing put options that committed LJM2 to buy Enron stock at a set price for six months. However, in January 2001, LJM2 requested that Enron settle the Raptor III transaction early. LJM2 received back its $30 million in capital invested plus $10.5 million in profit. This renegotiation occurred before the large decline in Enron's stock price, which would have forced LJM2 to purchase Enron stock at a loss of $8 per share.

Enron's 2000 year-end financial statements cryptically described transactions with the Fastow partnerships, including the transfer from Enron of assets valued at $1.2 billion, including $150 million in notes payable to Enron, 3.7 million restricted Enron shares, and a call option to buy as many as 18 million Enron common shares in March 2003. Enron also transferred to the partnerships other assets valued at $309 million, including a $50 million note and "an investment that indirectly held warrants convertible into common stock of an Enron equity method investee." In return, Enron received economic interests in the entities, $309 million in notes receivable from the entities, and $1.2 billion in notes receivable as a "special distribution." The statements also mentioned a series of purchases by Enron of "share-settled options from the entities" on shares of Enron's common stock.

In April 2001, LJM2 reported that Mr. Fastow, and possibly others, had realized more than $7 million in management fees and $4 million in gains on an investment of nearly $3 million. Profits had been improved by the early termination or renegotiation of transactions. The partnership had raised $394 million and invested in power plants and Enron assets and stock, seeking a 29 percent IRR (reduced from its previous 48 percent target) after the decline in the New Power Co. retailer, a provider of electricity and natural gas to households and small businesses. Large cash distributions had been made to investors. In late July 2001, Mr. Fastow severed his relationship with the LJM2 partnership. Enron dissolved the Fastow financing vehicles, reacquired the Enron shares, and nullified the note receivable from the partnership after the value of Enron's stock and its broadband investments dropped sharply.

In July 2001, Enron officials were reported to have sold 1.8 million Enron shares valued at about $106 million, as the stock declined from $83 to $45 per share. CEO Kenneth Lay sold 429,614 shares worth $25.7 million as a result of stock options, leaving him with 2.8 million shares. In 2000 he had sold $30.7 million; in 1999 he sold $26 million. Kenneth Rice, former chairman and CEO of the broadband unit, sold $23.7 million, reducing his 1.5 million shares by 456,966. President Skilling sold 160,000 of his 1.9 million shares for $9.8 million. Aggregate sales by Enron executives totaled 5.8 million shares for $449 million. In 1999, they had sold 3.4 million shares for $123.1 million. The only corporate insider who purchased stock was Fastow, who bought 10,000 shares at $36.98 each.

In August 2001, Enron President and CEO Skilling left after only six months in that position, citing personal reasons and the decline in Enron's stock price. Kenneth Lay, chairman and former CEO, again became Enron's CEO. Thomson Financial reported that Mr. Fastow's proceeds from stock options were $4.6 million for the previous 12 months.

<u>Current Enron Turmoil</u>

On October 16, 2001, Enron reported a third quarter loss of $618 million (compared with year-ago earnings of $292 million), but did not release its balance sheet. The loss occurred despite a 59 percent increase in revenue to $47.61 billion, after accounting for a $1.01 billion charge to write off impaired assets at its Azurix Corp. water services unit and several investment losses. The charge consisted of $287 million in asset impairments recorded by Azurix, $180 million from restructuring broadband services, and $544 million related to certain investments. About half of the $544 million charge was attributed to The New Power Co. unit; the other half to bankrupt Northpoint Communications and other technology investments, and the *early termination of a structured finance arrangement*. Excluding the charge, Enron would have met market expectations. Investors questioned Enron's ability to expand from its successful core wholesale energy business and its level of transparency. Moody's reviewed Enron for downgrade. Its debt-to-capital ratio increased to 50 from 46 percent, and it hoped to sell some assets to reduce it. Enron did not disclose its large reduction in equity in its earnings release, but instead waited.

On October 17, conflict-of-interest questions were raised regarding limited partnerships run by Mr. Fastow. The charge related to the early termination of certain structured finance arrangements was quantified as $35 million. Enron held a conference call with securities analysts and investors in which it disclosed that its shareholder equity contracted by $1.2 billion to $9.5 billion as a result of Enron's repurchase of 55 million shares from Fastow (Enron had an average 913 million shares outstanding in the third quarter) at a lower price and the cancellation of the partnership note. Enron characterized the reduction as a "result of Enron's termination of previously recorded contractual obligations to deliver Enron shares in future periods." An analyst explained that Enron had promised that a certain amount of Enron's shares would be worth $1 billion, and when they plummeted and fell below that value, Enron bought them back. One analyst conjectured that Enron had treated the shares as a buyback, but had never issued them. The SEC sent a letter to Enron notifying it that it was beginning an informal inquiry.

On October 22, Enron confirmed that it had received a request for information from the Texas regional office of the SEC regarding its controversial partnerships with Fastow. Analysts speculated that its Enforcement division was investigating possible violations of securities laws. The SEC reportedly was reviewing whether the transaction terminations should have been treated as a balance sheet item or a loss that affected reported earnings (accounting rules specify that a company's transaction in its own shares cannot produce profits or losses, whatever the effect on cash flow); and whether the related-party transactions were properly disclosed under Rule S-K, where a company must report transactions that exceed $60,000 with "any director or executive officer."[1] There was speculation that Enron had used the off-balance sheet transactions to shift losses off its books to avoid an effect on its income statement. Enron's stock price fell 20 percent and it was the most actively traded NYSE stock with 36 million shares traded. Concerns about Enron's credit rating emerged. Enron stated that it had properly disclosed transactions, was cooperating with the SEC, and was confident it would not default. A class-action suit was filed in U.S. District Court in Houston alleging misrepresentation and failure to disclose and write down investments. It alleged that Enron insiders sold $73 million of their holdings during parts of 2000 and 2001.

On October 23, worries arose that Enron might have to issue large amounts of stock in the next 20 months to noteholders to repay about $3.3 billion in notes ultimately guaranteed by Enron for certain entities like the Marlin Water, Atlantic Water, and Osprey ventures if certain trigger events occurred (such as credit downgrades). Marlin owes almost $1 billion in debt and

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[1] However, FAS Statement 57 issued a broader disclosure directive regarding related party arrangements involving a "material" piece of business between the company and a member of its management.

has no assets other than a one-third stake in Azurix, a subsidiary that owns British water utility Wessex. Enron Treasurer Ben Glisan stated that assets could be sold to pay off the noteholders, raising at least $2.2 billion, including $1.55 billion in proceeds from the sale of the Portland General Electric utility. In a worst-case scenario, it could issue as much as $1 billion in stock (there are currently 850 million shares outstanding), although Enron's share price had declined 75 percent from its high. An analyst estimated that Enron could have close to $9 billion in off-balance sheet debt, and had been trying unsuccessfully to sell $6 billion in illiquid foreign assets for years.

On October 24, Enron reported it had $3.35 billion in bank lines of credit, of which $1.75 billion would expire in May 2002 if not renewed. However, analysts still seemed to be mesmerized by Enron. Goldman Sachs downgraded Enron from its "U.S. Select List" of a few dozen stocks to its "Recommended List" of 200 stocks. Only Prudential downgraded Enron to a "sell" rating. Of 17 analysts, 10 still maintained a "strong buy" rating. Critics charged that analysts had compromised their objectivity, especially since Enron has retained many Wall Street firms for its offerings and paid a substantial amount of investment banking fees.

On October 25, Mr. Fastow took a "leave of absence" from Enron, and Mr. McMahon was named CFO. Concerns arose regarding a potential destabilizing effect on the energy trading market, since Enron trades approximately 25 percent of U.S. OTC electricity and natural gas contracts, particularly through its popular EnronOnline Internet trading platform. The notional value of its derivatives portfolio was estimated at $21 billion, and there were fears that utilities and commercial and investments banks could be affected as well. J.P. Morgan Chase was mentioned, as it advises Enron on asset sales, provides credit to Enron, has the largest derivative operation of any bank, is a counterparty to Enron in some transactions, and has a large commodity trading business. Enron's creditworthiness was questioned. Enron's stock price declined again and it was the most actively trade NYSE stock at nearly 76 million shares, included some large blocks of 800,000 shares or more reportedly sold by institutional investors. Share prices for other energy trading companies declined as well. Additional analysts issued sell recommendations for Enron.

On October 26, Enron drew down $3 billion of its $3.35 billion bank credit lines to redeem $1.85 billion of outstanding commercial paper that it was unable to roll over, and to provide it with a cash cushion. Citigroup and J.P. Morgan Chase reportedly each extended at least $400 million. Enron reportedly was negotiating an additional $1 to $2 billion credit line, although the banks were insisting on stricter covenants and terms. Fitch placed Enron on review for a possible downgrade, and S&P changed its credit outlook to negative from stable. Enron's bonds, although still investment grade, traded at a 770 bp spread to Treasurys, in the same range as junk bonds, with yields rising above 10 percent, and liquidity was described as poor. The cost of a default swap rose to 10 from 8 percent of the size of the credit insured. Enron sued Microsoft over its failed broadband services arrangement. Critics noted that Enron would receive $254 million in tax benefits in the current House stimulus package.

On October 29, European energy firms reportedly were reluctant to trade with Enron, one of Europe's biggest power and gas traders. Some counterparties avoided Enron, and liquidity was reduced. Its stock hit a five-year low. Moody's downgraded Enron's senior unsecured long-term debt by one notch to Baa2 from Baa1, still two levels above junk bond status, citing the write-downs, equity charges, and partnership investments. It stated that it might downgrade Enron's commercial paper P-2 rating as well, making it more difficult/expensive for Enron to borrow short-term cash. Royal Dutch/Shell reportedly was interested in purchasing Enron, and had approached it earlier in August. The SEC transferred its inquiry to its Washington D.C. headquarters.

On October 30, there were rumors that GE Capital, Berkshire Hathaway or Royal Dutch Petroleum might buy Enron. Its stock increased 25 percent, rebounding from a nine-year low.

On October 31, the SEC began formally investigating the Fastow partnerships. Large energy traders were reported as willing to do business with Enron, but at shorter maturities and using less complex structures. Trading on EnronOnline was reportedly strong. However, few firms would accept Enron as a guarantor of credit derivatives, some counterparties in its core energy markets refused to transact, and two members of the Intercontinental Exchange, owner of the International Petroleum Exchange that trades energy derivatives, refused Enron's credit.

On November 1, Enron received a $1 billion loan from J.P. Morgan Chase and Salomon Smith Barney, using natural gas pipelines (Northern Natural Gas and Transwestern Pipeline) as collateral. Proceeds from this secured loan were to be used for debt payments and to supplement cash reserves, and it could borrow an additional $200 million from other banks. This was perceived as a desperate attempt to preserve its creditworthiness. It reportedly was unable to issue commercial paper (at least at lower rates), and two energy companies (Exelon and Northeast Utilities) restricted business with Enron. Its stock declined 16 percent, and its notes had declined substantially as well.

On November 5, Fitch downgraded Enron's senior unsecured debt rating from BBB+ to BBB-, one notch above junk status, citing its liquidity difficulties, erosion of investor confidence, and substantial diminution of its global investments financed with aggressive off-balance sheet vehicles. Fitch also lowered Enron's subordinated debt from BBB to BB, its preferred stock from BBB- to B, and its commercial paper from F3 to F2. It also lowered the senior unsecured debt ratings of Enron's pipeline subsidiaries, Northern Natural Gas and Transwestern Pipeline, from A- to BBB-, whose assets were pledged the previous week to help Enron secure an additional $1 billion bank facility. All of the Fitch ratings remained at "Rating Watch Negative" status.

On November 6, Fitch warned that it might downgrade Enron's credit rating to junk status. Also, former Enron president Skilling reportedly testified before the SEC in Washington, D.C. pursuant to a subpoena.

On November 7, Enron stock sank to a new low of $7 per share before rebounding on reports that it was having discussions with Dynegy Inc. regarding at least a $1.5 to 2 billion cash infusion, and possibly a full merger. A merger would involve the sale of Enron to Dynegy for about $8 billion in a stock swap (about $10 per share), with a cash infusion of $1.5 billion initially and $1 billion later provided by ChevronTexaco, which owns 27 percent of Dynegy. Dynegy would assume Enron's $12.8 billion on-balance sheet debt; the disposition of its controversial off-balance sheet debt was unknown. Enron reportedly was unable to sell off certain assets that it had hoped would raise cash. Its debt continued to trade at prices comparable to non-investment grade debt, and it became more dependent on secured bank lending as other sources of liquidity dried up.

On November 8, Enron restated its earnings and retroactively consolidated its past financial performance with several previously off-balance sheet subsidiaries for 1997 through 2001, reducing net income by a total of $591 million. This reduced its 1997 earnings by about $96 million, 1998 earnings by about $113 million, 1999 earnings by about $250 million and 2000 earnings by about $132 million. For 2001, it increased first-quarter earnings by $17 million and second-quarter earnings by $5 million, but reduced third-quarter earnings by $17 million. It was estimated that the consolidation also would increase its debt by about $2.59 billion. Enron also made public its responses to SEC questions involving the partnerships. Enron fired its Treasurer, Ben Glisan, and the General Counsel and managing director of one of its divisions, Kristina Mordaunt, who may have been involved in a partnership.

On November 9, Enron cancelled a meeting with its creditors to apprise them of its merger and liquidity situation. A possible merger was delayed because of concerns that a combined Dynegy-Enron entity would receive a lower or junk credit rating. Dynegy and Enron provided pro forma financial statements to the rating agencies and requested an expedited review of the transaction. Enron disclosed that the controversial transactions with Mr. Fastow had earned him $30 million.

Conclusion

Although the preceding chronology is subject to revision and embellishment as more facts emerge, Enron definitely has suffered a decline in investor and analyst confidence, as well as declines in its stock and debt prices and credit ratings, availability, and terms (see attached graphs). The SEC is investigating possible violations of U.S. securities laws. It reportedly is reviewing whether the transaction terminations should have been treated as a balance sheet item or a loss that affected reported earnings and whether the related-party transactions were properly disclosed. The current speculation is that Enron intentionally used the off-balance sheet transactions to shift losses off its books to avoid an effect on its income statement. The current concern is that Enron might have to issue large amounts of stock to noteholders to repay about $3.3 billion in notes ultimately guaranteed by Enron for certain of its related entities if certain trigger events, such as credit downgrades, occur, and that the situation could have a destabilizing effect on the energy and derivative markets that Enron dominates.

Attachments (graphs)

Carleton, Norman

From:	Bitsberger, Timothy
Sent:	Wednesday, December 19, 2001 11:18 AM
To:	Carleton, Norman; Wiedman, Mark
Subject:	enron

[(b)(5)]

02866

01300000001475

Carleton, Norman

From: Wiedman, Mark
Sent: Wednesday, December 19, 2001 11:21 AM
To: Bitsberger, Timothy; Carleton, Norman
Subject: RE: enron

[(b)(5)]

-----Original Message-----
From: Bitsberger, Timothy
Sent: Wednesday, December 19, 2001 11:18 AM
To: Carleton, Norman; Wiedman, Mark
Subject: enron

[(b)(5)]

02867

01300000001476

Carleton, Norman

From: Schultheiss, Heidilynne
Sent: Wednesday, December 19, 2001 12:08 PM
To: Carleton, Norman
Subject: Enron and the Commodity Futures Modernization Act of 2000

[(b)(5)]

cfmaenergy.doc

02868

01300000001477

[(b)(5)]

02869

Carleton, Norman

From: Nickoloff, Peter
Sent: Wednesday, December 19, 2001 1:50 PM
To: 'Fox, Elizabeth L. R.'
Cc: Carleton, Norman
Subject: RE: Retail Swaps Study -- Clearance status?

[(b)(5)]

-----Original Message-----
From: Fox, Elizabeth L. R. [mailto:efox@CFTC.gov]
Sent: Wednesday, December 19, 2001 1:41 PM
To: 'Peter.Nickoloff@do.treas.gov'
Subject: RE: Retail Swaps Study -- Clearance status?

I expect we will have sign-off here by the end of the day. As far as the number of copies, I'm not sure what the usual protocol is. I think that 50 would cover our senior staff and commissioners' offices. How is the actual signing to be handled?

-----Original Message-----
From: Peter.Nickoloff@do.treas.gov [mailto:Peter.Nickoloff@do.treas.gov]
Sent: Tuesday, December 18, 2001 3:58 PM
To: efox@CFTC.gov
Subject: RE: Retail Swaps Study -- Clearance status?

No

-----Original Message-----
From: Fox, Elizabeth L. R. [mailto:efox@CFTC.gov]
Sent: Tuesday, December 18, 2001 2:15 PM
To: 'Peter.Nickoloff@do.treas.gov'
Subject: RE: Retail Swaps Study -- Clearance status?

thanks--no other changes anywhere in the document?

-----Original Message-----
From: Peter.Nickoloff@do.treas.gov [mailto:Peter.Nickoloff@do.treas.gov]
Sent: Tuesday, December 18, 2001 2:10 PM
To: efox@CFTC.gov
Subject: RE: Retail Swaps Study -- Clearance status?

Please see the attached.

-----Original Message-----
From: Fox, Elizabeth L. R. [mailto:efox@CFTC.gov]
Sent: Tuesday, December 18, 2001 2:07 PM
To: 'Peter.Nickoloff@do.treas.gov'
Subject: RE: Retail Swaps Study -- Clearance status?

I need a clean copy of that page to circulate.

-----Original Message-----
From: Peter.Nickoloff@do.treas.gov [mailto:Peter.Nickoloff@do.treas.gov]
Sent: Tuesday, December 18, 2001 1:41 PM
To: efox@CFTC.gov
Subject: RE: Retail Swaps Study -- Clearance status?

02870

yes

-----Original Message-----
From: Fox, Elizabeth L. R. [mailto:efox@CFTC.gov]
Sent: Tuesday, December 18, 2001 1:40 PM
To: 'Peter.Nickoloff@do.treas.gov'
Subject: RE: Retail Swaps Study -- Clearance status?

Did you change Enron to Enron Energy Service, Inc., and Blackbird to Blackbird Holdings, Inc.?

-----Original Message-----
From: Peter.Nickoloff@do.treas.gov [mailto:Peter.Nickoloff@do.treas.gov]
Sent: Tuesday, December 18, 2001 10:25 AM
To: efox@cftc.gov
Subject: Retail Swaps Study -- Clearance status?

Hi Elizabeth,

What the clearance status of the report at the CFTC? It's nearly ready to go to the Secretary here, and the Fed Board yesterday voted 7-0 to approve the report. It's making slow but steady progress at the SEC.

Also, how many copies of the report will the CFTC require?

Please let me know. Thanks.

Peter Nickoloff
Office of Federal Finance Policy Analysis
U.S. Department of the Treasury
Room 5011 MT
Washington, D.C. 20220

t. 202/622-1692
f. 202/622-0974
e. peter.nickoloff@do.treas.gov

Carleton, Norman

From: Gabilondo, Jose
Sent: Wednesday, December 05, 2001 5:57 PM
To: Carleton, Norman
Subject: RE: Enron collage

Norman:

[(b)(5)]

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, December 05, 2001 2:58 PM
To: Gabilondo, Jose
Subject: RE: Enron collage

Thanks.

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, December 05, 2001 2:56 PM
To: Carleton, Norman
Subject: Enron collage

Norman:

Here -- for what they're worth -- are the best of my Enron resources. Here's the link to a daily price chart of Enron's common stock, which is easier to drag on to your screen and to open (rather than saving): << File: energysquib.doc >>

This is a tiny note that I wrote about Enron market structure << File: article2.htm >> . These are two (now dated) market intelligence pieces about Enron: << File: article.htm >> << File: ar2000.pdf >> Here's the 2000 annual report - << File: Pwr_mkters_110201.ppt >> and here's a list of the top 20

power marketers prepared by an energy consulting group - . Hope that you like the Paul Klee format.

José

02892

01300000001501

Carleton, Norman

From: Gabilondo, Jose
Sent: Wednesday, December 05, 2001 5:47 PM
To: Carleton, Norman
Subject: Enron Corp. Stock Chart

Norman:

This should work. I dragged this icon on to my shortcut screen, so that I just need to hit without separately accessing the Internet. Also, below is the agenda for the repo conference. Let me know if you're interested in any topic in particular that I should focus on.

José

Enron Corp. Stock Chart.html

repo.htm

02893

01300000001502

See also:

Annual Reports

Earnings Releases

Press Releases

SEC Filings

Stock Prices & Charts

Investor Relations main

Stock Chart

Security: ENE (Common Stock)

Click for historical price lookup

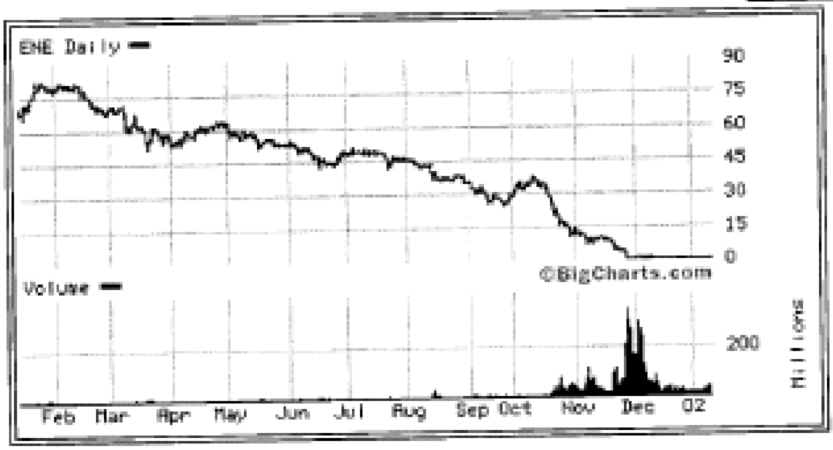
Price: 1.01 (5-Dec-2001 Market Close)

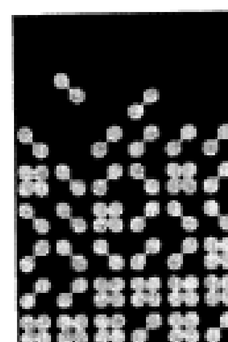
Time Frame 1 year

Frequency Daily

Compare To None

Re-draw





02894

The 7th Annual
Repo & Securities Lending Conference

Register For This Event

Complete Schedule of Events

Conference Videotapes

Regional Events

Sponsorship Opportunities

Past Events

December 6, 2001
The Roosevelt Hotel, New York, NY

Exhibit and Sponsorship Opportunities Are Available

Pre-Conference Workshop

December 5, 2001
The Association Conference Center, New York, NY

1:00 - 5:30 p.m.	**Overview of Standard Funding Documentation** This pre-conference workshop is intended to provide funding market professionals with a straightforward and substantive review of the most significant aspects of the Master Repurchase Agreement, the Master Securities Loan Agreement, the Global Master Repurchase Agreement and the Cross-Product Master Agreement. In addition to discussing significant aspects of these agreements, panelists will also update workshop participants on the impact of the most recent revisions of certain of the standard agreements. The workshop, consisting of four one-hour sessions, will also allow for extensive interaction with experienced professionals in the repo and securities lending markets.
1:00 - 2:00 p.m.	**Master Repurchase Agreement** **Carolyn Monroe-Koatz**, Vice President, Assistant General Counsel, J.P. Morgan Chase & Co.
2:10 - 3:10 p.m.	**Master Securities Loan Agreement** **Steven Kessler**, Vice President, Associate Counsel, Goldman, Sachs & Co.
3:20 - 4:20 p.m.	**Global Master Repurchase Agreement** **Habib Motani**, Partner, Clifford Chance Rogers & Wells
4:30 - 5:30 p.m.	**Netting Documentation** **Scott Kimmel**, Vice President, Lehman Brothers Inc.

Confirmed Exhibitors

Dealogic
Decision Software
Garban
ICI/ADP
Quant Trading Inc.

Program

	Breakfast
8:00 - 8:30 a.m	
	Featured Speaker
8:30 - 9:00 a.m	
	Dino Kos Executive Vice President Federal Reserve Bank of New York
Welcome	**Joseph Blauvelt**, Managing Director, J.P. Morgan Chase & Co.
	Head of Funding Desk Roundtable
9:00 - 10:15 a.m.	
	The far-reaching impact of September 11 affected the financial markets, and in particular created special challenges for the funding desks of financial institution global heads of funding desks from major institutions will address the impact of September 11 on the funding markets. In addition to discussing how the funding markets dealt with such challenges, panelists will also discuss what lessons were learned. In addition, the panelists will reflect upon any potential longer-term effe the funding markets may experience.
Moderator	**Paul Saltzman** Executive Vice President General Counsel, The Bond Market Association
Panelists	**Joseph Blauvelt** Managing Director J.P. Morgan Chase & Co. **John Kruger** Director Salomon Smith Barney **Paul Scheufele** Managing Director Credit Suisse First Boston **Gerald Tamburro** Managing Director UBS Warburg
	Break
10:15-10:30 a.m.	
	Legal & Regulatory Update
10:30-11:30 a.m.	
	A thorough review of the latest legal and regulatory developments in the funding markets. Subjects to be addressed include (i) changes in banking regulation, incl a review of the proposed Basel Accord (ii) emergency regulatory responses to th events of September 11, (iii) changes to the Investment Company Act, (iv) bankr reform, and (v) pending regulatory reform.
Moderator	**Ranada Fergerson** Managing Director Bear, Stearns & Co. Inc.
Panelists	**Sibyl Peyer** Vice President Assistant General Counsel Goldman, Sachs & Co. **Robert Cook** Partner Cleary, Gottlieb, Steen & Hamilton

02896

Kim Olson
Assistant Vice President
Federal Reserve Bank of New York

11:30-12:30 p.m.

CONCURRENT SESSIONS: Global Funding Markets

Two break-out panels will address funding market issues in Europe and Asia, respectively.

Current Issues in European Funding Markets

This panel of repo market experts, active in the European funding markets, will discuss major developments affecting continental Europe and United Kingdom. The key matters that will be addressed include: (i) the new Basel Capital Accord implications for the European repo markets; (ii) the on-going integration process of European clearing and security settlement systems; (iii) the possible impact of proposals to change the European regulatory environment for Alternatives Trading Systems (ATS); (iv) the proposed European Directive on Financial Collateral Arrangements; and (v) the possible consequences of the application of the proposed Investment Services Directive (ISD) on the European fixed income markets.

Asian Funding Matters

Funding markets in Asia continue to play a significant role in the global financial markets. This panel of repo and securities lending professionals active in the Asian funding markets will provide a review of the most significant aspects of these markets, and also provide an update on latest developments.

Panelists

Tom Brady
Managing Director
Merrill Lynch, Inc.

Mark Steffensen
Vice President
Counsel
Morgan Stanley & Co.

12:30-1:45 p.m.

Lunch

Introduction

Micah Green
President
The Bond Market Association

Speaker

The Honorable William S. Cohen
Former Secretary of Defense and U.S. Senator

1:45 - 3:00 p.m.

Collateral Management Issues in the Funding Markets

The tragic events of September 11 have further highlighted the need for effective management of collateral to ensure liquidity during times of market stress. This p will focus on what collateral management issues the events of September 11 rais well as provide an update on the latest developments in collateral management. Subjects to be discussed include: (i) regulatory issues with regards to effective collateral management in times of market stress, (ii) changes to the Federal Rese Payment Systems Risk Policy, (iii) the expansion of GSCC's GCF product (and obstacles to its growth), (iv) the effect of the dwindling supply of Treasury debt SOMA portfolio and margining efforts, (v) Repo Tracking/Ginnie Mae Conversi and (vi) Continuous Linked Settlement (CLS).

Moderator **Omer Oztan**
The Bond Market Association

Panelists **Kevin Caffrey**
Principal
Morgan Stanley & Co.
Jeff Ingber
Managing Director
General Counsel
Government Securities Clearing Corporation
Brian Reilly
Managing Director
BNP Paribas

3:00-3:15 p.m. **Break**

3:15-5:00 p.m. **Ask the Trader!**

This game show-style panel promises to be an entertaining and highly substantiv examination of market practices in the repo and securities lending markets. Experienced front-office funding professionals will be the contests, answering questions a repo and securities lending trader commonly must answer in order to complete a transaction. The professionals will also call upon legal, tax and accou professionals active in the funding markets to help them answer these questions. Contestants will also participate in a "bonus round", consisting of questions from audience!

Host **Larry Brandman**
Vice President
Goldman, Sachs & Co.

Contestants **Jeff Kidwell**
Principal
Morgan Stanley & Co.
Others to be Announced

Lifelines **Patricia Brigantic**
Director and Counsel
Salomon Smith Barney/Citigroup
James Johnson
Partner
Deloitte & Touche, LLP
Lucy Farr
Associate
Davis, Polk & Wardwell

5:00 p.m. **Cocktails**

Registration Information

Registration Fees:

02898

Member: $895 (additional registrants from the same firm are $695 each)
Non-member: $1,095 (additional registrants from the same firm are $895 each)
Pre-Conference Workshop: $195

Refund Policy: The Association will issue refunds, each subject to a $75 service charge, on cancellations received **in writing** on or before Friday, November 30, 2001. No refunds will be issued on cancellations after this date. Substitutes are welcome at any time.

Hotel Reservations: For your convenience, a limited number of guest rooms have been reserved at the Roosevelt Hotel, 45 East 45th Street, New York City. For hotel reservations, please call the Roosevelt Hotel at 888.833.3969. Be certain to mention you are attending The Bond Market Association's conference.

For further information, please call Mary Garcia at **(212) 440-9429.**

Registration Form

- [ ] Member (first registrant): **$895**
- [ ] Additional registrants from same firm: **$695**

- [ ] Nonmember (first registrant): **$1,095**
- [ ] Additional registrants from same firm: **$895**
- [ ] Regulators and Non-profit Associations: **$395**

- [ ] Pre-Conference Workshop: **$195**

Individual Registration:

Your Name

Name for Badge

Title

Company

Address

City State Zip

Phone Fax

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e-mail

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From: Carleton, Norman
Sent: Thursday, December 13, 2001 4:31 PM
To: 'Robert.Elsasser@ny.frb.org'
Subject: RE: Enron Update

Sorry not to reply to you sooner on this

Could you put me on your general distribution list? Thanks.

Norman Carleton

-----Original Message-----
From: Robert.Elsasser@ny.frb.org [mailto:Robert.Elsasser@ny.frb.org]
Sent: Monday, November 26, 2001 10:46 AM
To: Norman.Carleton@do.treas.gov
Subject: Re: Enron Update

No problem. I can have you added to our general distribution list. This would mean that you would receive our morning and afternoon recaps and special reports on a variety of global markets. Alternatively, I can just remember to add you to any future Enron reports that we produce. They may be few and far between.

Bob Elsasser
Government Securities, FRBNY
robert.elsasser@ny.frb.org
212.720.1234

Norman.Carleton@do.treas.gov
11/20/2001 02:53 PM

To: Robert.Elsasser@ny.frb.org
cc:
Subject: Enron Update

I have also been following Enron developments, which bear heavily on the retail swaps report. I would appreciate being put on the distribution list for any further work you send here on that subject. Thanks.

Norman Carleton

02901

01300000001510

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, November 20, 2001 2:54 PM
To: 'Robert.Elsasser@ny.frb.org'
Subject: Enron Update

I have also been following Enron developments, which bear heavily on the retail swaps report. I would appreciate being put on the distribution list for any further work you send here on that subject. Thanks.

Norman Carleton

02902

01300000001511

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, October 02, 2001 1:52 PM
To: Nickoloff, Peter; Schultheiss, Heidilynne
Subject: FW: Discussion with Ken Raisler about Enron Product

-----Original Message-----
From: Hammer, Viva
Sent: Monday, October 01, 2001 3:09 PM
To: Carleton, Norman
Subject: RE: Discussion with Ken Raisler about Enron Product

Retail Swaps.doc

one versin of retail swaps

-----Original Message-----
From: Carleton, Norman
Sent: Saturday, September 08, 2001 1:10 PM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Discussion with Ken Raisler about Enron Product

On Friday, September 7, I discussed the retail energy swap issue with Ken Raisler. He is a partner at Sullivan & Cromwell who represents Enron. In the mid 1980s, he was the general counsel of the CFTC.

I asked Ken if Enron opposed state regulation of retail energy derivatives if the CFTC were to grant an exemption for this product. The first answer to this question was yes, but that answer was modified as we further discussed the issue.

I asked Ken if he thought that there was a preemption argument that could be made because of CFTC exclusive jurisdiction. He said he thought there was. He said Enron would not make such a legal argument because it is regulated in some states as a utility company, but that others might make such an argument.

I told Ken that the Treasury had not come to a conclusion about the retail energy swap issue but that we were unlikely to support a result that would mean no federal regulation and would not allow state governments to regulate this product if they chose to do so. He asked me what regulatory issues might be of concern. I answered that such issues as advertising, pricing, and assurances that the company offering the product had the financial ability to meet its obligations might be subjects that governments would be concerned about. Ken said he thought that this was a reasonable position.

I asked Ken whether he thought that the CFTC could exempt retail energy swaps from the exclusive jurisdiction provision of the CEA, thus precluding any arguments about state jurisdiction. He said he thought that might be possible.

At the end of the conversation, Ken indicated he would talk to his client about the issues I had raised.

[(b)(5)]

Tracking:

Recipient	Delivery	Read
ic olo ete	eli e ed	Read
Sc lt eiss eidil e	eli e ed	Read

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01300000001520

Retail Swaps

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[(b)(5)]

02913

Carleton, Norman

From: Carleton, Norman
Sent: Monday, September 10, 2001 11:34 AM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Retail Swaps - Telephone Call from Elizabeth Fox

[(b)(5)]

Tracking:

Recipient	Delivery	Read
Bair, Sheila	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:43 AM
DeMarco, Edward	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 4:15 PM
Eichner, Matthew	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:34 AM
Ellett, Martha	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 12:51 PM
Fisher, Peter	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:46 AM
Gabilondo, Jose	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:39 AM
Gross, Jared	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:48 AM
Hammer, Viva	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:49 AM
Hughes, Gerry	Delivered: 9/10/01 11:34 AM	
Nickoloff, Peter	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:35 AM
Novey, Michael	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:54 AM
Roseboro, Brian	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 12:01 PM
Schultheiss, Heidilynne	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:34 AM
Smith, Amy	Delivered: 9/10/01 11:34 AM	
Sutton, Gary	Delivered: 9/10/01 11:34 AM	Read: 9/10/01 11:34 AM

Carleton, Norman

From: Carleton, Norman
Sent: Saturday, September 08, 2001 1:10 PM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Discussion with Ken Raisler about Enron Product

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I asked Ken whether he thought that the CFTC could exempt retail energy swaps from the exclusive jurisdiction provision of the CEA, thus precluding any arguments about state jurisdiction. He said he thought that might be possible.

At the end of the conversation, Ken indicated he would talk to his client about the issues I had raised.

[(b)(5)]

02916

01300000001525

Carleton, Norman

From: Carleton, Norman
Sent: Saturday, September 08, 2001 1:07 PM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Retail Swaps Study Group Meeting -- September 6

[(b)(5)]

02917

01300000001526

[(b)(5)]

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, June 19, 2001 2:42 PM
To: Annette Nazareth (E-mail); Belinda Blaine (E-mail); Bob Colby (E-mail); Bob Zwirb (E-mail); 'David Wall'; 'Diane Virzera'; Eichner, Matthew; Elizabeth Fox (E-mail); Eric Hirschhorn (E-mail); Hammer, Viva; John Polise (E-mail); 'Joyce Hansen'; Kathryn Dick (E-mail); Kevin Erickson (E-mail); Kurt Wilhelm (E-mail); Lori Sanatamorena (E-mail); 'Miguel Browne'; Nickoloff, Peter; Novey, Michael; Pat Parkinson (E-mail); 'Pat White'; Schultheiss, Heidilynne
Cc: Gross, Jared; Ellett, Martha; Sutton, Gary; Gabilondo, Jose; DeMarco, Edward; Hughes, Gerry
Subject: FW: Suggested Interviewees

-----Original Message-----
From: Zwirb, Robert S. [mailto:bzwirb@CFTC.gov]
Sent: Tuesday, June 19, 2001 2:35 PM
To: 'Norman.Carleton@do.treas.gov'
Subject: Suggested Interviewees

Here is our list of organizations/individuals that we propose to interview for the retail swaps study:

[(b)(5)]

Tracking:

Recipient	Delivery	Read
Annette Nazareth (E-mail)		
Belinda Blaine (E-mail)		
Bob Colby (E-mail)		
Bob Zwirb (E-mail)		
'David Wall'		
'Diane Virzera'		
Eichner, Matthew	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 4:06 PM
Elizabeth Fox (E-mail)		
Eric Hirschhorn (E-mail)		
Hammer, Viva	Delivered: 6/19/01 2:42 PM	Read: 6/20/01 1:54 PM
John Polise (E-mail)		
'Joyce Hansen'		
Kathryn Dick (E-mail)		
Kevin Erickson (E-mail)		
Kurt Wilhelm (E-mail)		
Lori Sanatamorena (E-mail)		
'Miguel Browne'		
Nickoloff, Peter	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:45 PM
Novey, Michael	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 5:04 PM
Pat Parkinson (E-mail)		
'Pat White'		
Schultheiss, Heidilynne	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:42 PM
Gross, Jared	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 2:42 PM
Ellett, Martha	Delivered: 6/19/01 2:42 PM	Read: 6/21/01 9:34 AM
Sutton, Gary	Delivered: 6/19/01 2:42 PM	Read: 7/2/01 9:04 AM
Gabilondo, Jose	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 3:00 PM
DeMarco, Edward	Delivered: 6/19/01 2:42 PM	Read: 6/19/01 4:10 PM
Hughes, Gerry	Delivered: 6/19/01 2:42 PM	

From: Carleton, Norman
Sent: Tuesday, August 07, 2001 8:39 PM
To: 'Raislerk@sullcrom.com'
Subject: RE: CFTC Presentation -- Final Version

Ken,

Thanks. I received it this evening.

Norman

-----Original Message-----
From: Raislerk@sullcrom.com [mailto:Raislerk@sullcrom.com]
Sent: Tuesday August 07, 2001 7:10 PM
To: norman.carleton@do.treas.gov
Subject: FW: CFTC Presentation -- Final Version

This is the right version. Please acknowledge receipt.

-----Original Message-----
From: chendrix@enron.com [mailto:chendrix@enron.com]
Sent: Tuesday, August 07, 2001 6:42 PM
To: Raislerk@sullcrom.com
Subject: RE: CFTC Presentation -- Final Version

Here you go. (See attached file: cftc_final.ppt)

Raislerk@sullcrom.com on 08/07/2001 05:06:50 PM

To: chendrix@enron.com
cc:
Subject: RE: CFTC Presentation -- Final Version

Chris,

As I am sure Scott told you, this presentation went very well. Treasury has asked for copies in electronic form. Can you resend this to me without the notes imbedded so I can forward it on to them. Thanks.

Ken

-----Original Message-----
From: chendrix@enron.com [mailto:chendrix@enron.com]
Sent: Wednesday, August 01, 2001 3:57 PM
To: Raislerk@sullcrom.com
Subject: CFTC Presentation -- Final Version

Attached is the final version of the presentation. (See attached file: cftc_final_presentation.ppt)

----

immediately.

This e-mail is sent by a law firm and contains information that may be privileged and confidential. If you are not the intended recipient, please delete the e-mail and notify us immediately.

Carleton, Norman

From:	Carleton, Norman
Sent:	Wednesday, July 11, 2001 5:51 PM
To:	Hammer, Viva; Novey, Michael; Eichner, Matthew
Subject:	RE: Interviews

They will most likely be on August 1 and 2 at the FRBNY. Morgan Stanley, Goldman, Refco, Enron, J.P Morgan Chase, and ISDA have said they would come. There is an attempt to schedule Lehman and Deutsche Bank. AIG and Citibank are not interested. We may try to contact State Farm.

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

From: Hammer, Viva
Sent: Wednesday, July 11, 2001 5:35 PM
To: Carleton, Norman
Subject:

could you get us some more information on the wheres and whens of the interviews?

Tracking:

Recipient	Delivery	Read
Hammer, Viva	Delivered: 7/11/01 5:51 PM	Read: 7/12/01 1:49 PM
Novey, Michael	Delivered: 7/11/01 5:51 PM	Read: 7/11/01 6:07 PM
Eichner, Matthew	Delivered: 7/11/01 5:51 PM	Read: 7/11/01 8:27 PM

02940

01300000001549

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, May 16, 2001 2:44 PM
To: Gabilondo, Jose
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(6)]

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:36 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

[(b)(6)]

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 2:35 PM
To: Gabilondo, Jose
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:32 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 11:48 AM
To: Paulus, Michael; Nickoloff, Peter; Schultheiss, Heidilynne; Novey, Michael; Hammer, Viva; Eichner, Matthew; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; DeMarco, Edward
Subject: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

<< File: retail swaps redline.wpd >>

<< File: retail swap study release (10).wpd >>

Tracking:

Recipient	Delivery	Read
Gabilondo, Jose	Delivered: 5/16/01 2:44 PM	Read: 5/16/01 3:07 PM

02943

01300000001552

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, May 16, 2001 2:35 PM
To: Gabilondo, Jose
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:32 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 11:48 AM
To: Paulus, Michael; Nickoloff, Peter; Schultheiss, Heidilynne; Novey, Michael; Hammer, Viva; Eichner, Matthew; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; DeMarco, Edward
Subject: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

<< File: retail swaps redline.wpd >>

<< File: retail swap study release (10).wpd >>

Tracking:

Recipient	Delivery	Read
Gabilondo, Jose	Delivered: 5/16/01 2:35 PM	Read: 5/16/01 2:35 PM

02944

01300000001553

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, March 21, 2001 10:47 AM
To: Barber, Francine
Subject: FW: Bankruptcy Reform Mark-up Hearing

-----Original Message-----
From: Huffman, Lucy
Sent: Thursday, February 15, 2001 12:18 PM
To: Carleton, Norman
Subject: RE: Bankruptcy Reform Mark-up Hearing

thanks. if you have time ,a couple of questions:

[(b)(5)]

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, February 15, 2001 11:19 AM
To: Huffman, Lucy
Subject: FW: Bankruptcy Reform Mark-up Hearing

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, February 15, 2001 10:07 AM
To: Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Don,

[(b)(5)]

02945

01300000001554

[(b)(5)]

Norman

-----Original Message-----
From: Hammond, Donald
Sent: Thursday, February 15, 2001 8:26 AM
To: DeMarco, Edward; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: RE: Bankruptcy Reform Mark-up Hearing

Ed,

[(b)(5)]

Don

-----Original Message-----
From: DeMarco, Edward
Sent: Thursday, February 15, 2001 8:22 AM
To: Hammond, Donald; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: FW: Bankruptcy Reform Mark-up Hearing

FYI

-----Original Message-----
From: Robbins, Eric
Sent: Wednesday, February 14, 2001 5:45 PM
To: DeMarco, Edward
Cc: Tishuk, Brian
Subject: Bankruptcy Reform Mark-up Hearing

H.R. 333, the "Bankruptcy Abuse Prevention and Consumer Protection Act 2001" was reported out of the House Judiciary Committee on Wednesday, February 14, 2001. During the mark-up hearing, eighteen amendments were offered with all but one amendment failing to pass. Voting occurred largely along party lines. The only amendment that passed was a technical amendment offered by Chairman Sensenbrenner. Only one Republican crossed party lines to vote for one of the seventeen other amendments that failed.

Representative Bachus (R-AL) assured the committee that he was committed to working with Representative Oxley from the Financial Services Committee on commercial bankruptcy provisions and netting requirements.

Tracking:	Recipient	Delivery	Read
	Barber, Francine	Delivered: 3/21/01 10:47 AM	Read: 3/21/01 12:00 PM

02946

0130000001555

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, March 21, 2001 10:45 AM
To: Barber, Francine
Subject: FW: Proposed Changes to Netting Bill -- Comments

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, February 13, 2001 5:08 PM
To: Hughes, Gerry
Subject: FW: Proposed Changes to Netting Bill -- Comments

-----Original Message-----
From: Krimminger, Michael H. [mailto:MKrimminger@FDIC.gov]
Sent: Tuesday, February 13, 2001 4:47 PM
To: 'norman.carleton@do.treas.gov'; 'stephanie.martin@frb.gov'; 'Tom.McGivern@do.treas.gov'; 'MooneyJ@sec.gov'
Cc: DeLoose, Michael; Ivie, Stanley R.; Tishuk, Barbara Starke
Subject: Proposed Changes to Netting Bill -- Comments

[(b)(5)]

02947

01300000001556

[(b)(5)]

Please review and let me know your thoughts.
Thanks,
Mike

Tracking:	**Recipient**	**Delivery**	**Read**
	Barber, Francine	Delivered: 3/21/01 10:45 AM	Read: 3/21/01 11:58 AM

Weekly Activity Report, Federal Finance Policy Analysis, June 14 - June 18, 1999

[(b)(5)]

02949

Nickoloff, Peter

From: Carleton, Norman
Sent: Tuesday, August 07, 2001 10:07 AM
To: Bair, Sheila; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Sutton, Gary
Cc: Hamilton, Tynise
Subject: Retail Swaps Study -- Memo on New York Interviews

Attached is a relatively informal memo on the New York interviews. There were designated note takers at these interviews, and their summaries should be distributed soon.

This memo is not for distribution outside of Treasury. We promised confidentiality to the interviewees. In particular, Enron made a point that it did not want its business plans be made public at this time.

rs interview summary word.doc

02961

01300000001570

August 7, 2001

MEMORANDUM FOR FILES

From: Norman Carleton

Subject: Retail Swaps Study Group Interviews at FRBNY, 8/01 - 8/02/01

[(b)(5)]

02962

[(b)(5)]

[(b)(5)]

From: John Yetter
To: DOM3.DOPO6(CARLETONN, MCGIVERNT), NICKOLOFFP
Date: 3/17/00 3:20pm
Subject: Financial Netting provisions of H.R. 833 - bankruptcy bill -Reply -Reply -Reply -Reply -Reply

No, I don't know.

>>> Peter Nickoloff 03/17/00 03:17pm >>>
I have no comments or edits on the letters except to ask if they've yet been circulated to the other WG agencies. Norman has been out of the office since 3/10 (and isn't scheduled to return until 3/27), so I can't say whether he had a chance to forward the letters on before he left. John, would you know?

>>> John Yetter 03/17/00 02:50pm >>>
[(b)(6)] I have attached your original e-mail and copied Norman's staff to see if they have any comments.

>>> Tom McGivern 03/17/00 02:46pm >>>
Norman, do you have comments/edits?

>>> John Yetter 03/10/00 10:18am >>>
[(b)(5)]

>>> Tom McGivern 03/09/00 06:36pm >>>
[(b)(5)]

On the Enron proposals Norman received:

[(b)(5)]

Thanks.

CC: DOM3.DOPO5(TooheyF), DOM3.DOPO6(schultheissh),

02967

01300000001576

From: Peter Nickoloff
To: DOM3.DOPO6(CARLETONN, MCGIVERNT), YETTERJ
Date: 3/17/00 3:17pm
Subject: Financial Netting provisions of H.R. 833 - bankruptcy bill -Reply -Reply -Reply -Reply

I have no comments or edits on the letters except to ask if they've yet been circulated to the other WG agencies. Norman has been out of the office since 3/10 (and isn't scheduled to return until 3/27), so I can't say whether he had a chance to forward the letters on before he left. John, would you know?

>>> John Yetter 03/17/00 02:50pm >>>
[(b)(6)] I have attached your original e-mail and copied Norman's staff to see if they have any comments.

>>> Tom McGivern 03/17/00 02:46pm >>>
Norman, do you have comments/edits?

>>> John Yetter 03/10/00 10:18am >>>
[(b)(5)]

>>> Tom McGivern 03/09/00 06:36pm >>>
[(b)(5)]

On the Enron proposals Norman received:

[(b)(5)]

Thanks.

CC: DOM3.DOPO5(TooheyF), DOM3.DOPO6(schultheissh),

02968

From: John Yetter
To: DOM3.DOPO6(CARLETONN), MCGIVERNT
Date: 3/17/00 2:50pm
Subject: Financial Netting provisions of H.R. 833 - bankruptcy bill -Reply -Reply -Reply

[(b)(6)] I have attached your original e-mail and copied Norman's staff to see if they have any comments.

>>> Tom McGivern 03/17/00 02:46pm >>>
Norman, do you have comments/edits?

>>> John Yetter 03/10/00 10:18am >>>
I agree with all of Tom's comments on the Enron proposals and don't have any comments on the letter.

>>> Tom McGivern 03/09/00 06:36pm >>>
[(b)(5)]

On the Enron proposals Norman received:

[(b)(5)]

Thanks.

CC: DOM3.DOPO5(TooheyF), nickoloffp, schultheissh

02969

3/9/2000 draft letter to bankruptcy conferees

The Honorable Henry Hyde
Chairman
Committee on the Judiciary
United States House of Representatives
Washington, D.C.

The Honorable John Conyers, Jr.
Committee on the Judiciary
United States House of Representatives
Washington, D.C.

Dear Chairman Hyde and Representative Conyers:

[(b)(5)]

02970

Sincerely,

Lawrence H. Summers

cc: The Honorable George W. Gekas
The Honorable Jerrold Nadler

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, March 21, 2001 10:47 AM
To: Barber, Francine
Subject: FW: Bankruptcy Reform Mark-up Hearing

-----Original Message-----
From: Huffman, Lucy
Sent: Thursday, February 15, 2001 12:18 PM
To: Carleton, Norman
Subject: RE: Bankruptcy Reform Mark-up Hearing

[(b)(5)]

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, February 15, 2001 11:19 AM
To: Huffman, Lucy
Subject: FW: Bankruptcy Reform Mark-up Hearing

-----Original Message-----
From: Carleton, Norman
Sent: Thursday, February 15, 2001 10:07 AM
To: Hammond, Donald; DeMarco, Edward; Ellis, Dina; Huffman, Lucy; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric; Paulus, Michael; Sutton, Gary; Huffman, Lucy; McGivern, Tom; Nickoloff, Peter; Schultheiss, Heidilynne; Gross, Jared
Subject: RE: Bankruptcy Reform Mark-up Hearing

Don,

[(b)(5)]

[(b)(5)]

Norman

-----Original Message-----
From: Hammond, Donald
Sent: Thursday, February 15, 2001 8:26 AM
To: DeMarco, Edward; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: RE: Bankruptcy Reform Mark-up Hearing

Ed,

[(b)(5)]

Don

-----Original Message-----
From: DeMarco, Edward
Sent: Thursday, February 15, 2001 8:22 AM
To: Hammond, Donald; Ellis, Dina; Huffman, Lucy; Carleton, Norman; McInerney, Roberta; Constantine, Eleni; Hughes, Gerry; Stewart, Lawranne
Cc: Tishuk, Brian; Robbins, Eric
Subject: FW: Bankruptcy Reform Mark-up Hearing

FYI

-----Original Message-----
From: Robbins, Eric
Sent: Wednesday, February 14, 2001 5:45 PM
To: DeMarco, Edward
Cc: Tishuk, Brian
Subject: Bankruptcy Reform Mark-up Hearing

H.R. 333, the "Bankruptcy Abuse Prevention and Consumer Protection Act 2001" was reported out of the House Judiciary Committee on Wednesday, February 14, 2001. During the mark-up hearing, eighteen amendments were offered with all but one amendment failing to pass. Voting occurred largely along party lines. The only amendment that passed was a technical amendment offered by Chairman Sensenbrenner. Only one Republican crossed party lines to vote for one of the seventeen other amendments that failed.

Representative Bachus (R-AL) assured the committee that he was committed to working with Representative Oxley from the Financial Services Committee on commercial bankruptcy provisions and netting requirements.

Tracking:	Recipient	Delivery	Read
	Barber, Francine	Delivered: 3/21/01 10:47 AM	Read: 3/21/01 12:00 PM

02981

01300000001590

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, March 21, 2001 10:45 AM
To: Barber, Francine
Subject: FW: Proposed Changes to Netting Bill -- Comments

-----Original Message-----
From: Carleton, Norman
Sent: Tuesday, February 13, 2001 5:08 PM
To: Hughes, Gerry
Subject: FW: Proposed Changes to Netting Bill -- Comments

-----Original Message-----
From: Krimminger, Michael H. [mailto:MKrimminger@FDIC.gov]
Sent: Tuesday, February 13, 2001 4:47 PM
To: 'norman.carleton@do.treas.gov'; 'stephanie.martin@frb.gov'; 'Tom.McGivern@do.treas.gov'; 'MooneyJ@sec.gov'
Cc: DeLoose, Michael; Ivie, Stanley R.; Tishuk, Barbara Starke
Subject: Proposed Changes to Netting Bill -- Comments

[(b)(5)]

02982

01300000001591

[(b)(5)]

Please review and let me know your thoughts.
Thanks,
Mike

Tracking:	**Recipient**	**Delivery**	**Read**
	Barber, Francine	Delivered: 3/21/01 10:45 AM	Read: 3/21/01 11:56 AM

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, December 05, 2001 2:58 PM
To: Gabilondo, Jose
Subject: RE: Enron collage

Thanks.

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, December 05, 2001 2:56 PM
To: Carleton, Norman
Subject: Enron collage

Norman:

Here -- for what they're worth -- are the best of my Enron resources. Here's the link to a daily price chart of Enron's common stock, which is easier to drag on to your screen and to open (rather than saving): << File: energysquib.doc >>

This is a tiny note that I wrote about Enron market structure << File: article2.htm >> . These are two (now dated) market intelligence pieces about Enron: << File: article.htm >> << File: ar2000.pdf >> Here's the 2000 annual report - << File: Pwr_mkters_110201.ppt >> and here's a list of the top 20

power marketers prepared by an energy consulting group - . Hope that you like the Paul Klee format.

José

Tracking:

Recipient	Delivery	Read
Gabilondo, Jose	Delivered: 12/5/01 2:58 PM	Read: 12/5/01 3:08 PM

03012

01300000001622

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, May 16, 2001 2:44 PM
To: Gabilondo, Jose
Subject: RE: New Version of Retail Swap Study Federal Register Release

I wasn't able to make it either because of this project. [(b)(6)]

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:36 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

Oh I think that it makes sense.

[(b)(6)]

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 2:35 PM
To: Gabilondo, Jose
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:32 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

So now we're reaching out to the energy swaps market (I assume that means Enron) and mortgage bankers? OK. I don't have any remarks.

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 11:48 AM
To: Paulus, Michael; Nickoloff, Peter; Schultheiss, Heidilynne; Novey, Michael; Hammer, Viva; Eichner, Matthew; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; DeMarco, Edward
Subject: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

<< File: retail swaps redline.wpd >>

<< File: retail swap study release (10).wpd >>

Tracking:

Recipient	Delivery	Read
Gabilondo, Jose	Delivered: 5/16/01 2:44 PM	Read: 5/16/01 3:07 PM

03014

01300000001624

Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, May 16, 2001 2:35 PM
To: Gabilondo, Jose
Subject: RE: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

-----Original Message-----
From: Gabilondo, Jose
Sent: Wednesday, May 16, 2001 2:32 PM
To: Carleton, Norman
Subject: RE: New Version of Retail Swap Study Federal Register Release

So now we're reaching out to the energy swaps market (I assume that means Enron) and mortgage bankers? OK. I don't have any remarks.

José

-----Original Message-----
From: Carleton, Norman
Sent: Wednesday, May 16, 2001 11:48 AM
To: Paulus, Michael; Nickoloff, Peter; Schultheiss, Heidilynne; Novey, Michael; Hammer, Viva; Eichner, Matthew; Sutton, Gary; Ellett, Martha; Gabilondo, Jose; DeMarco, Edward
Subject: New Version of Retail Swap Study Federal Register Release

[(b)(5)]

<< File: retail swaps redline.wpd >>

<< File: retail swap study release (10).wpd >>

Tracking:

Recipient	Delivery	Read
Gabilondo, Jose	Delivered: 5/16/01 2:35 PM	Read: 5/16/01 2:35 PM

03015

Carleton, Norman

From:	Carleton, Norman
Sent:	Wednesday, July 11, 2001 5:51 PM
To:	Hammer, Viva; Novey, Michael; Eichner, Matthew
Subject:	RE: Interviews

They will most likely be on August 1 and 2 at the FRBNY. Morgan Stanley, Goldman, Refco, Enron, J.P Morgan Chase, and ISDA have said they would come. There is an attempt to schedule Lehman and Deutsche Bank. AIG and Citibank are not interested. We may try to contact State Farm.

-----Original Message-----
From: Hammer, Viva
Sent: Wednesday, July 11, 2001 5:35 PM
To: Carleton, Norman
Subject:

could you get us some more information on the wheres and whens of the interviews?

Tracking:

Recipient	Delivery	Read
Hammer, Viva	Delivered: 7/11/01 5:51 PM	Read: 7/12/01 1:49 PM
Novey, Michael	Delivered: 7/11/01 5:51 PM	Read: 7/11/01 6:07 PM
Eichner, Matthew	Delivered: 7/11/01 5:51 PM	Read: 7/11/01 8:27 PM

03022

01300000001632

Carleton, Norman

From: Carleton, Norman
Sent: Tuesday, October 02, 2001 1:52 PM
To: Nickoloff, Peter; Schultheiss, Heidilynne
Subject: FW: Discussion with Ken Raisler about Enron Product

-----Original Message-----
From: Hammer, Viva
Sent: Monday, October 01, 2001 3:09 PM
To: Carleton, Norman
Subject: RE: Discussion with Ken Raisler about Enron Product

Retail Swaps.doc

one versin of retail swaps

-----Original Message-----
From: Carleton, Norman
Sent: Saturday, September 08, 2001 1:10 PM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Ellett, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Discussion with Ken Raisler about Enron Product

On Friday, September 7, I discussed the retail energy swap issue with Ken Raisler. He is a partner at Sullivan & Cromwell who represents Enron. In the mid 1980s, he was the general counsel of the CFTC.

I asked Ken if Enron opposed state regulation of retail energy derivatives if the CFTC were to grant an exemption for this product. The first answer to this question was yes, but that answer was modified as we further discussed the issue.

I asked Ken if he thought that there was a preemption argument that could be made because of CFTC exclusive jurisdiction. He said he thought there was. He said Enron would not make such a legal argument because it is regulated in some states as a utility company, but that others might make such an argument.

I told Ken that the Treasury had not come to a conclusion about the retail energy swap issue but that we were unlikely to support a result that would mean no federal regulation and would not allow state governments to regulate this product if they chose to do so. He asked me what regulatory issues might be of concern. I answered that such issues as advertising, pricing, and assurances that the company offering the product had the financial ability to meet its obligations might be subjects that governments would be concerned about. Ken said he thought that this was a reasonable position.

I asked Ken whether he thought that the CFTC could exempt retail energy swaps from the exclusive jurisdiction provision of the CEA, thus precluding any arguments about state jurisdiction. He said he thought that might be possible.

At the end of the conversation, Ken indicated he would talk to his client about the issues I had raised.

[(b)(5)]

Tracking:

Recipient	Delivery	Read
ic olo ete	eli e ed	Read
Sc lt eiss eidil e	eli e ed	Read

03039

01300000001649

Retail Swaps

[(b)(5)]

03040

01300000001650

[(b)(5)]

03041

01300000001651