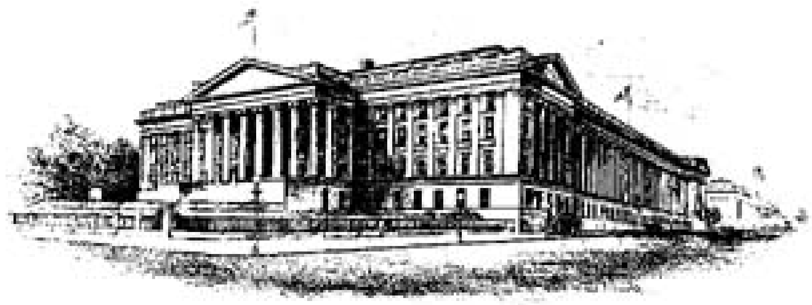

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

Embargoed until 10:00 AM
October 31, 2001

Contact Betsy Holahan
at 202-622-2960.

UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE
PETER R. FISHER
REMARKS AT THE NOVEMBER 2001 QUARTERLY REFUNDING

As a consequence of the further weakening of the economy and the increased federal outlays that have occurred since the attacks of September 11th, the near-term financing requirements of the federal government are larger than we anticipated just three months ago at our last quarterly refunding in August. In this setting, the management of the Treasury's marketable debt needs to anticipate the possibility of a unified budget deficit for this fiscal year and, perhaps, the following fiscal year as well. However, even if this happens, we expect that the federal government will return to surpluses in the coming years.

With this outlook in mind, today we are announcing:

- The terms of the November refunding, including a new 5-year note in the amount of $16 billion and a reopening of the 5 percent 10-year note issued in August 2001 in the amount of $7 billion; and that
- We are adjusting the debt buyback program as follows:
    - We will continue to conduct buybacks for the remainder of this calendar year;
    - We will make no buybacks in January 2002; and
    - Beginning in February 2002, we will announce at our quarterly refundings the amount and timing of any buyback operations for the subsequent three-month period; and finally that

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- We are suspending issuance of the 30-year bond: there will be no auction of 30-year securities in February 2002 and we plan no further auctions of either 30-year nominal or inflation-adjusted bonds.

Recent Changes in the Fiscal Outlook

Debt issuance over the past several years has been structured in an environment of large budget surpluses. However, the fiscal environment has changed substantially over the past few months due to the slowdown in economic activity and to the federal government's prompt response to the attacks of September 11th. The Treasury's debt management has adjusted already, and will continue to adjust, as we accommodate the federal government's increased financing needs during this period. But our expectation is that these heightened financing requirements will prove short-lived, as the economy eventually strengthens, and as the pressures for increased federal outlays stemming from the attacks of September 11th subside.

Suspension of Thirty-Year Borrowing

The debt management strategy of the Treasury has been to strive to be regular and predictable in the issuance of debt while minimizing borrowing costs over many years and interest rate cycles. The Treasury does not try to outsmart the market at any one moment or to be a "market timer" with respect to any particular shape of the yield curve. However, debt management necessarily involves judgments about the size and duration of the federal government's borrowing needs. This compels us to focus on likely borrowing needs over the coming years but we also take into account the likely consequences of unlikely outcomes.

We do not need the 30-year bond to meet the government's current financing needs, nor those that we expect to face in coming years. Looking beyond the next few years, as I already observed, we believe that the likely outcome is that the federal government's fiscal position will improve after the temporary setback that we are now experiencing.

There are two less likely outcomes that we have also considered.

First, it is possible that the federal government will return to significant and sustained budget surpluses even more quickly than we now expect. In this event, maintaining current issuance levels of 30-year bonds would be unnecessary and expensive to taxpayers.

Second, we face the possibility that sustained surpluses do not materialize as promptly as we now expect. If later in this decade it turns out that 30-year borrowing is necessary to meet the government's financing needs, it is still likely that our decision to suspend 30-year borrowing at this time will have saved the taxpayers money. In addition, the reintroduction of the 30-year bond, at some point in the future, if necessary, would likely be costless to the Treasury.

The 30-year bond no longer maintains a position of significance in the financial markets. Its role and its liquidity have been significantly impaired by the substantial reduction of issuance that has occurred over the last decade. But the markets have functioned smoothly during this period while both activity and attention have shifted to our 10-year offerings.

As long as we have borrowing requirements to finance, the Treasury will seek to maintain the liquidity and depth of the instruments we issue as a means of achieving the lowest cost of borrowing for the taxpayer over time. At this time, the best means for us to do this is to suspend issuance of the 30-year bond and concentrate our borrowing needs on our other instruments.

Adjustment of the buyback program

In response to the altered budget outlook for this fiscal year, we are also making adjustments in our buyback program. Beginning in February 2002, our decisions on whether to conduct buyback operations, and on the amount and timing of any purchases, will be made at the time of our regular quarterly refunding announcements and will be based upon three factors:

- first, our projections of the federal government's annual, unified surplus or deficit position;
- second, our projections of that three-month period's cash position; and,
- third, our analysis of how best to minimize borrowing costs over time.

In making the transition to these new procedures, our buyback operations for the remainder of this calendar year will continue in line with our prior announcements. In August we stated that we would be purchasing approximately $9 billion during the fourth calendar quarter. So far we have purchased $2.5 billion and the remaining $6.5 billion will be purchased in November and December. Due to the holidays in November and December, however, the timing of our specific announcements will be altered from recent practice. We will make announcements of the specific amounts and maturities of our purchases on November 14 and 28 and on December 12 and 19 for operations to take place on the following day.

We will make no buyback purchases in January 2002. Beginning with our February 2002 quarterly refunding, we will include the details of any buyback operations to be conducted in the subsequent three months in our regular refunding announcements.

In light of the information that we now have, market participants should understand that there are likely to be periods in which we do not conduct buyback operations and that there are likely to be other periods in which we do conduct such operations, consistent with the ebb and flow of our cyclical cash position. But the presence or absence of these operations will be clearly announced, in advance, as part of our refunding process.

Terms of the November Refunding

I will now turn to the terms of the November Refunding. We are offering $23 billion of notes to refund approximately $21.6 billion of privately held notes and bonds maturing on November 15, raising approximately $1.4 billion. The securities are:

1. A new 5-year note in the amount of $16 billion, maturing November 15, 2006.

2. A re-opening of the 5% 10-year note issued in August 2001 and previously reopened in October 2001, maturing August 15, 2011, in the amount of $7 billion.

These securities will be auctioned on a yield basis at 1:00 p.m. eastern time on Tuesday, November 6, and Wednesday, November 7, respectively. The balance of our financing requirements will be met through 2-year note and bill offerings.

As announced on Monday, we estimate that we will have a $35 billion cash balance on December 31 and a $30 billion cash balance on March 31.

Our next quarterly refunding announcement will take place on Wednesday, January 31, 2002.

From: Cetina, Jill

Sent: Thursday, December 06, 2001 12:42 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Market Noon Report, Dec 6th

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Monday, December 03, 2001 7:49 AM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Market Morning Report, Dec 3rd

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Friday, November 30, 2001 8:00 AM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Market Morning Report, Nov 30th

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Thursday, November 29, 2001 5:24 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Market Closing Report; Nov 29th

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Wednesday, November 21, 2001 12:22 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Market Noon Report -- Volumes thin as Thanksgiving looms

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Thursday, November 01, 2001 12:45 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Market Noon Report -- Nov 1 -- Fixed income still the focus

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Tuesday, November 20, 2001 12:22 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Market Noon Report, Nov 20th

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Wednesday, October 31, 2001 1:02 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Oct 31 Noon Report -- A morning of surprises.. better-than-expected data but the curve flattens

[(b)(5)]

[(b)(5)]

From: Cetina, Jill

Sent: Monday, October 29, 2001 12:27 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Financial Market Noon Report, Oct 29th

[(b)(5)]

[(b)(5)]

From: Cetina, Jill
Sent: Monday, July 09, 2001 4:29 PM
To: _DL_Market Group
Cc: Lundsager, Meg; 'kmalmgre@opd.eop.gov'
Subject: Financial Market Closing Report, July 9, 2001

[(b)(5)]

[(b)(5)]

PG&E, Edison and Involuntary Bankruptcy Facts: Q & A (Correct)
2/2/1 14:47 (New York)

PG&E, Edison and Involuntary Bankruptcy Facts: Q & A (Correct)

(Eliminates redundant headline.)

San Francisco, Feb. 2 (Bloomberg) -- PG&E Corp., Pacific Gas & Electric and Edison International's Southern California Edison have defaulted on more than $1 billion in debt, making them vulnerable to an involuntary bankruptcy proceeding. Here are questions and answers about how creditors may take steps to push the utilities into bankruptcy.

California Governor Gray Davis said he expects legislators to complete a bill by Feb. 12 that helps the utilities with the more than $11.5 billion in debt they've accumulated.

Q. How does the possibility of a new bill, addressing the utilities' past debts, change the likelihood of an involuntary bankruptcy?

A. It makes it less likely creditors would take such action, legal experts said.

``As a practical matter, if there's a promise of repayment and they can see a payment coming, they'd be inclined to step down and not push a company into bankruptcy,'' said Iain Macdonald, a San Francisco-based bankruptcy lawyer. ``That would only delay payment.''

Also, unsecured creditors are among the last people to get paid in a bankruptcy, reducing their incentive to push the utilities into bankruptcy.

Q. What does it take to force a company into involuntary bankruptcy?

A. Any group of three or more creditors, with unsecured claims totaling more than $10,775, can file a petition seeking to put the utilities into involuntary bankruptcy. The petition needs only to allege the utility isn't paying debts as they come due.

Q. What would happen next?

A. The involuntary bankruptcy filing would put PG&E and Edison in bankruptcy court and they would have 20 days to respond.

The utilities would have two options: They may contest the petition and deny they aren't paying their debts, or they may agree to become a debtor in bankruptcy court. In most circumstances, a company that accepts the jurisdiction of the bankruptcy court would seek Chapter 11 protection to reorganize.

Under that scenario, PG&E or Edison ``would become the master of its own fate,'' said bankruptcy attorney John Hansen of Nossaman Guthner Knox & Elliott in San Francisco. ``Ordinarily, such a debtor remains in possession of its assets and continues to run its business until it comes up with a plan of reorganization. Sometimes, it can take years. Certainly, it takes many months.''

Q. How may an involuntary bankruptcy proceeding hurt a debtor's business?

A. ``In the first 20 days that a debtor gets to respond in writing, business would continue as usual,'' said bankruptcy lawyer Michael Lubic of McCutchen, Doyle, Brown & Enersen. ``By itself, it won't change anything. The filing of an involuntary

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bankruptcy petition is more like the filing of a lawsuit.''

If a company doesn't respond to a creditors' petition within the 20-day period, it has no other opportunity to challenge the evidence against it and would probably go into involuntary bankruptcy.

Q. What would happen to shareholders?

A. ``Shareholders don't get anything until everyone is repaid with interest,'' said Macdonald, of Macdonald & Associates. In addition, the value of their holdings would undoubtedly drop, he said.

Q. Could a judge order the rate increases for consumers?

A. Not without the approval of the California Public Utilities Commission. The U.S. Bankruptcy Code states that any governmental regulatory commission with jurisdiction over the rates of the debtor must approve any rate change.

--Vivien Lou Chen in the San Francisco bureau, (415) 743-3506, or vchen1@bloomberg.net/gcb

Story Illustration: For information on power prices in the Western U.S., see {ELWP <GO>}. For top energy stories, see {TOP NRG <GO>}.

Company news:
EIX US <Equity> CN
26385Z US <Equity> CN
PCG US <Equity> CN
SCE1 US <Equity> CN

NI codes:
NI COS
NI NRG
NI POL
NI ELC
NI UTI
NI GAS
NI PIP
NI ELC
NI CMD
NI US
NI WA
NI OR
NI CA
-0- (BN) Feb/02/2001 19:47 GMT

From: Eichner, Matthew
Sent: Thursday, June 28, 2001 2:41 PM
To: Novey, Michael; Hammer, Viva; Mikrut, Joseph; Solomon, Eric; Paravano, Jeffrey; Hanson, Robert
Cc: Gerardi, Geraldine; Kiefer, Donald
Subject: Retail Swaps Study Meeting - 6/28/01

[(b)(5)]

From:	Eichner, Matthew
Sent:	Monday, June 11, 2001 10:57 AM
To:	Novey, Michael; Hammer, Viva; Solomon, Eric; Mikrut, Joseph; Hanson, Robert; Paravano, Jeffrey
Cc:	Gerardi, Geraldine; Kiefer, Donald
Subject:	Swap Study Meeting

Summary

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The Blow by Blow

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rsmod.wpd (9 KB)

Retail Swaps Study -- Treasury Hypotheses and Suggested Conclusions

General

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Government Securities

[(b)(5)]

Tax

[(b)(5)]

From: Wilbur A. Steger [WASteger@consad.com]
Sent: Tuesday, June 12, 2001 3:30 PM
To: O'Neill, Paul
Subject: [Fwd: Regarding Pennsylvania Energy Leadership Council Conference, September 17th at CMU]

Mr. Secretary (Paul),

I have already brought to your attention prior information on the proposed Pennsylvania Energy Leadership Council Conference, to be held September 17th in Pittsburgh. If you'll recall the Leadership Council and I were hoping that you could appear as a keynote speaker at 12:30 PM. See attached information about the conference, called "How Will the National Energy Policy Shape Pennsylvania's Economic Development?". I sincerely hope, of course, that your scheduling will allow you to participate.

Will

The Pennsylvania Energy Leadership Council

How Will the National Energy Policy Shape Pennsylvania's Economic Development?

September 17, 2001
Pittsburgh, PA

Westinghouse Electric Company is the Initiator of and Principal Sponsor of the Pennsylvania Energy Leadership Council. The goal of the one day conference, to be held in Pittsburgh, is to highlight the innovativeness that various Pennsylvania-based companies, Governor Ridge's Administration, foundations, and other Members of the energy community have progressed, making the Commonwealth a model for the rest of the Nation. Select Members of the energy community will be invited to participate as both Co-Sponsors as well as Presenters at the Council meeting.

All Participants will address "how" the emerging National Energy Plan may shape economic development of Pennsylvania. Certainly, each and all members of the Commonwealth's energy-environment community will continue to serve as "vendors" on an intra- as well as interstate bases, but will those roles be enhanced or diminished by the emerging energy policies?
It is well understood that that regional economies-energy-environment practices (E3) are inextricably linked, but "what" are the effects of significant shifts in one of the three components, Energy, when altered
at the national level?

Although there will be some Keynote Speakers at the Leadership Council conference (at the Beginning, during Lunch and the Afternoon Session), most of the discussions will be of a roundtable type, with these topically-focused discussions moderated by a neutral party (journalist or academician). These discussions will last about forty five minutes, with the last fifteen minutes for questions-and-answers from the attending audience.

The CTC Foundation is developing all aspects of this important one-day event, mindful of the suggestions that are welcomed from the "community of interest(s)" involved. The CTC Foundation was established by Concurrent Technologies Corporation (CTC) in the mid-1999 as a 501(c)(3) non-profit organization. Its objective is to draw together expertise and multi-faceted capabilities to tangibly enhance the lives of people, by helping advance the development and application of breakthrough technologies to improve the quality of life. To meet its challenges, the CTC Foundation utilizes the competencies of the private sector, academia, and other institutions, matching capabilities with solutions.
Clearly, energy, the environment and sustainable economic development are an appropriate

subject for the Foundation and reason for attempting to answer the complex question:

How Will the National Energy Policy Shape Pennsylvania's Economic Development?

<<...OLE_Obj...>>
PENNSYLVANIA ENERGY LEADERSHIP COUNCIL

How Will the National Energy Policy Shape Pennsylvania's Economic Development?

Representative AGENDA

Pittsburgh, PA
September 17, 2001

MASTER OF CEREMONIES: Bill Flanagan, KDKA *

8:30 AM WELCOMING REMARKS — Jared L. Cohon, Ph.D. President, CMU

8:40 PM ENERGY POLICY & ECONOMIC DEVELOPMENT — Jeffrey Hunker, Ph.D. Dean, Heinz School

8:50 AM KEYNOTE ADDRESS — Charles Pryor, Ph.D.* CEO, Westinghouse Electric

9:30 AM UNLEASHING THE MARKET — Nora Mead Brownell Pa. PUC Commissioner (nominated to FERC)

10:15 AM PANEL DISCUSSION — John W. Rowe, Exelon *

Balancing Supply, Demand & Price — __________, Dominion Resources

Moderator: Douglas Biden — Jim Cunningham, Burson-Marsteller *

11:15 AM PANEL DISCUSSION — Tom Hoffman, CONSOL Energy *

Climate Change: Roles of Coal and the Atom — Vicky Schaff, Allegheny Energy *

Moderator: Steve Massey, Post-Gazette — John Anderson, CMU

12:30 PM LUNCHEON KEYNOTE
FEDERAL-STATE POLICY ALIGNMENTS — Paul O'Neill, Treasury Secretary *

1:15 PM ANOTHER PERSPECTIVE — U.S. Congressman Doyle

2:00 PM PANEL DISCUSSION — J. L. Frank, Marathon USX

Oil's Future Role: Transportation — Jack Drosdick, Sun Company *

Moderator: Frank Reeves, Post-Gazette — __________, Heinz Foundation

3:00 PM PANEL DISCUSSION — Craig Christiansen, EnronWind *

New Energy Market Entrants — Mike Freeman, Exelon Power *

Moderator: Rita Bajura, NETL   __________, Mellon Bank

4:15 PM WRAP-UP   Bill Flanagan, KDKA

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* Denotes Preliminary Acceptance of the Invitation, Depending Upon the Date
as of: May 27, 2001

From:	Murden, Bill
Sent:	Friday, May 25, 2001 6:10 PM
To:	Adams, Tim; Dam, Ken; Engelhard, Joe; Fall, James; Kupfer, Jeffrey; Lee, Nancy; Loevinger, David; Nelson, Heidi; O'Neill, Paul; Radelet, Steve; Sobel, Mark; Taylor, John
Cc:	Barber, Francine; DeMarco, Edward; Dohner, Robert; Donovan, Meg; Green, Matthew; Harris, Rosemary; Jonathan Fiechter (E-mail); 'Jorstad, Van'; Piercy, Jan; Julia Kuhn (E-mail); Budington, Michele; Molly Mahar (E-mail); 'Muckleroy, Terry'; Muench, Marilyn; Paulson, Sara; Quinn, Lois; Salladin, Anne; Tania Luhde (E-mail); Toloui, Ramin; Walsh, Helen; 'jabbott@imf.org'; Crawford, Todd; 'Teresa.Curran@sf.frb.org'; 'gerard.dages@ny.frb.org'; 'sally.m.davies@frb.gov'; 'Ken Egan'; Mathiasen, Karen; Austin, Carlos; Baukol, Andrew; Gelpern, Anna; Haarsager, Mathew; Anderson, Lisa; Boone, Sherman; Drezner, Daniel; Durham, Paulette; Giancola, Mark; Gorlick, Warren; Gunaratne, Nilmini; Jaakson, Juhan; Krulak, Keith; Monroe, Wilbur; Sanford, Paul; McDonald, Larry; Stedman, Louellen; Wisner, Peter; Harlow, Robert; Johnston, Richard; Byrne, Kathleen; Cetina, Jill; Dulaney, Tim; Crane, Deborah; Dupuy, Max; Jewell, Andrew; Lung, Richard; McCoy, Christopher; Morris, Liza; Neil, Jeff; Wingle, John; Backes, Steven; Dohlman, Peter; Epstein, Natan; Kosmides, Ivy; Ralyea, John; Grewe, Maureen; Haight, Cameron; Mills, Marshall; Barber, Ed; Gottlieb, Geoffrey; Hoffman, Barak; Shah, Sonal; Beasley, Mary; Warthin, Whit; Lundsager, Meg; Setser, Brad; 'csciacca@fdic.gov'; 'jose.tuya@occ.treas.gov'; 'vvillalba@fdic.gov'; 'KaWalter@fdic.gov'; 'lucyignacio@mail.asiandevbank.org'; 'kbruno@fdic.gov'; 'Jconneely@fdic.gov'; 'ccrail@fdic.gov'; 'rmarshall@fdic.gov'
Subject:	Emerging Markets Banking Weekly - 5/25/01

Attached please find the electronic version of the ***Emerging Markets Banking Weekly***, prepared by OASIA's Office of International Banking and Securities Markets to highlight significant banking and financial regulatory developments in key emerging markets during the most recent week.

embw0525.pdf
(160 KB)

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Note: Exec Sec will receive the original and hard copies separately. Please direct any comments or additional requests for hard copies to Paul Sanford-sanfordp.

From: SSpec99516@aol.com

Sent: Friday, November 30, 2001 9:16 AM

Subject: Spector / FYI

re: Enron

Heard that U.S. Enron traders instructed to make sure there are no deliveries against contracts until further notice.

Stewart

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* Equities begin trading in Brazil, Argentina, and Mexico at 8:00 a.m., 9:00 a.m., and 9:30 a.m. Eastern time respectively.

From: Cetina, Jill

Sent: Monday, October 29, 2001 12:27 PM

To: _DL_Market Group; 'Andrew Sacher'; 'ClayLowery'; 'Eric Otto'; 'Griffiths'; 'Hoffman'; Lundsager, Meg; 'Paul Reid'; 'PMalmgren'; 'Wayne'

Subject: Financial Market Noon Report, Oct 29th

[(b)(5)]

[(b)(5)]

From: Cetina, Jill
Sent: Monday, July 09, 2001 4:29 PM
To: _DL_Market Group
Cc: Lundsager, Meg; 'kmalmgre@opd.eop.gov'
Subject: Financial Market Closing Report, July 9, 2001

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From: O'Neill, Paul
Sent: Wednesday, January 16, 2002 4:56 PM
To: O'Neill, Paul H.
Subject: FW: Financial Markets Night Report 1/16/02

From: Sharer, James
Sent: Wednesday, January 16, 2002 4:55:29 PM
To: _DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea
Subject: Financial Markets Night Report 1/16/02
Auto forwarded by a Rule

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Jan16PM.pdf (37 KB)

From: O'Neill, Paul
Sent: Tuesday, January 15, 2002 4:43 PM
To: O'Neill, Paul H.
Subject: FW: Financial Markets Night Report 1/15/02

From: Sharer, James
Sent: Tuesday, January 15, 2002 4:43:15 PM
To: _DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea
Subject: Financial Markets Night Report 1/15/02
Auto forwarded by a Rule

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Jan15PM.pdf (16 KB)

From: Kupfer, Jeffrey
Sent: Sunday, January 13, 2002 8:10 PM
To: O'Neill, Paul H.
Subject: FW: NADBank

-----Original Message-----
From: Kenneth Dam [mailto:kenneth_dam@law.uchicago.edu]
Sent: Saturday January 12, 2002 2:55 PM
To: paul.o'neill@do.treas.gov
Cc: ken.dam@do.treas.gov
Subject: NADBank

Paul, I mistakenly put in my pocket a memo you had forwarded to me on NADBank. So here I am in Chicago with the memo and I won't be back in the Department until Tuesday afternoon (after my trip to the West Coast).

[(b)(5)]

Best, Ken

01800000010270

From: O'Neill, Paul
Sent: Wednesday, January 09, 2002 8:24 AM
To: O'Neill, Paul H.
Subject: FW: Financial Markets Morning Report 1/9/02

From: Sharer, James
Sent: Wednesday, January 09, 2002 8:24:04 AM
To: _DL_Market Group; Andrew D. Sacher; David Griffiths; Eric H. Otto; Jay Hoffman; Lundsager, Meg; Phillippa Malmgren; reidjp; Shevlin, Thomas; wallarjg; wayneea
Subject: Financial Markets Morning Report 1/9/02
Auto forwarded by a Rule

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Jan9AM.pdf (37 KB)

From: O'Neill, Paul
Sent: Wednesday, January 02, 2002 2:48 PM
To: O'Neill, Paul H.
Subject: FW: Spector / U.S. & Western World Aluminum Supply / Demand Outlook 2002-2003

January 2002.pdf
(271 KB)

>
>----------
>From: SSpec99516@aol.com[SMTP:SSPEC99516@AOL.COM]
>Sent: Wednesday, January 02, 2002 2:46:27 PM
>Subject: Spector / U.S. & Western World Aluminum Supply / Demand Outlook 2002-2003
>Auto forwarded by a Rule
>

Tov view tables and charts with text, which we would recommend, please download the attachment

January 2, 2002

U.S. & Western World Aluminum Supply / Demand Outlook 2002-2003

Our 2002-2003 outlook is unchanged from what we have been reporting on in past months.

The current macro-economic consensus forecast is for a slow recovery in 2002. Our forecast continues to be a probable V shape rebound starting in 1Q. Now that were here we'll see how things evolve.

Leading indicators are upbeat and continue to suggest the recession was winding down in last years 4Q and probably ended in October/November. If so by historical standards it was a short recession. Even the negative impact of the September 11 events was over estimated. But there were market sectors that were hit very hard in the downturn.

The upbeat indicators include the following:

- Consumer confidence (U of Michigan & Conference Board) is up across the board signs and above recession levels previously shown.
- New and existing home sales and housing starts remain at a high level.
- Auto sales continue to be strong.
- Strong money growth.
- Firming in industrial commodity prices.
- Declining trend in new unemployment claims.
- Low inflation and worldwide deflationary pressures will keep inflation low and is the equivalent of a tax cut for consumer.
- Massive Inventories reductions at all levels in the economy.
- U.S. and world financial markets rising and continue to bet on a recovery.
- November orders for durables- excluding defense - rose 2.7%, the second straight rise.
- Capital goods orders ex-defense climbed 4.8%, a sign business spending is improving.
- Decembers Manufacturing ISM Report on Business showed new orders, production and imports growing, and inventories declining.

After some lag a recovering U.S. economy will spark a rebound in global economic activity and aluminum demand.

· There are some early signs of a bottom in some Euro economies like France, Germany and the UK.

· In Asia the Korean and Taiwanese economy are showing signs of improvement. China's economy continues to expand. But the Japanese economy remains the basket case of the region and continues to loose market share to other Asian countries.

4Q U.S. aluminum demand was not good. But the year-to-year comps could be in the plus column (October was up 13.9%). That's because last years 4Q was so bad.

Despite weak demand U.S. and world demand/supply condition remains in reasonably good shape at this stage of the cycle.

· In terms of end-user stocks, inventories have been worked down and have to be rebuilt in 2002 and 2003. That will lead to year-to-year increases in aluminum demand well above current consensus expectations.

· Supplier inventory are at one of the lowest levels we have ever seen in at an inflection point at an up-turn in the economy. Normally in terms of months supply they were at much higher levels. This cycle they're low because aluminum smelters 2000 and 2001 were involuntarily forced to idle nearly 2.0 million tons of capacity due to high cost relative-to-price or lack of supply. Much of this capacity will remain idle until 2003.

· 1993 - ingot stocks reached nearly 6.0 million tons, equal to 4.7 months supply, and LME prices a low $1,040 per ton.

· 1999 - ingot stocks were 4.3 million tons, equal to 2.0 months supply, with LME ingot at $1,187 per ton.

· 2001 - ingot stocks at 3.2 million tons, equal to 1.9 months supply, with LME ingot at $1,350 per ton.

All we need is the spark of recovery and metal supply could tighten pretty quickly and prices rise sharply from current depressed levels.

Macro U.S. Economic Considerations.

The downward trend in production November continued but the rate of decline slowed. Our 12-month forward leading macro model for the manufacturing sector, as projected by Demand Indicator (DI), suggests the most likely scenario in 2002 is a speedy recovery. A modest expansion in 1Q, followed by swifter growth in subsequent quarters that could reach a 4%+ growth rate in 4Q.

As shown energy prices have fallen sharply in the last 12-months.

At current levels it's equivalent to a tax cut of about $100 billion. That's on Top of lower tax rates previously passed for 2002. This will help boost consumer income and corporate profits. That's what we would call stimulus.

Interest rates have also fallen sharply.

Rates are likely to stay at around current levels through 2002, plus or minus 25 basis points.

Lower rates will keep mortgage refinancing high - a big plus for the construction market and consumer spending. Last year 7.5 million homeowners refinanced mortgages. Those opting to cash out according to Freddie Mac received some $100 billion and could save or invest another $3 billion from lower interest rates.

Even more stimulus.

Our forward leading inflation indicator continues to suggest that inflation in 2002 will be lower than it was in 2001.

Very low in the first half of the year with some upward pressure in the last half. But still below 3%.

The latest ISM data suggests production in the manufacturing sector that started to rebound prior to the September 11 attack on the U.S. is back on schedule and appears to be consistent with the trend our DI had been forecasting for the last 12 months for the current time period.

Institute for Supply Management (ISM formerly NAPM) data on manufacturing production was 50.6% last month compared to 47.1% in November and 40.9 in October. Orders were 54.9% last month compared to 38.3% in October. A rise above 50% suggests expansion.

Inventories in September continued to decline and, as a percent of product ion, were back to pre September 11 levels and well below year ago levels.
This suggests we were very close to the end of the down leg in the inventory cycle.

Micro-Industry Analysis

A major plus is that end-users de-stocked in 2001.

The trend in production in aluminum consuming industries went negative in September 2000. Aluminum order rend turned negative in June 2000. Aluminum orders fell faster than production. That implies end-users cutting inventory.

- We've seen a massive inventory correction by end-users that continued through all of 2001.

- As the economy recovers in 2002 expect to see a rebuild in pipeline stocks.

- Aluminum mill product orders track the ISM orders closely. Thus with ISM orders and production expanding expect aluminum mill product orders to also rebound into December and January.

Aluminum mill product production was down 13.2% and 12.7% respectively in October and the first 10 months of last year.

The year/year comparable for domestic mill shipments was a negative 5.6% in October, and 14.0% year-to-date.

Excluding can sheet shipments, just looking at the more cyclical sectors; domestic shipments in October were off 7.4%, and year-to-date 17.4%.

Work-in-process and make and hold stocks in October fell by 29,000 tons, but for the year-to-date showed a build up of 67,000 tons from the normal seasonal year-end low in December 2000.

U.S. Primary Aluminum Industry Data-For most of last year demand exceeded supply. This reversed in September/October when supply exceeded demand and there was an increase in ingot stocks in 4Q.

Primary ingot requirements last October rose by 13.9% from the same month in 2000. That was the first year-to-year increase in prime demand since May 2000.

01800000010278

The year-to-year increase was due mostly to very poor demand in October 2000 and lower scrap supply in 2001. That meant increased use of prime by mills in the conversion process in October 2001 vs. October 2000.

Primary Supply: Year-on-year primary ingot production was off 28.7% in Octo ber and down 28% in the first ten months. Ingot imports in October rose 14.9%. Year-to-date through October ingot imports were down 6%.

· We estimate ingot import 4Q/4Q was up about 28%. If it was, ingot imports last year were flat compared to 2000. The 4Q increase was necessary to balance domestic supply/demand, but did result in a slight increase in excess stocks.

Primary Demand: as noted earlier primary aluminum demand in October was up 13.9% from the same month last year. Through October ingot requirements was off by 22.6% from the same ten-month period in 2000.

· We estimate demand in last years 4Q was about 2.5%. That's not reflecting a jump in 4Q 2001 rise in final demand but lower scrap supplies and 2000 depressed 4Q.

Net ingot stocks: Both reported and unreported inventory in October fell by 11,000 tons. But year-to-date in 2001 stocks were still down by 145,000 tons from December 2000.

With idle capacity possibly through the spring of 2003, the US dependency on imported ingots increases.

· Prime production this year could approximate 2.75 million tons, up 3.7% from 2001. And that's just a maybe.
· Prime demand could snap back sharply to 6.1 million tons, up 19%.
· Ingot imports could approximate 3.8 million tons, up 37.1%.
· If demand rises as forecast industry stocks have to increase by at least 270,000 tons from this year to maintain projected shipping levels.

The important point we're trying to make is that if our 2002 metal flow forecast proves to be correct U.S. ingot imports have rise by an estimated 37% from 2001 to keep the U.S. metal system in balance.

· If U.S. imports rise by 37% it could quickly soak up excess ingot stocks around the rest of the world. That would leave Asia and Europe, both net importers of ingot, in short supply when their economies pick up in the last half of 2002.

U.S. Supply System Inventory - Relative to demand stocks are in good shape.

Total industry inventories back in October was 1.65 million tons, down 35,000 tons from the upward revised September level, equal to 2.0 months supply. Year-to-date stocks were down by 210,000 tons.

· In terms of historical perspective current stock levels are not high despite the drop in demand.

· Dealer ingot stocks fell to nearly 12 days supply in October from nearly 13 days in the month before. These however were almost twice what they were in October 2000.

Dealer stocks continued to rise through December 2001. As the result of the Enron fiasco we have seen their stocks, previously unreported, show up as warranted ingot on COMEX and LME warehouses. We estimate that much of that build up is committed for 2002, and is not necessarily spec metal.

One problem that is likely to develop is determining how much of Enron owned ingot is subject to lawsuits and administrative haggling. This could force traders and consumers involved in an Enron chain finding it necessary to look for alternative sources of supply. This is not only a problem for U.S. merchants and consumers but is an international problem.

Western World Supply/Demand 2001 - 2003 Updated.

The next two tables show our Western World Prime Ingot Metal Balance for this year and through 2003.

Comp. Data for October and year-to-date were as follows:

- Supply down 2.6% and 2.4% respectively
- Shipments up 4.8% and down 9% respectively.
- Ingot stocks down 62,000 tons and 364,000 tons respectively.
- Months' supply 1.8 compared to 2.0 in September and 1.7 in the same month last year.

The outlook for the year:

- Supply down 3%.
- Shipments down about 8%.
- Ingot stocks up nearly 348,000 tons to 3.24 million tons or 1.9 months supply.

The outlook for 2002 compared to 2001:

- Supply up 2.5%.
- Shipments up 7%
- Ingot stocks down nearly 540,000 tons to 2.7 million tons or 1.5 months supply.

The outlook for 2003 compared to 2002:

- Supply up 8.2%.
- Shipments up 3.0%
- Ingot stocks up 280,000 tons, equal to 1.6 months supply.

Aluminum Prices

As shown as stocks move down towards 1.5 months supply ingot prices tend to rise rapidly.

Stocks at the end of last year approximated 1.9 months supply.

This year as noted earlier, stocks could fall to 1.5 months supply and rise to 1.6 months supply in 2003.

In past years a major influence on price has been fund buying of commodities as and asset class.

As shown funds interested in commodities, like aluminum, as an asset class fell sharply in 2001, but now appear to have bottomed and turning upward. This trend is likely to continue in the economic scenario we are projecting.

While there is fewer so called macro hedge fund players in the market today than there were a few years ago there are still a few players around. There is also a large contingent of Commodity Managed Accounts that still play an important speculative role in the market and market psychology.

If our supply/demand model as outlined proves correct look for aluminum prices to rebound.

Best regards-- Stewart

From: O'Neill, Paul
Sent: Monday, January 07, 2002 2:19 PM
To: O'Neill, Paul H.
Subject: FW: Spector / Afternoon Technical Comment

From: SSpec99516@aol.com[SMTP:SSPEC99516@AOL.COM]
Sent: Monday, January 07, 2002 2:18:24 PM
Subject: Spector / Afternoon Technical Comment
Auto forwarded by a Rule

To view charts with text please dowload the attachment.

January 7, 2001

Technical Perspective –short-term up and intermediate-term price trend Neutral.

3 Month: Open: $1,365 High: $1,420 Low: $1,360 Close: $1,351- up - $68.50

Cash Price: $1,406 – up $72

Three Month LME: A big white candle occurred. This is generally considered bullish, as prices closed significantly higher than they opened. If it occurs when prices are rebounding off of a support area (e.g., a moving average, trend line, or retracement level), the long white candle adds credibility to the support. Similarly, if the candle appears during a breakout above a resistance area, the long white candle adds credibility to the breakout. Al clsoed above its 10,50 and 200 day moving average.

Today's breakout can easily be explained by the following:
1. Previously an overly bearish consensus about supply/demand that is now a changing due to more and sign's of a bottoming in the U.S. and some foreign economies. Don't discount the importance of sentiment in a market.
2. The back-end of the Enron problem. Enron is still not delivering against all chain deals. That means traders in the chain have to buy replacement ingot to cover their trades.
3. Customer inventories are very low. Until today consumers have been waiting in the hope of buying on the way down. But could not wait any longer. Especially after today's spike. Markets never accommodate the procrastinator's.
4. Short covering in panic.

While prices could correct today's giant move after somewhat higher prices overnight or tomorrow, our base price forecast remains unchanged. World metal supply/demand is not that far out of whack and that is within the next three months the price could move to $1,500 and by mid-year to $1,600 per ton.

Today's preliminary Fund Commodity Money Flow Index (CMFI) was 79.6 compared to a downward-revised 80.6 the day before. No major fund buying today.

What's next: The probable trading range in after market and next ring and kerb session is $1,340- $1,380, wider than normal due to today's spike. This weeks probable trading range now looks like $1,480 - $1,380.

Hedge Clause: technical analysis is more indicative of a trend rather than being predicative.

Best regards-- Stewart

From: Gabilondo, Jose
Sent: Monday, June 25, 2001 9:26 AM
To: Squitieri, Ray
Subject: FW: Suggested Interviewees

Ray,

Norm Carleton (our client) is coordinating an interagency study of the retail swap market as required by last year's Commodity Futures Modernization Act [(b)(5)]

The purpose of the study is to describe the retail swap market and to recommend regulatory options. [(b)(5)]

José
-----Original Message-----
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

[(b)(5)]

Enron
[(b)(5)]

01800000010289

From: Gross, Jared
Sent: Thursday, April 05, 2001 1:29 PM
To: Squitieri, Ray
Subject: RE: memo to Secretary on follow-up questions

The typo comments are fine (I assume that you have already made them). I haven't found anything to provide the type of analysis Rachel suggests... do you know of anything? As I recall from the President's Working Group study on OTC derivatives industry, there is very little data on the OTC markets broadly.

[(b)(5)]

-----Original Message-----
From: Squitieri, Ray
Sent: Thursday, April 05, 2001 1:16 PM
To: Gross, Jared
Subject: FW: memo to Secretary on follow-up questions

Here are several comments by Rachel. Would you read them, decide whether any changes are necessary to your section, and if so send me a new version? Thanks.

-----Original Message-----
From: Cononi, Rachel
Sent: Tuesday, April 03, 2001 9:55 AM
To: Squitieri, Ray
Subject: memo to Secretary on follow-up questions

Ray,
I found a couple of typos on the second page of energy derivatives memo. [(b)(5)]

<< File: NEP ONeill 3 follow up Qs 0330.doc >>

From: Cononi, Rachel
Sent: Tuesday, April 03, 2001 9:55 AM
To: Squitieri, Ray
Subject: memo to Secretary on follow-up questions

Ray,

[(b)(5)]

NEP ONeill 3 follow up Qs 0330...

From: Soares, Chris

Sent: Wednesday, April 25, 2001 5:29 PM

To: Squitieri, Ray

Subject: RE: EPA-03-A, EPA's response to Dingell's letter on Barton's draft leg "Electricity Emergency Relief Act

[OUTSIDE SCOPE , (b)(5)]

Copyright 2001 / Los Angeles Times
Los Angeles Times
April 17, 2001, Tuesday, Home Edition
SECTION: Metro; Part B; Page 1; Metro Desk
LENGTH: 1429 words
HEADLINE: INNOVATIVE SMOG PLAN MAKES LITTLE PROGRESS;
AIR QUALITY: AFTER EIGHT YEARS, THE SOUTHLAND'S PROGRAM ALLOWING FIRMS TO TRADE POLLUTION CREDITS HAS FALLEN WELL BELOW EXPECTATIONS. IDEAS TO FIX IT ARE MIRED IN CONTROVERSY.
BYLINE: GARY POLAKOVIC, TIMES ENVIRONMENTAL WRITER

BODY:

It was supposed to be a revolutionary way to clean up the environment, a business-friendly strategy to slash industrial emissions without the heavy hand of government.
But the Southland's market basket experiment has been a serious disappointment.
The Regional Clean Air Incentives Market, or RECLAIM, has fallen well short of expectations. Eight years into the program, smog cuts have been minimal,

companies are failing to meet pollution reduction targets, and proposals to rescue the operation are mired in controversy.

Manufacturers, power plants and refineries have reduced emissions by a scant 16%--much less than was anticipated by this time. Businesses were given 10 years to eliminate about 13,000 tons of pollution annually, but as the program nears its end they have eliminated just 4,144 tons, according to projections by the South Coast Air Quality Management District.

Over the course of the program, the AQMD has received a trickle of applications from companies to upgrade pollution control capacity. Air quality officials say that if the number of retrofits doesn't dramatically increase, the program will fail.

So little progress has been made that the AQMD is now telling businesses to slash their air pollution at more than twice the rate they have over the last seven years. Meanwhile, the agency estimates that industry will emit an extra 3,373 tons of health-threatening pollutants into the air this year, 14% more than it is allowed under the program.

Business representatives are divided in their reactions to the program.

PAGE 2

Los Angeles Times April 17, 2001, Tuesday,

"We're going to see the benefits of RECLAIM. It's just taking a little longer than we expected," said Bill Quinn, vice president of the California Council for Environmental and Economic Balance, which represents business and labor groups.

But some companies are resisting pressure to reduce emissions. Some seek to eliminate the penalty they risk if they pollute beyond their limits. Others would like to escape the program entirely by paying a fee of $ 7.50 per pound of pollution, no matter how much smog they make. Many businesses are insisting on a fresh infusion of credits in return for cleaning up cars, boats and trucks instead of factories, smelters and refineries.

RECLAIM "hasn't done as well as the regulations it replaced," said Mike Scheible, deputy executive officer for the state Air Resources Board. "I don't think it has worked yet to achieve the emission-reduction goals that it set out to do. The reductions we've anticipated have been delayed and won't be achieved for a couple more years."

The program was launched in 1993 as the first market-driven system to clean urban air and quickly became a model for others around the world. The Los Angeles-area program, which relies on a system of trading pollution credits, was supposed to cut industrial pollution by stimulating technological innovation and reducing burdensome new costs on businesses.

Nearly 400 companies participate, including Walt Disney Co., ExxonMobil Corp. and Northrop Grumman Corp.

Each facility receives a certain number of credits representing a pound of pollution. Companies that do not pollute to maximum allowable levels can sell credits to firms that emit more than their limits. The total credit supply shrinks about 8% annually for a decade, thus trimming pollution.

The program was seriously compromised when power producers in the Los Angeles region operated far beyond pollution limits last year. Power companies gobbled emissions credits as they increased production to keep the lights on. That caused a pollution credit shortage.

The market price of a credit soared as demand outstripped supply. A credit for one pound of nitrogen oxide gas that cost an average of 25 cents in the early years of the program climbed to more than $ 50 late last year. Nitrogen oxide contributes to ozone and haze, the main ingredients in smog.

Local air quality officials and business advocates say the program was working fine until the electricity crisis.

But critics, including the U.S. Environmental Protection Agency, the state air board, environmentalists and some scholars, disagree. They say the energy crisis revealed structural flaws in the program that were bound to surface sooner or later. "The simplistic explanation as to why RECLAIM failed is the market was much more volatile than people expected and that is due to the electricity situation, an anomaly, an unmanageable spike rippling through the market. But that's not the whole story," said Tom Canaday, environmental engineer for the EPA.

Local air quality officials acknowledge that, from its inception, the program

was embedded with powerful disincentives to cut smog. That is because they seeded it with too many credits, about 40% more than real-world emissions. Credits were so plentiful and cheap for so long that companies grew addicted to buying them instead of spending more for pollution controls. The system crashed last year when manufacturers returned to the marketplace expecting to find more cheap credits, but instead discovered that power companies had bought most of them, driving up prices for the few that were left over.

All the while, air quality officials did not push business to install controls and instead trusted them to make wise choices. Indeed, that was the very goal of the program.

"For seven years, the program did absolutely nothing," said an EPA official familiar with it. "Businesses got used to cheap credits. Nobody did what they were supposed to do: responsible planning."

RECLAIM was born during an economic downturn when business groups demanded a flexible alternative to traditional regulations. Many economists and conservative politicians continue to favor market-driven programs, and such approaches are expected to figure prominently in the Bush administration's attempt to have a clean environment for less cost and red tape.

Representatives of big businesses, which control about 85% of the nitrogen oxide credits, say RECLAIM has saved them money while contributing to record clean air the region experienced during the 1990s. Air quality officials ascribe most of that progress to cleaner car exhaust.

Companies saved an estimated 41% on compliance costs under RECLAIM compared to traditional regulations, although most of the savings occurred because pollution controls were delayed for so long.

At the Arco refinery in Carson, engineers searching for ways to reduce emissions under RECLAIM recently turned smog into cash. They rerouted propylene gas, a byproduct of oil refining, from boilers into a processing plant where they converted it to plastic pellets for water bottles, patio furniture and strawberry crates, reducing about 500 tons of pollutants annually.

"Now the polypropylene plant is a revenue-generating plant," said Susan Livingston, environmental manager for British Petroleum.

In trying to fix the program, AQMD officials face a difficult balancing act: They want to help lower credit prices by removing the power plants from the program. But if the credits become too cheap again, companies won't have any financial incentive to reduce emissions. It's the same scenario that made the program ineffective in the first place.

The agency's governing board meets May 11 to consider amendments to the program.

The agency is already planning to require 36 of the biggest polluters to begin submitting plans detailing how and when they will install additional pollution controls. Among those targeted are California Portland Cement in Colton, the Los Angeles Department of Water and Power, and Equilon Enterprises, which operates a refinery in Wilmington. Industry initially balked at the demand, but relented after air quality officials dropped a federal enforcement

requirement.

The AQMD governing board also approved a regulation last month to allow companies to clean up heavy-duty diesel engines in exchange for emission credits for use at factories. The EPA has not approved similar rules by the AQMD, and state air quality officials frown on the practice.

Barry R. Wallerstein, executive officer of the AQMD, said proposed changes to RECLAIM should help restore confidence and improve the performance of the program.

"I don't think we're looking at Humpty Dumpty," he said. "The sorts of changes we are proposing will fix the difficulties the program has experienced over the last year. This is a bump in the road, a perturbation, and with rule amendments we will be back on the path of achieving the design objectives."

-----Original Message-----
From: Squitieri, Ray
Sent: Wednesday, April 25, 2001 4:00 PM
To: Soares, Chris
Subject: FW: EPA-03-A, EPA's response to Dingell's letter on Barton's draft leg "Electricity Emergency Relief Act
Importance: High

[(b)(5)]

-----Original Message-----
From: Ellis, Dina
Sent: Wednesday, April 25, 2001 2:07 PM
To: Cetina, Jill; Cononi, Rachel; Constantine, Eleni; Flynn, Timothy; Gerardi, Geraldine; Gross, Jared; Hambor, John; Hendershot, Karen; Kiefer, Donald; Kinard, Yvette; McInerney, Roberta; Paulus, Michael; Rao, Geetha; Soares, Chris; Sokolov, Dan; Squitieri, Ray; Stokes, Veronica
Subject: FW: EPA-03-A, EPA's response to Dingell's letter on Barton's draft leg "Electricity Emergency Relief Act
Importance: High

please take a look at this. thanks.
-----Original Message-----
From: LLR
Sent: Wednesday, April 25, 2001 1:53 PM
To: Finch, Glenda; Brown, Lynn; Kinard, Yvette; Wiss, Barbara; 'yvette.camp@fms.treas.gov'; 'EGRONSET@BPD.TREAS.GOV'; Parcell, John; Snowden, Carolyn; Murphy, William; Ellis, Dina
Cc: Fishburn, Andy; 'DelmarR@OIG.treas.gov'; Farrell, Paula; Bailey, Ann; Maryott, Carl; 'tricia.long@fms.treas.gov'; 'Tom.Longnecker@fms.treas.gov'; 'PHollenbach@bpd.treas.gov'; Wilson, Carole; Granat, Rochelle; Carro, Richard; Dorsey, Karen; Levy, Ronald; McGivern, Tom; Vagle, Steven
Subject: EPA-03-A, EPA's response to Dingell's letter on Barton's draft leg "Electricity Emergency Relief Act
Importance: High

REQUEST FOR COMMENTS

Due Date: **APRIL 26, 2001 12:00PM**

Subject: EPA-03-A, EPA's response to Dingell's letter on Barton's draft leg "Electricity Emergency Relief Act"

NOTE: THE HOUSE COMMERCE SUBCOMMITTEE ON ENERGY AND AIR QUALITY WILL BE HOLDING A HEARING ON THE DRAFT BILL ON MAY 1. AT THIS TIME THERE WILL BE NO ADMINISTRATION

WITNESSES AT THE HEARING.

SEE THREE ATTACHMENTS

The views of your office are requested on this item, which has been assigned to Karen Dorsey. Please transmit your comments by e-mail to Karen Dorsey(karen.dorsey@do.treas.gov) with a copy to "LLR" (LLR@do.treas.gov). Use the message space of the e-mail for brief responses. For more detailed comments, please attach a separate document to your e-mail reply.

If you are not able to use e-mail to reply, you may fax your response to 622-1188. Please direct your fax to Karen Dorsey and identify the subject exactly as shown above.

To ensure the full development of the Department's position on this matter, it is important that your office provide comments by the due date. If you can't meet the deadline or need assistance, contact Karen Dorsey (622-1192) or the Legislative Staff (622-0650).

From: Flanagan, Rosemary
Sent: Friday, December 15, 2000 11:42 AM
To: Summers, Larry
Cc: Wilcox, David; Sandberg, Sheryl; Moe, Martin; Vandivier, David; Squitieri, Ray; Auten, John; Hendershot, Karen; Cononi, Rachel; Flynn, Timothy
Subject: Paul Krugman's Claims about the California Power Market

calif elec Krugman dw 1215.doc...

The attached note, prepared by Ray Squitieri, analyzes statements made by Paul Krugman recently about the California market for electricity. It will be particularly relevant background for a call from the CEO of Enron, should that occur.

01800000010297

From:	Chryst, Nancy
Sent:	Friday, December 15, 2000 9:16 AM
To:	Summers, Larry
Cc:	Sandberg, Sheryl; Moe, Martin; Wilcox, David; Vandivier, David; Flanagan, Rosemary; Squitieri, Ray; Cononi, Rachel; Hendershot, Karen; Flynn, Timothy
Subject:	Conversation with Steven Kean (Executive Vice President, ENRON Regarding the California Electricity Market)

The Attached memo when forward to EXEC SEC today.

lsbrief.doc (31 KB)

01800000010298

From: Wilcox, David
Sent: Thursday, December 14, 2000 11:16 PM
To: Elmendorf, Douglas; Squitieri, Ray; Flanagan, Rosemary; Chryst, Nancy
Subject: RE: california electricity

This is a really super effort, and illustrates the value, Ray, of your having kept an eye on current developments in the energy field. Thanks to Doug for a wonderful editing job. Please transmit to Larry ASAP.

lsbrief.doc (32 KB)

-----Original Message-----
From: Elmendorf, Douglas
Sent: Thursday, December 14, 2000 6:11 PM
To: Wilcox, David
Subject: california electricity

I've cleaned up Ray's memo a little (based in part on your previous comments and on the phone conversation with the ENRON guy), but you should look it over. Ray should also review it in the morning to be sure that I didn't introduce any factual errors.

btw, Jon Talisman says that the CPI change will be in the tax bill that is about to be passed.

<< File: lsbrief.doc >>

01800000010299

From: Wilcox, David
Sent: Thursday, December 14, 2000 2:53 PM
To: Squitieri, Ray
Cc: Chryst, Nancy; Vandivier, David; Rao, Geetha; Flanagan, Rosemary; Cononi, Rachel; Flynn, Timothy; Murphy, Edward; Hambor, John
Subject: RE: Krugman on Calif power market

Importance: High

calif1.doc (29 KB)

Ray: This is a very interesting piece. Please address the questions in the attached to the best o f your ability, then forward the result to Rosemary for processing to the Secretary tonight if at all possible.

Rosemary: Please use the following as a transmittal note from me to Larry:

The attached note, prepared by Ray Squitieri, analyzes statements made by Paul Krugman recently about the California market for electricity. It will be particularly relevant background for a call from the CEO of Enron, should that occur.

-----Original Message-----
From: Squitieri, Ray
Sent: Thursday, December 14, 2000 2:12 PM
To: Wilcox, David
Cc: Chryst, Nancy; Vandivier, David; Rao, Geetha; Flanagan, Rosemary; Cononi, Rachel; Flynn, Timothy; Murphy, Edward; Hambor, John
Subject: Krugman on Calif power market

From: Jone-Lin Wang [jwang@CERA.com]
Sent: Friday, December 15, 2000 12:02 PM
To: 'Ray.Squitieri@do.treas.gov'
Subject: FW: Competition Accelerates in Texas, A Year Before Full Deregula tion Is To Start

[(b)(5)]

-----Original Message-----
From: IssueAlert [mailto:IssueAlert@scientech.com]
Sent: Thursday, December 14, 2000 7:13 AM
Subject: Competition Accelerates in Texas, A Year Before Full Deregulation Is To Start

http://www.consultrci.com

****
Dear IssueAlert Subscriber,

I would like to take a moment to describe our energy information products so that you will know which products are free (like IssueAlert), which products you can buy by the slice on our web site and which products carry a subscription fee.

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We also post IssuesWatch every Monday at:
http://www.consultrci.com/web/infostore.nsf/Products/IssuesWatch
This column encapsulates the news of the past week and is also a free service. Past IssuesWatches are also available for free.

PowerHitters articles are posted every other week. PowerHitters, the movers and shakers of the energy industry, are interviewed by our analysts. All the interviews of the past six months are available. They can be purchased by the slice in our InfoStore with your VISA or Mastercard, or you can phone, toll-free, at 888-972-8676.

SourceBook Weekly is the electric industry's premier journal of issues and analysis. We publish four to six articles a week on our site as an e-zine. When you buy a year's subscription, you will receive a password which entitles you to read the current issue and the past twenty months of articles which are reserved for you in a full text, searchable database.

If you need to know the electric business, you need to read SourceBook Weekly.

You will find this week's articles listed below.

I hope that this description helps you acquire the information you need to succeed in today's electric industry. Your free IssueAlert follows this week's SourceBook Weekly titles.

Sincerely,
Jane Pelz
Director of Marketing Communications
SCIENTECH, Inc.

This week's SourceBook Weekly articles are listed below
****
WIRES COMPANIES: RISKY BUSINESS?
http://www.consultrci.com/web/rciweb.nsf/Web+Pages/SBEntrance.html
****
FUROR OVER FUEL CELLS
http://www.consultrci.com/web/rciweb.nsf/Web+Pages/SBEntrance.html
****
PG&E'S HYDROELECTRIC ASSETS: PLAYING BOTH SIDES OF THE GAME
http://www.consultrci.com/web/rciweb.nsf/Web+Pages/SBEntrance.html
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SOUTHERN COMPANY: SPINOFF OF SOUTHERN ENERGY PLANNED FOR APRIL
http://www.consultrci.com/web/rciweb.nsf/Web+Pages/SBEntrance.html
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BEYOND PANTELLOS AND ENPORION: NICHE SUPPLY CHAIN EXCHANGES ATTEMPT TO FIND SEAT AT THE TABLE
http://www.consultrci.com/web/rciweb.nsf/Web+Pages/SBEntrance.html
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SIERRA PACIFIC AND PORTLAND GENERAL: MOVING FORWARD ON MERGER
http://www.consultrci.com/web/rciweb.nsf/Web+Pages/SBEntrance.html
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SCIENTECH IssueAlert, December 14, 2000
Competition Accelerates in Texas, A Year Before Full Deregulation Is To Start
By: Will McNamara, Director, Electric Industry Analysis

===

TNPC, Inc., the parent company of The New Power Company, announced that it is the first residential and small business energy provider to be certified by the Public Utility Commission of Texas (PUCT). On Feb. 15, 2001, customers in Texas can begin signing up with retail electric providers to participate in the state's pilot program, scheduled to begin in June. Full competition will begin in Texas in January 2002.

ANALYSIS: TNPC may be the first certified energy service provider in Texas, which it claims will provide a "first mover advantage," but it definitely faces increasing competition in the state. Just within the last couple of months, there has been a spate of new activity surrounding the Lone Star State, a year before full competition will be available to all customers of investor-owned utilities in Texas. (The state's rural electric cooperatives and municipal utilities can opt out of competition). Restructuring law in Texas requires utilities within the state to separate various businesses, for instance power generation, power delivery and energy services. Thus, even those utilities that have historically had a large presence in the state will have to register with the PUCT to retail electricity.

TNPC is among a total of 11 companies that have filed for certification with the PUCT, and the list of providers is impressive and diverse. Competitors that TNPC will face in Texas include Green Mountain Energy, First Choice Power (the competitive spin-off of Texas-New Mexico Power Company), TXU Energy Services, Sempra, Shell, and Reliant. Interestingly, Enron Energy Services also has applied for certification. Since Enron is one of the key members of TNPC, it obviously is planning to penetrate the Texas market from several angles.

Conspicuously absent from the list of those that have applied for certification is AEP. Anything I might say about AEP's absence from the list would be purely speculative, but I do find it meaningful that the company has not matched its competitors' aggressive entry into the Texas retail market. One indicator might be comments that Linn Draper, AEP's CEO, made in a conversation I had with him several months back. At that time, Draper disclosed uncertainty about how the retail business would factor in to AEP's future strategy. In fact, Draper said, "We're not so sure that retail is a business for us." AEP has approximately one million retail customers in the state of Texas. If AEP is to remain in the retail market in the state, by law those customers must be served by an unregulated affiliate of the company. However, at least as of today, no such affiliate has filed an application with the PUCT.

Some may say it's still rather early in the game for all the flurry of interest surrounding Texas, given that even the limited pilot program is still six months away. The increasing interest could be based on the success of pilot programs in other states, such as Pennsylvania, which was actually the largest electric pilot program in the nation, with more than 230,000 residential and commercial customers participating. Yet, probably more important is the sheer size of the Texas market-which presumably will translate into huge profits for those energy providers that gain a lock on the market-and the hope surrounding how competition in Texas might develop. After so much negative press about the flawed system in California, Texas will be the next big state to open its market to competition. Thus, a great deal is hinging on how effectively deregulation unfolds in this state.

Moreover, the onset of competition in Texas is a major development for the energy industry. With regard to population, Texas represents the second largest energy market (behind California), offering a market value of about $20 billion. Texas officials have been watching California closely all summer long, and remain confident that the power supply problems faced there won't happen in Texas. This is largely because Texas has avoided making some of the critical mistakes made in California. One important distinction between the two states is that Texas regulators have allowed for power plants to be built in about half the construction time that has been common in other states such as California. Since 1995, 22 new plants have started operations in Texas, generating 5,700 MW. By the time competition starts in little over a year, 15 more plants and 10,000 MW are scheduled to come online. As a result, Texas officials say that-unlike California-their state has more than enough generating capacity to meet peak demand and provide at least a 15-percent reserve for the next few years.

In addition, there are significant differences between the market structures in Texas and California. First, California's structure is based on an auction pool, which the state modeled on the United Kingdom. Integral to California's system is a Power Exchange, into which power suppliers submit power that they want to sell on the competitive market. California's PX discourages a healthy bilateral contract market from forming because generators can make more money selling into the PX. Texas, on the other hand, has no Power Exchange and in fact has encouraged bilateral contracts as the way in which electric service contracts will take place. In Texas, customers are encouraged to establish long-term bilateral contracts with suppliers to secure the best rates, which won't put them at the mercy of wholesale market prices as customers in San Diego discovered this summer.

Also, California incumbent utilities must provide electric service to customers who do not choose to switch. In Texas, as I mentioned, incumbent utilities must establish affiliated retail units that will serve customers who do not switch, but it cannot be the T&D operation of the incumbent utility. That is why we are seeing companies like Reliant Energy submit multiple applications, covering separate subsidiaries that will serve different customer classes.

The market potential for Texas competition appears very strong, which perhaps more than anything else is due to good planning on the part of Texas legislators and regulators. However, there are still some lingering concerns about competition in the Lone Star State. First, there is a shortage of transmission lines in Texas, especially in the northern half of the state. Although PUCT officials say that sufficient transmission lines will be put into place before competition begins, without sufficient lines companies could experience transmission congestion.

Another concern is that Texas may be relying too much on natural gas. Almost all of the new plants that have been built in Texas are powered by this fuel source. As we continue to see the price of natural gas reach alarming highs, this could pose a problem for the market in Texas. Hedging will be a key part of a successful strategy for any provider in Texas, especially considering the rising natural-gas prices. Still, the espoused advantages of competition (i.e., lower prices for end-users) could fall flat if so much emphasis is placed on natural gas as the primary power source in the state. Yet, ironically, customers may still benefit because of the multitude of power plants within the state. Abundant supply in Texas may keep the cost of power low for end-users, but less profitable for suppliers.

Overall, though, Texas remains the bright shining hope for those who support energy deregulation in this country. The size of the state's energy market will continue to attract new participants, at least on the front end of the restructuring process. Whether they remain in Texas, and whether or not competition in the state will truly bring benefits to end-users, remains to be seen.

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From: Curry, Paul
Sent: Tuesday, January 15, 2002 4:10 PM
To: Aufhauser, David
Subject: Accepted: Enron mtg.

From: Curry, Paul
Sent: Tuesday, January 15, 2002 10:57 AM
To: Servetnick, Dale
Subject: RE: Public Communications Summary Draft

Dale-

[(b)(5)]

-----Original Message-----
From: Servetnick, Dale
Sent: Tuesday, January 15, 2002 10:11 AM
To: Kupfer, Jeffrey; Curry, Paul
Subject: Public Communications Summary Draft

Finally, here is the draft of today's report. There are quite a few "new" topics listed in this week's report. It has been a very difficult morning trying to get this done ... G and H Drive failures and a series of application errors on my PC. Everything seems to have been fixed now, though.

Dale M. Servetnick
Public Correspondence Coordinator
Office of the Executive Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 1054
Washington, DC 20220
Phone: 202-622-1497 | Fax: 202-622-6415

From: Gathers, Shirley
Sent: Friday, January 11, 2002 8:22 AM
To: Aufhauser, David; Kupfer, Jeffrey; Curry, Paul; Bair, Sheila; Fisher, Peter; Smith, Chris; Mejia, Annabella; Matera, Cheryl; Glasgow, Launa; Johnson, Linda; Davis, Michele
Cc: Strickler, Marie; Pringle, Veronica; Vannoy, Elizabeth; Hunt, Betty Ann; Ridgway, Diana; Hart, Anna; Woodard, Genevieve
Subject: Briefing

Please plan on attending a briefing w/David Aufhauser and Tim Adams re: Enron as follows:

Date: Friday, Jan. 11
Time: 10:30am - 10:45am
Location: Room 3408

Thanks.

From: Curry, Paul
Sent: Tuesday, January 15, 2002 4:10 PM
To: Aufhauser, David
Subject: Accepted: Enron mtg.

From: Curry, Paul
Sent: Tuesday, January 15, 2002 4:10 PM
To: Aufhauser, David
Subject: Accepted: Enron mtg.

01800000010331

From: Stern, Todd
Sent: Friday, January 12, 2001 5:21 PM
To: Klasky, Helaine; Posner, Steven; Smith, Michelle A.; Weaver, Elizabeth; Gallagher, Una; Buck, Bill; Gensler, Gary; Sachs, Lee; Stewart, Lawranne; Greene, Michelle; Wilcox, David; Elmendorf, Douglas; Vandivier, David; Sandberg, Sheryl; Cohen, Alan; Wolin, Neal; Moe, Martin
Subject: RE: wires - California Power Talks

[(b)(5)]

-----Original Message-----
From: Klasky, Helaine
Sent: Friday, January 12, 2001 4:41 PM
To: Posner, Steven; Smith, Michelle A.; Weaver, Elizabeth; Gallagher, Una; Buck, Bill; Gensler, Gary; Sachs, Lee; Stewart, Lawranne; Greene, Michelle; Wilcox, David; Elmendorf, Douglas; Vandivier, David; Sandberg, Sheryl; Stern, Todd; Cohen, Alan; Wolin, Neal; Moe, Martin
Subject: RE: wires - California Power Talks

[(b)(5)]

-----Original Message-----
From: Posner, Steven
Sent: Friday, January 12, 2001 4:29 PM
To: Smith, Michelle A.; Klasky, Helaine; Weaver, Elizabeth; Gallagher, Una; Buck, Bill; Gensler, Gary; Sachs, Lee; Stewart, Lawranne; Greene, Michelle; Wilcox, David; Elmendorf, Douglas; Vandivier, David; Sandberg, Sheryl; Stern, Todd; Cohen, Alan; Wolin, Neal; Moe, Martin
Subject: wires - California Power Talks

DJ Principals In Calif Pwr Talks Set To Reconvene Saturday

Dow Jones International News Service via Dow Jones

WASHINGTON (Dow Jones)--The principal negotiators involved in White House-brokered talks to solve California's electricity crisis are slated to reconvene here Saturday afternoon, the U.S. Treasury Department confirmed Friday.

The resumption of high-level talks among top-ranking officials representing the Clinton administration, California, and utilities and power suppliers will take place at U.S. Department of Energy headquarters at 3:30 p.m. EST.

California Gov. Gray Davis and other key state regulators and lawmakers are to participate via a video conferencing link.

The pivotal negotiating session comes after two working groups involving lower-level officials have met since Wednesday in an effort to flesh out the details of a broad settlement package the principals discussed late Tuesday during a seven-hour meeting at the Treasury Department.

Knowledgeable sources described Treasury Secretary Lawrence Summers as taking an active role in attempting to forge an agreement during Tuesday's talks, which also featured Energy Secretary Bill Richardson, White House economic adviser Gene Sperling and Federal Energy Regulatory Commission Chairman James Hoecker.

Richardson, who is traveling this weekend in an effort to lobby oil-producing nations against a pending production cut, will not be attending Saturday's session.

The working group meetings will wrap up sometime Friday, the Treasury Department said.

The two groups have separately addressed the two primary features of the proposed settlement, which involve moving the state's financially ailing utilities out of volatile spot power markets and into fixed-price forward contracts while power producers agree to "forbearance" on the huge debt owed by the utilities

The forbearance and contracts working groups have been meeting separately, and were to convene a joint session late Friday to compare notes before reporting back to the principal negotiators who will cut any final deal.

Those familiar with the talks have expressed a mix of pessimism and optimism that a final deal can be struck, given what they described as unrealistic bargaining demands by Gov. Davis.

He has firmly rejected retail rate increases and resisted demands for the state to guarantee the nearly $12 billion utilities have paid over the last eight months for wholesale power but been unable to pass along under state-mandated frozen retail rates.

Further complicating the talks have been demands by Davis that the proposed long-term power contracts be at rates far below the production costs of electricity generators.

But lately the pessimism has been tempered by signals that Davis may be persuaded to relent Saturday in his opposition to a state-backed securitization of the utilities' undercollections.

"Let's see their plan, and then we'll talk about that," Steve Maviglio, the governor's spokesman, said late Thursday.

Davis reportedly has been under increasing pressure from Wall Street and Clinton administration officials to reconsider his opposition to securitization.

Without a state credit guarantee, a work-out plan can't be struck, the utilities will enter bankruptcy and the state's power grid will collapse into blackouts, sources familiar with the talks warn.

The affected utilities are Southern California Edison Co., a unit of Edison International (EIX), and Pacific Gas & Electric Co., a unit of PG&E Corp. (PCG).

By Bryan Lee, Dow Jones Newswires, 202-862-6647, bryan.lee@dowjones.com

(END) Dow Jones Newswires 12-01-01

2100GMT

(AP-DJ-01-12-01 2100GMT)
:TICKER: EIX PCG SRE
:SUBJECT: EUTL STGO DI7 DI1 DI4 DI2 CA COBO COMM
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Calif power talks aim to reach solution on Saturday

WASHINGTON, Jan 12 (Reuters) - Treasury Secretary Lawrence Summers, other senior Clinton administration officials and top executives of electric power companies tentatively planned to meet on Saturday to finalize a fix for California's power mess, a source close to the negotiations said on Friday.

The high-level meeting was set to take place at the Energy Department at 3:30 p.m. EST (2030 GMT), with some California officials participating via teleconference, the source said.

The state narrowly averted rolling power blackouts on Thursday as already tight supplies of electricity fell to dangerously low levels because of a severe storm.

Friday marked the fourth day of negotiations among lower-level aides to map out detailed proposals for short- and long-term solutions to California's chronic electricity shortage and skyrocketing prices.

If the Friday talks failed to make as much progress as hoped, the Saturday session could be downgraded to another day of negotiations among lower-level officials on technical issues, according to another source.

Summers and Energy Secretary Bill Richardson launched the negotiations on Tuesday to prevent the bankruptcy of PG&E Corp <PCG.N> and Edison International <EIX.N>, which could ripple throughout the national economy.

Both utilities say they have run out of cash because of runaway prices wholesale power, which are now tenfold higher than one year ago. Under California's landmark 1996 deregulation law, the higher wholesale prices cannot be passed through to consumers.

The two utilities want a 90-day reprieve in repaying billions of dollars to out-of-state power generators, as well as the ability to sign long-term contracts to lock in lower prices.

((washington.commodsenergy.newsroom@reuters.com))
REUTERS
Rtr 15:29 01-12-01

:TICKER: PCG EIX
:SUBJECT: CRUD COBO MU ENER UTIL USA
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=DJ POWER POINTS: By The Numbers, Calif Pwr Deal Looks Good

Dow Jones International News Service via Dow Jones

By Mark Golden
A Dow Jones Newswires Column

NEW YORK (Dow Jones)--Grandstanding by negotiators in Washington, D.C., on the California electricity crisis indicates the sides are too far apart for an agreement this weekend, but the actual numbers involved raise the question: How can they not get this done?

California Gov. Gray Davis, on behalf of the utilities that contribute so generously to his campaign funds, is demanding three-year supply contracts at 5.5 cents a kilowatt-hour. "We've got to stop the hemorrhaging of utility cash, but I can't possibly have another rate increase or any state bailout," the governor is saying.

According to sources, U.S. Treasury Secretary Lawrence Summers and the generating company chief executives looked at Davis with a "What are you smoking?" expression several times Tuesday night. The generators' stance is that the market price is 8.5 cents/kwh and only if the contracts run for eight years.

But that's all just negotiating position. The customers of Edison International's (EIX) Southern California Edison currently pay the company 7.6 cents/kwh just for energy. That price includes last week's one-cent raise, but not other charges such as transmission and distribution.

Edison generates half the power it needs at a cost of about 3 cents/kwh. So, purchasing the other half at 5.5 cents/kwh would do a lot more than stop the hemorrhaging. If the cost of purchased power were 5.5 cents, Edison's average cost would be 4.3 cents, for which they are getting paid 7.6 cents. That 3.3 cents/kwh profit on the 83 billion kwh Edison sells a year comes to a whopping $2.7 billion annually. End of credit problem.

PG&E Corp.'s (PCG) situation is more difficult. Their customers pay less for electricity, and PG&E only generates a third of its own power, but they have lower generating costs than Edison. Bottom line: if PG&E could buy supplies at 5.5 cents/kwh, they would be left with 1.9 cents/kwh profit.

Unfortunately for the utilities, California independent generators, such as Reliant Energy (REI), NRG Energy (NRG), Dynegy (DYN), Southern Energy (SOE) and Duke Energy (DUK), can't get their prices down to 5.5 cents/kwh in California given the current market price of natural gas.

But they don't need anything close to 8.5 cents for eight years. The forward price for wholesale power in California for the balance of this year is 18 cents/kwh for the on-peak hours, which is what the utilities mostly need to buy. The on-peak price drops to 11 cents/kwh for a three-year contract because new generators and new gas supplies are expected to come on line. For an eight-year contract, the price drops to about 7.3 cents/kwh.

At 7.3 cents, PG&E would be heading to bankruptcy court. But the generators will get to sell PG&E some off-peak power, too, which brings the average price down a little further. If the governor guarantees really quick licensing for a couple of new power plants in northern California, the price comes down a lot.

What's more, to save deregulation in the U.S. the generators are willing to cut to the bone. The stocks of Dynegy, Enron Corp. (ENE), etc., have high price-to-earnings ratios because their earnings are expected to continue strong growth under electric deregulation. They are the emerging masters of a deregulated universe, but if deregulation were to throw PG&E and Edison into bankruptcy court, there wouldn't be any deregulated electric universe to master.

As one electricity trader put it: "They have got to get a deal done. If they don't get 'The California Energy Crisis' off of CNBC every 30 minutes, I'm going to be out of a job."

Generators' stock prices have been getting hammered since the first of the year due to several factors, such as profit-taking after a great 2000, according to Credit Suisse First Boston utility analyst Paul Patterson. Duke's stock has fallen to $66 from $85 since Dec. 29, for example.

Prices of generator stocks have come down hard, in part, because a California catastrophe would derail deregulation in many states and the forecasts for generators' earnings growth would be questioned, according to Solomon Smith Barney analyst Ray Niles.

That's the finances. The physical reality is that the western U.S. probably won't have enough electricity to meet demand for the rest of this year. Starting in February, if a deal is done, California utilities won't be the last in line to get their power, and the threat of blackouts will be spread out across the

West.

Other than that, where's the rub? Under deregulation, consumers were supposed to get market rates in 2002. Based on the current forward market and the utilities' cost of retained generators, 7 cents/kwh for the rest of this year is a great deal. For 2002, it's fair, but for 2003-2008, it's terrible. The current purchase price for those years is about 5 cents. With utility-owned generation at 3 cents, consumers will be paying 7 cents/kwh when they should be paying 4 cents/kwh.

And the 2.4 cents/kwh competition transition charge (CTC) that was supposed to end in 2002 has to be extended several more years. The CTC is "non-bypassable," which means if you leave the local monopoly for an alternative supplier, you still have to send a couple of cents/kwh to the old utility.

Ratepayer groups got about 40 people to storm the PG&E corporate headquarters this week over the one cent rate increase. Another rate increase would cause riots and ballot initiatives, and cost Davis his job.

But can consumer groups get people out in the streets over a deal that's great now, but overcharges them starting in 2003? I doubt it.

Businesses such as Intel Corp. (INTC) will know they are getting the short end of the stick financially and that power in the western U.S. is still unreliable, so they will decide to build new factories in other states. That's how you bypass non-bypassable charges. It will be bad for the state's economic growth, but California needs to stop adding electricity demand.

The stars are aligned for a deal very soon: eight days left before the executive branch of the U.S. government changes from one that wants to help Davis to one that wants to hurt him; about the same amount of time is left before the utilities run out of cash; forward power prices have come down a lot in the past 30 days, but could easily start to rise again; merchant power company stock prices have been punished for two weeks, and their executives don't want to kill the golden goose.

How can they not get this done?

-By Mark Golden, Dow Jones Newswires; 201-938-4604; mark.golden@dowjones.com

(END) Dow Jones Newswires 12-01-01

1800GMT

(AP-DJ-01-12-01 1800GMT)
:TICKER: CPN DUK DYN EIX ENE INTC NRG PCG REI SO SOE
:SUBJECT: EUTL SEMI DI1 DI4 DI2 CA GA MN NC TX COMM
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01800000010336

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FAC No.:	[(b)(2)]	Other ref:	~ ~
Dated:	03/04/02		
Received:	03/05/02		
Due date:	03/05/02		

From:	Williams, Cassandra
Org.:	Department of the Treasury
Address:	
Actual Party:	Enron
Subject:	Supplemental Guidance on the Enron Investigations - COB Tuesday, 3/5/02

DISPOSITION	CC	Special: Control	Copy to Director
Initial assignment		Reassign 2	Reassign 3
Director	X		
Deputy Director	X		
Civil Penalties	X		
Compliance	X		
Enforcement	X		
FTAT	X		
I T	X		
Int'l Programs	X		
Licensing	X		
Plans & Policy	X		
Chief Counsel	X		
Sr. Advisor/Records	X	Wanda.	

Notes: Anita Fogan, Susan Hultner, P.S. Nichols, Anette Patterson, Ed Stevenson

Disposition:	File name/location:	Initials:	Date:

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CORRESPONDENCE COVER SHEET

FAC No.:	[(b)(2)]	Other ref:	--
Dated:	03/04/02		
Received:	03/05/02		
Due date:	03/05/02		

From:	Williams, Cassandra
Org.:	Department of the Treasury
Address:	
Actual Party:	Enron
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DISPOSITION	CC	Special: Control	Copy to Director
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Director	X		
Deputy Director	X		
Civil Penalties	X		
Compliance	X		
Enforcement	X		
FTAT	X		
I T	X		
Int'l Programs	X		
Licensing	X		
Plans & Policy	X		
Chief Counsel	X		
Sr. Advisor/Records	X	Wanda.	

Notes: Anita Fogan, Susan Hickner, P.J. Nichols, Annette Patterson, Ed Stevenson

Disposition:	File name/location:	Initials:	Date:

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[OUTSIDE SCOPE]

Monborne, Mark

[OUTSIDE SCOPE]

[OUTSIDE SCOPE]

[OUTSIDE SCOPE]

Thornton, Sean

[OUTSIDE SCOPE]

[OUTSIDE SCOPE]

Vagle, Steven

From: Kosmides, Ivy
Sent: Thursday, May 30, 2002 1:43 PM
To: Vagle, Steven
Subject: FW: Enron DR project

Chuck said to forward this to you to add to the Enron documents.

-----Original Message-----
From: Kosmides, Ivy
Sent: Thursday, May 30, 2002 12:24 PM
To: Demopulos, Abigail; Jenkins, John
Subject: RE: Enron DR project

Yes, but actually, Schuerch did not attend the meeting. Keep in mind that all Enron related correspondence is being collected by GC. I will forward this to them.
Ivy

-----Original Message-----
From: Demopulos, Abigail
Sent: Thursday, May 30, 2002 11:41 AM
To: Kosmides, Ivy; Jenkins, John
Subject: Enron DR project

Ivy: Remember this issue? You had a meeting with DAS Schuerch on it last Fall/summer

Abby

U.S.-Backed Enron Project in Trouble

Washington Post

<> Pete Yost Page E02 <news_item.asp?sid=5947> << OLE Object: Picture (Metafile) >> Print This Story <news_item.asp?sid=5947>

The U.S. government and Enron Corp. have a stake in a power plant in the Dominican Republic that is in serious financial trouble, the U.S. Maritime Administration revealed in a letter released yesterday. The agency said it has $135 million in federal loan guarantees involving Enron.

The federally guaranteed Smith Enron project in the Dominican Republic is $27 million in debt and has 'significant operational, profitability and debt service problems,' wrote Bruce J. Carlton, the acting deputy director of the agency.

The project near Puerto Plata in the Dominican Republic has mechanical defects and its customer, a government-owned utility, does not pay its bills reliably, said the May 22 letter from Carlton, which was released by Sen. Charles E. Grassley (R-Iowa).

Two other Enron-related projects with federally guaranteed loans through the Maritime Administration are in Corinto, Nicaragua, and off the coast of Guatemala.

All three projects are power plants mounted on barges.

01800000010396

The facilities in Nicaragua and off Guatemala 'appear to be in good financial health from a debt perspective, ' Carlton wrote. All three projects are in technical default, however, because of Enron's bankruptcy.

The most expensive of the three projects is the one operating off the coast of Guatemala, with a debt of nearly $67 million.

The debt of the barge-mounted power plant in Corinto is $41 million.

Two other U.S. agencies provided Enron with $1.2 billion in government-backed loans.

The Overseas Private Investment Corp. still is owed $453 million from Enron-related projects, and the Export-Import Bank is due $512 million.

01800000010397

DEPARTMENT OF THE TREASURY
OFFICE OF THE GENERAL COUNSEL

April 12, 2002

TO: Tom McGivern

RE: Supplemental GLE Enron Production

[OUTSIDE SCOPE , (b)(2) , (b)(5)]

KENNETH R. SCHMALZBACH
ASSISTANT GENERAL COUNSEL
MAIN TREASURY ROOM 1410
622-1137/FAX 622-1176

April 05, 2001
Thursday

April 2001						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
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15	16	17	18	19	20	21
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May 2001						
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7 am	
8 00	
9 00	
10 00	[OUTSIDE SCOPE]
11 00	[OUTSIDE SCOPE]
12 pm	[OUTSIDE SCOPE]
1 00	[OUTSIDE SCOPE]
2 00	[OUTSIDE SCOPE]
3 00	
4 00	
5 00	Jeff Skilling, President & CEO, Enron Corp. -- Energy Crisis, Steel
6 00	

Notes

01800000010399

Schmalzbach, Kenneth

Subject:	Jeff Skilling, President & CEO, Enron Corp. -- Energy Crisis, Steel
Start:	Thu 04/05/2001 5:00 PM
End:	Thu 04/05/2001 5:30 PM
Recurrence:	(none)
Meeting Status:	Accepted
Required Attendees:	O'Neill, Paul H.; Aufhauser, David; Schmalzbach, Kenneth; Gathers, Shirley; Ellis, Dina; Valentic, Marsha; Harvey, Reavie; Flanagan, Rosemary; Stewart, Lawranne

THIS E-MAIL IS FOR NOTIFICATION PURPOSES ONLY, AND MAY NOT BE AN INVITATION TO ATTEND MEETING.

01800000010400

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 9, 1995

Mr. Philip Bazelides
Vice President
Corporate Human Resources
Enron Corporation
Post Office Box 1188
Houston, TX 77251-1188

Dear Mr. Bazelides:

Thank you for your October 2 letter to Secretary Rubin, in which you take issue with recent statements by federal officials about the Enron Corporation's past and present pension plans.

Given the technical aspects of your letter, I believe it could best be answered by the specialized agency involved in the original statements. I understand that on October 11, Mr. William Posner, Deputy Executive Director and Chief Operating Officer of the Pension Benefit Guaranty Corporation, answered an identical letter you had sent the PBGC. This Department relies on the PBGC's expertise in such technical matters.

Thank you again for writing us on this important issue, and congratulations on the improvements you have achieved in your pension plan funding since 1993.

Sincerely,

Richard S. Carnell

Richard S. Carnell
Assistant Secretary for
Financial Institutions

01800000010403

OFFICE OF POLICY PLANNING AND ANALYSIS CLEARANCE SHEET

NOV 9 1995

Mr. Philip Bazelides
Vice President
Corporate Human Resources
Enron Corporation
Post Office Box 1188
Houston, TX 77251-1188

Dear Mr. Bazelides:

[(b)(5)]

Sincerely,

(Signed)

Richard S. Carnell
Assistant Secretary for
Financial Institutions

[(b)(2)]

01800000010404

OCT 2 3 REC'D

AMENDED PROFILE

EXECUTIVE SECRETARIAT CORRESPONDENCE PROFILE

PROFILE #: [(b)(2)] CREATE DATE: 10/12/95

ADDRESSEE: Rubin, Robert E.
Secretary

AUTHOR: Bazelides, Philip
Enron Corporation

SUBJECT: Mischaracterization Of Enron's Corporation Retirement Plan At The Press Conference on 9/26/95

ABSTRACT: Urges Treasury to respond to the mischaracterization of Enron's Corporation retirement plan.

*************************** TASK ASSIGNMENT MEMORANDUM ***************************

ASSIGNED TO: Cornell
~~JOHN HAWKE, JR.~~
UNDER SECY/DOMESTIC FIN

DUE DATE: 10/23/95

ACTION REQUIRED: Appropriate Action

DISTRIBUTION: PUBLIC LIAISON
GENERAL COUNSEL
TAX POLICY
EXEC SEC

Eastburn 10/23/95
~~Affleck-Smith~~ 10/23/95

RECEIVED
OCT 23 1995

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.95-151072

ENRON CORP

Philip J. Bazelides
Vice President
Corporate Human Resources

P. O. Box 1188
Houston, Texas 77251-1188
(713) 853-5872

October 2, 1995

The Honorable Robert Rubin
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20590

Dear Secretary Rubin:

Enron Corp. believes it is important to respond to the mischaracterization of our Retirement Plan data conveyed during the Pension Benefit Guaranty Corporation (PBGC), the Department of Labor and Department of the Treasury press conference on September 26. Any of our almost 7,000 employees who read the resulting press accounts of this news conference were no doubt misled about the viability of our company's pension plan. We feel that we owe it to our employees to correct misconceptions about Enron's pension plan relative to the PBGC's method of compiling and interpreting the plan data.

During the press conference, PBGC officials pointed to Enron Corp. as an example of a company that took an asset reversion from an overfunded pension plan, and now has an underfunded pension plan. A list distributed at the press conference indicated that Enron took a reversion of $232,200,000 as of June 30, 1986 and, as a result, currently has an underfunded vested liability of $82,500,000.

- Enron, in fact, did not take an asset reversion. Instead the assets taken from the plan were rolled over into an Employee Stock Ownership Plan (ESOP). This ESOP was set up in a "floor plan" arrangement with the continuing pension plan so that the assets in the ESOP, as they were allocated to employee accounts, would eliminate future pension accruals. When the ESOP was set up in late 1986, Enron stock was purchased at around $38 a share. Today, after splitting twice, the stock is at between $34 and $35 a share. Thus, it has almost quadrupled in value in the eight years since the ESOP was established. This has resulted in a tremendous benefit for Enron's employees and, due to the "floor plan" arrangement, a great benefit for the PBGC.

  The $82,500,000 unfunded vested benefit listed in the September 26, 1995 PBGC press release is as of December 31, 1993. This unfunded vested benefit amount has been superceded by the data requested and received by the PBGC on September 18, 1995, which shows Enron's unfunded vested benefit amount as of December 31, 1994 to be $44,848,000. The 1993 and 1994 data was provided to the PBGC on a voluntary basis. Also, in both cases, the assumptions used by our plan's actuary were prescribed by the PBGC, are intentionally conservative to reflect a plan termination, and have no basis in law or regulation.

- By law, Enron must fund the plan on realistic assumptions for an ongoing plan as opposed to a plan termination. Reflecting this basis, the unfunded vested benefit obligation for the plan as of December 31, 1994 is $11,570,503. This amount is certified by the plan's actuary and monitored by the IRS.

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- As stated above, the Enron Plan currently has unfunded vested benefit obligations of $11,570,503. This unfunded liability did not come from the accrual of additional benefits by active employees, nor did it come from poor asset performance (on the contrary, assets have returned an annual rate of 12.28 percent since 1987). Rather, this unfunded liability has come from plan amendments providing additional benefits to existing retired employees. These amendments include the addition of a postretirement surviving spouse death benefit, an ad hoc increase in pension benefits to reflect cost-of-living changes, and special early retirement benefits. The gradual funding created by plan amendments is a fundamental aspect of the law. In fact, under IRS rules, the liabilities created by plan amendments cannot be funded more rapidly than over ten years.

  In total, these benefit increases have a current value of approximately $45,000,000 That only $11,570,503 remains unfunded is an indication of Enron's sound funding policy.

We believe the representation of the financial status of Enron's Retirement Plan was inaccurate and misleading based on: (1) The most recent data requested by the PBGC, although in the hands of the PBGC, was not utilized; and (2) The mischaracterization of the use of the $232,000,000 in assets taken from the Retirement Plan in 1986. Consequently, we request that you delete Enron Corp.'s name from any future example of companies which have taken a pension plan reversion and have significant unfunded pension plan liabilities. We would be pleased to discuss this with you further.

Sincerely,

Philip J. Bazelides

Philip J. Bazelides
Vice President of Corporate Human Resources

c The Honorable Bill Archer

Patrick

OCT 13 REC'D

EXECUTIVE SECRETARIAT CORRESPONDENCE PROFILE

PROFILE #: [(b)(2)] CREATE DATE: 10/12/95

ADDRESSEE: Rubin, Robert E.
Secretary

AUTHOR: Bazelides, Philip
Enron Corporation

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*************************** TASK ASSIGNMENT MEMORANDUM ***************************

Carnell 7

ASSIGNED TO: JOHN HAWKE, JR.
UNDER SECY/DOMESTIC FIN

DUE DATE: 10/23/95

ACTION REQUIRED: Letter

TASK: Please prepare a response for the signature of the Secretary and clear with General Counsel.

DISTRIBUTION: PUBLIC LIAISON
GENERAL COUNSEL
TAX POLICY
EXEC SEC

Eastburn 10/13/95
Marks
10/13/95

RECEIVED
OCT 13 1995

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[(b)(2)]

ENRON CORP

Philip J. Bazelides
Vice President
Corporate Human Resources

P. O. Box 1188
Houston, Texas 77251-1188
(713) 853-5872

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Sincerely,

Philip J. Bazelides

Philip J. Bazelides
Vice President of Corporate Human Resources

c The Honorable Bill Archer

From: Tom McGivern
To: WOLINN
Date: 6/3/99 3:28pm
Subject: **Working Group Comments on Enron/Cadwalader Proposals** -Reply -Forwarded -Reply

This is a long answer, sorry.

[(b)(5)]

[(b)(5)]

Let me know if you want more or less info.

>>> Neal Wolin 06/03/99 01:42pm >>>
I have not understood this series of emails. Is there anything here I need to know?